

**FORM 10-Q**

**FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C. 20429**

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2011.

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Clarion County Community Bank  
(Exact name of registrant as specified in its charter)

<u>Pennsylvania</u> (State or other jurisdiction of Incorporation or organization)	<u>20-0081432</u> (I.R.S. Employer Identification No.)
<u>333 Main Street Clarion, PA</u> (Address of Principal Executive Offices)	<u>16214</u> (Zip Code)

(814) 226-6000  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No  (Not applicable)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Smaller reporting company   
Non-accelerated filer  (Do not check if a smaller reporting company)

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Number of Shares Outstanding as of November 1, 2011</u>
Common Stock, \$1.00 par value	1,661,255

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**PART 1 – FINANCIAL INFORMATION**  
**CLARION COUNTY COMMUNITY BANK**  
**BALANCE SHEETS (UNAUDITED)**  
**SEPTEMBER 30, 2011 AND DECEMBER 31, 2010**

<b><u>Assets</u></b>	<b><u>September 30, 2011</u></b>	<b><u>December 31, 2010</u></b>
Cash and due from banks	\$ 1,074,846	\$ 572,702
Interest bearing deposits in banks	5,929,880	4,612,213
Federal funds sold	-	2,500,000
Cash and cash equivalents	<u>7,004,726</u>	<u>7,684,915</u>
Certificates of deposit	1,844,000	2,292,000
Securities available for sale	16,969,429	10,956,881
Restricted bank stock, at cost	342,500	323,800
Loans	92,112,601	92,728,306
Less: Allowance for loan losses	<u>(1,092,999)</u>	<u>(1,155,447)</u>
Net loans	91,019,602	91,572,859
Premises and equipment, net	1,662,314	1,733,390
Foreclosed assets	341,500	341,500
FDIC prepaid assessment	197,826	286,758
Bank owned life insurance	1,329,557	1,293,900
Deferred taxes	259,336	535,914
Accrued interest receivable and other assets	<u>515,744</u>	<u>458,651</u>
Total Assets	<u>\$ 121,486,534</u>	<u>\$ 117,480,568</u>
 <b><u>Liabilities</u></b>		
Non-interest bearing demand deposits	\$ 12,279,449	\$ 10,867,300
Interest bearing deposits	<u>97,116,130</u>	<u>95,725,194</u>
Total Deposits	109,395,579	106,592,494
Accrued interest payable and other liabilities	<u>525,799</u>	<u>449,989</u>
Total Liabilities	<u>109,921,378</u>	<u>107,042,483</u>
 <b><u>Stockholders' Equity</u></b>		
Preferred stock, 1,000,000 shares authorized, no shares issued	-	-
Common Stock (\$1 Par Value)		
Authorized 10,000,000 shares,		
Issued and outstanding: 1,661,255 shares		
September 30, 2011 and December 31, 2010	1,661,255	1,661,255
Surplus	10,621,461	10,621,461
Accumulated deficit	(932,154)	(1,725,692)
Accumulated other comprehensive income (loss), net	<u>214,594</u>	<u>(118,939)</u>
Total Stockholders' Equity	<u>11,565,156</u>	<u>10,438,085</u>
Total Liabilities & Stockholders' Equity	<u>\$ 121,486,534</u>	<u>\$ 117,480,568</u>

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

**CLARION COUNTY COMMUNITY BANK**  
**STATEMENTS OF INCOME (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>Interest Income</b>		
Loans, including fees	\$ 4,158,072	\$ 4,233,168
Investment securities, taxable	176,131	133,676
Investment securities, tax-exempt	105,978	3,224
Interest-bearing deposits	15,675	8,673
Federal funds sold	3,422	3,995
Total interest income	<b>4,459,278</b>	<b>4,382,736</b>
<b>Interest Expense</b>		
Deposits	1,051,836	1,359,612
Total interest expense	<b>1,051,836</b>	<b>1,359,612</b>
<b>Net Interest Income</b>	<b>3,407,442</b>	<b>3,023,124</b>
<b>Provision for Loan Losses</b>	<b>282,000</b>	<b>233,000</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>3,125,442</b>	<b>2,790,124</b>
<b>Other Income</b>		
Service fees	112,465	95,277
Bank owned life insurance income	35,656	31,765
Other	101,509	51,665
Total other income	<b>249,630</b>	<b>178,707</b>
<b>Other Expenses</b>		
Salaries	766,259	773,611
Employee benefits and taxes	268,939	257,449
Occupancy and equipment	230,426	211,970
Data processing	290,069	271,904
Professional fees	125,252	111,509
FDIC insurance	98,350	95,396
Other	458,682	414,187
Total other expenses	<b>2,237,977</b>	<b>2,136,026</b>
<b>Income Before Income Tax Expense</b>	<b>1,137,095</b>	<b>832,805</b>
<b>Income Tax Expense</b>	<b>343,557</b>	<b>271,444</b>
<b>Net Income</b>	<b>\$ 793,538</b>	<b>\$ 561,361</b>
<b>Basic Earnings per Share</b>	<b>\$ 0.48</b>	<b>\$ 0.34</b>
<b>Diluted Earnings per Share</b>	<b>\$ 0.48</b>	<b>\$ 0.34</b>

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

**CLARION COUNTY COMMUNITY BANK**  
**STATEMENTS OF INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>Interest Income</b>		
Loans, including fees	\$ 1,374,378	\$ 1,440,318
Investment securities, taxable	64,669	52,955
Investment securities, tax exempt	53,875	3,224
Interest-bearing deposits	4,780	5,179
Federal funds sold	638	2,077
Total interest income	<b>1,498,340</b>	<b>1,503,753</b>
<b>Interest Expense</b>		
Deposits	345,111	440,742
Total interest expense	<b>345,111</b>	<b>440,742</b>
<b>Net Interest Income</b>	<b>1,153,229</b>	<b>1,063,011</b>
<b>Provision for Loan Losses</b>	<b>84,000</b>	<b>81,000</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>1,069,229</b>	<b>982,011</b>
<b>Other Income</b>		
Service fees	37,048	35,931
Bank owned life insurance income	12,038	12,315
Other	21,822	19,219
Total other income	<b>70,908</b>	<b>67,465</b>
<b>Other Expenses</b>		
Salaries	274,769	260,603
Employee benefits and payroll taxes	88,955	95,897
Occupancy and equipment	89,746	70,642
Data processing	99,129	91,004
Professional fees	29,337	29,030
FDIC insurance	18,058	32,122
Other	166,151	140,333
Total other expenses	<b>766,145</b>	<b>719,631</b>
<b>Income Before Income Tax Expense</b>	<b>373,992</b>	<b>329,845</b>
<b>Income Tax Expense</b>	<b>113,741</b>	<b>106,972</b>
<b>Net Income</b>	<b>\$ 260,251</b>	<b>\$ 222,873</b>
<b>Basic Earnings per Share</b>	<b>\$ 0.16</b>	<b>\$ 0.13</b>
<b>Diluted Earnings per Share</b>	<b>\$ 0.16</b>	<b>\$ 0.13</b>

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

**CLARION COUNTY COMMUNITY BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
<b>Net Income</b>	<b>\$ 793,538</b>	<b>\$ 561,361</b>
Unrealized holding gains on securities available for sale	499,955	65,770
Reclassification adjustment for losses (gains) realized in income	-	-
Net unrealized gains (losses)	499,955	65,770
Tax effect	(169,986)	(22,362)
Net of tax amount	329,969	43,408
Prior service cost arising in prior years on employee supplemental retirement plan	-	(130,000)
Amortization of prior service cost	5,400	600
Net impact of prior service cost	5,400	(129,400)
Tax effect	(1,836)	43,996
Net-of-tax amount	3,564	(85,404)
<b>Other comprehensive income (loss)</b>	<b>333,533</b>	<b>(41,996)</b>
<b>Total comprehensive income</b>	<b>\$ 1,127,071</b>	<b>\$ 519,365</b>

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

**CLARION COUNTY COMMUNITY BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
<b>Net Income</b>	<b>\$ 260,251</b>	<b>\$ 222,873</b>
Unrealized holding gains on securities available for sale	256,255	13,646
Reclassification adjustment for losses (gains) realized in income	-	-
Net unrealized gains (losses)	256,255	13,646
Tax effect	(87,128)	(4,640)
Net of tax amount	<u>169,127</u>	<u>9,006</u>
Prior service cost arising in prior years on employee supplemental retirement plan	-	-
Amortization of prior service cost	1,800	600
Net impact of prior service cost	1,800	600
Tax effect	(612)	(204)
Net-of-tax amount	<u>1,188</u>	<u>396</u>
<b>Other comprehensive income (loss)</b>	<u>170,315</u>	<u>9,402</u>
<b>Total comprehensive income</b>	<u><u>\$ 430,566</u></u>	<u><u>\$ 232,275</u></u>

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

**CLARION COUNTY COMMUNITY BANK**  
**STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 793,538	\$ 561,361
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	127,715	120,210
Net amortization of premiums and discounts	78,205	49,448
Provision for loan losses	282,000	233,000
Net loss on disposal of premises and equipment	-	4,894
Net loss on sales and writedowns of foreclosed assets	-	18,554
Deferred taxes	110,157	271,444
Earnings in bank owned life insurance	(35,656)	(31,765)
Changes in:		
Deferred loan fees	21,011	23,401
Accrued interest receivable and other assets	31,838	34,008
Accrued interest payable and other liabilities	75,810	(21,618)
<b>Net Cash From Operating Activities</b>	<b>1,484,618</b>	<b>1,262,937</b>
<b>CASH FLOWS USED BY INVESTING ACTIVITIES</b>		
Maturities and calls of securities available for sale	2,271,653	1,640,646
Purchases of securities available for sale	(7,862,452)	(8,430,534)
Maturities of certificates of deposit	2,043,000	100,000
Purchases of certificates of deposit	(1,595,000)	(1,695,000)
Purchases of restricted bank stock	(65,000)	(68,300)
Calls on restricted stock	46,300	-
Proceeds from sale of foreclosed assets	-	41,446
Net loans repaid by (made to) customers	250,246	(4,904,490)
Purchase of bank owned life insurance	-	(1,250,000)
Purchases of premises and equipment	(56,639)	(31,326)
<b>Net Cash Used By Investing Activities</b>	<b>(4,967,892)</b>	<b>(14,597,558)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	2,803,085	15,388,943
<b>Net Cash From Financing Activities</b>	<b>2,803,085</b>	<b>15,388,943</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(680,189)</b>	<b>2,054,322</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>7,684,915</b>	<b>5,977,071</b>
<b>Cash and Cash Equivalents at September 30</b>	<b>\$ 7,004,726</b>	<b>\$ 8,031,393</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 1,065,142	\$ 1,372,050
Income taxes paid	-	-
Non-cash disclosures		
Foreclosed assets acquired in settlement of loans	-	-

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

## NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

### NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions for Form 10-Q, and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any future interim period. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. The interim financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Clarion County Community Bank Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Federal Deposit Insurance Corporation.

### NOTE 2 – EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted-average number of shares outstanding. Earnings per share is restated for all stock dividends through the date of issuance of the financial statements. The weighted average shares outstanding were 1,661,255 for the three and nine months ended September 30, 2011 and September 30, 2010. There was no dilution to the weighted average shares outstanding as a result of 316,902 stock options outstanding, for the three and nine months ended September 30, 2011 and September 30, 2010, respectively, as the options were anti-dilutive.

### NOTE 3 – LOANS

Total net loans at September 30, 2011 and December 31, 2010 was as follows:

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Commercial	\$ 12,726,044	\$ 8,448,416
Commercial real estate:		
Construction	-	1,260,143
Other	36,091,750	36,703,342
Consumer:		
Auto	2,129,415	2,432,211
Other	4,252,301	4,467,069
Residential real estate	37,027,000	39,510,023
Less: Net deferred loan fees	(113,909)	(92,898)
Allowance for loan losses	<u>(1,092,999)</u>	<u>(1,155,447)</u>
Total	<u>\$ 91,019,602</u>	<u>\$ 91,572,859</u>

### NOTE 3 – LOANS (continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ending September 30, 2011:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance, January 1, 2011	\$ 302,693	\$ 576,863	\$ 180,332	\$ 92,044	\$ 3,515	\$ 1,155,447
Provision for loan losses	67,517	133,059	34,355	15,398	31,671	282,000
Loans charged-off	(103,171)	(231,840)	-	(10,052)	-	(345,063)
Recoveries	-	-	615	-	-	615
Total ending balance, September 30, 2011	<u>\$ 267,039</u>	<u>\$ 478,082</u>	<u>\$ 215,302</u>	<u>\$ 97,390</u>	<u>\$ 35,186</u>	<u>\$ 1,092,999</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ending September 30, 2011:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance, June 30, 2011	\$ 231,992	\$ 420,672	\$ 190,234	\$ 105,059	\$ 69,825	\$ 1,017,782
Provision for loan losses	35,047	57,410	25,068	1,114	(34,639)	84,000
Loans charged-off	-	-	-	(8,783)	-	(8,783)
Recoveries	-	-	-	-	-	-
Total ending balance, September 30, 2011	<u>\$ 267,039</u>	<u>\$ 478,082</u>	<u>\$ 215,302</u>	<u>\$ 97,390</u>	<u>\$ 35,186</u>	<u>\$ 1,092,999</u>

The following table presents the activity in the allowance for loan losses for the three months and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Beginning balance	\$ 765,371	\$ 638,099
Provision for loan losses	81,000	233,000
Loans charged-off	(11,413)	(36,990)
Recoveries	4,910	5,759
Ending balance	<u>\$ 839,868</u>	<u>\$ 839,868</u>

**NOTE 3 – LOANS (continued)**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2011:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:						
Ending allowance balance						
attributable to loans:						
Individually evaluated for						
impairment	\$ 26,135	\$ 279,636	\$ -	\$ 26,964	\$ -	\$ 332,735
Collectively evaluated for						
impairment	<u>240,904</u>	<u>198,446</u>	<u>215,302</u>	<u>70,426</u>	<u>35,186</u>	<u>760,264</u>
Total ending allowance balance	<u>\$ 267,039</u>	<u>\$ 478,082</u>	<u>\$ 215,302</u>	<u>\$ 97,390</u>	<u>\$ 35,186</u>	<u>\$ 1,092,999</u>
Loans:						
Loans individually evaluated						
for impairment	\$ 69,993	\$ 1,035,790	\$ -	\$ 43,824	\$ -	\$ 1,149,607
Loans collectively evaluated						
for impairment	<u>12,656,051</u>	<u>35,055,960</u>	<u>37,027,000</u>	<u>6,337,892</u>	<u>-</u>	<u>91,076,903</u>
Total	<u>\$ 12,726,044</u>	<u>\$ 36,091,750</u>	<u>\$ 37,027,000</u>	<u>\$ 6,381,716</u>	<u>\$ -</u>	<u>\$ 92,226,510</u>

**NOTE 3 – LOANS (continued)**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 114,097	\$ 272,698	\$ -	\$ -	\$ -	\$ 386,795
Collectively evaluated for impairment	<u>188,596</u>	<u>304,165</u>	<u>180,332</u>	<u>92,044</u>	<u>3,515</u>	<u>768,652</u>
Total ending allowance balance	<u>\$ 302,693</u>	<u>\$ 576,863</u>	<u>\$ 180,332</u>	<u>\$ 92,044</u>	<u>\$ 3,515</u>	<u>\$ 1,155,447</u>
Loans:						
Loans individually evaluated for impairment	\$ 181,985	\$ 573,128	\$ -	\$ -	\$ -	\$ 755,113
Loans collectively evaluated for impairment	<u>8,266,431</u>	<u>37,390,357</u>	<u>39,510,023</u>	<u>6,899,280</u>	<u>-</u>	<u>92,066,091</u>
Total	<u>\$ 8,448,416</u>	<u>\$ 37,963,485</u>	<u>\$ 39,510,023</u>	<u>\$ 6,899,280</u>	<u>\$ -</u>	<u>\$ 92,821,204</u>

Accrued interest at September 30, 2011 and December 31, 2010 totaling \$241,391 and \$245,106, respectively, and net deferred loan fees at September 30, 2011 and December 31, 2010 totaling \$113,909 and \$92,898, respectively, are not included in the recorded investment in loans based on these amounts not being material.

**NOTE 3 – LOANS (continued)**

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the nine months ended September 30, 2011:

	<u>As of September 30, 2011</u>			<u>Nine Months Ended September 30, 2011</u>		
	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
With no related allowance recorded:						
Commercial	\$ 2,143	\$ 2,143	\$ -	\$ 1,968	\$ -	\$ -
Commercial real estate:						
Construction	-	-	-	-	-	-
Other	-	-	-	-	-	-
Residential real estate:						
Nontraditional	-	-	-	-	-	-
Other	-	-	-	-	-	-
With an allowance recorded:						
Commercial	89,850	67,850	26,135	135,720	2,365	2,365
Commercial real estate:						
Construction	-	-	-	-	-	-
Other	1,131,257	1,035,790	279,636	610,801	8,683	8,683
Consumer:						
Auto	37,127	37,127	22,276	9,282	310	310
Other	6,697	6,697	4,688	1,674	57	57
Residential real estate	-	-	-	-	-	-
Total	<u>\$ 1,267,074</u>	<u>\$ 1,149,607</u>	<u>\$ 332,735</u>	<u>\$ 759,445</u>	<u>\$ 11,415</u>	<u>\$ 11,415</u>

The unpaid principal balance for purposes of the aforementioned table includes \$117,467 that has been partially charged off but not forgiven as of September 30, 2011.

**NOTE 3 – LOANS (continued)**

The following table presents information related to loans individually evaluated for impairment by class of loans for the three months ended September 30, 2011:

	<b>Three Months Ended</b>		
	<b>September 30, 2011</b>		
	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Cash Basis Interest Recognized</b>
With no related allowance recorded:			
Commercial	\$ 2,026	\$ -	\$ -
Commercial real estate:			
Construction	-	-	-
Other	-	-	-
Residential real estate:			
Nontraditional	-	-	-
Other	-	-	-
With an allowance recorded:			
Commercial	67,688	944	944
Commercial real estate:			
Construction	-	-	-
Other	768,349	6,183	6,183
Consumer:			
Auto	18,564	310	310
Other	3,348	57	57
Residential real estate	-	-	-
Total	<u>\$ 859,975</u>	<u>\$ 7,494</u>	<u>\$ 7,494</u>

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	<b>Unpaid Principal Balance</b>	<b>Recorded Investment</b>	<b>Allowance for Loan Losses Allocated</b>
With no related allowance recorded:			
Commercial	\$ 1,909	\$ 1,909	\$ -
Commercial real estate:			
Construction	-	-	-
Other	100,000	100,000	-
With an allowance recorded:			
Commercial	180,076	180,076	114,097
Commercial real estate:			
Construction	-	-	-
Other	473,128	473,128	272,698
Total	<u>\$ 755,113</u>	<u>\$ 755,113</u>	<u>\$ 386,795</u>

**NOTE 3 – LOANS (continued)**

The following table presents information for loans individually evaluated for impairment as of September 30, 2010:

	Nine Months Ended September 30, 2010	Three Months Ended September 30, 2010
Average of individually impaired loans during period	\$ 530,000	\$ 638,716
Interest income recognized during impairment	12,000	4,426
Cash-basis interest income recognized	12,000	4,426

Nonaccrual loans were as follows:

	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Commercial	\$ 27,890	\$ 40,199
Commercial real estate:		
Construction	-	-
Other	733,931	340,362
Residential real estate	326,667	397,598
Consumer:		
Auto	2,388	-
Other	-	-
Total	<u>\$ 1,090,876</u>	<u>\$ 778,159</u>

There were no loans past due 90 days still on accrual status at September 30, 2011 or December 31, 2010.

Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans.

### NOTE 3 – LOANS (continued)

The following table presents the aging of the recorded investment in past due loans as of September 30, 2011 by class of loan:

	<u>Total</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>
Commercial	\$ 12,726,044	\$ 12,211	\$ -	\$ 27,890	\$ 40,101	\$ 12,685,943
Commercial real estate:						
Construction	-	-	-	-	-	-
Other	36,091,750	-	34,970	486,995	521,965	35,569,785
Residential real estate	37,027,000	412,363	250,404	326,667	989,434	36,037,566
Consumer						
Auto	2,129,415	30,818	-	-	30,818	2,098,597
Other	4,252,301	-	5,888	-	5,888	4,246,413
<b>Total</b>	<b>\$ 92,226,510</b>	<b>\$ 455,392</b>	<b>\$ 291,262</b>	<b>\$ 841,552</b>	<b>\$ 1,588,206</b>	<b>\$ 90,638,304</b>

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loan:

	<u>Total</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>
Commercial	\$ 8,448,416	\$ 25,300	\$ 129,106	\$ 16,901	\$ 171,307	\$ 8,277,109
Commercial real estate:						
Construction	1,260,143	-	-	-	-	1,260,143
Other	36,703,342	143,345	236,375	340,362	720,082	35,983,260
Residential real estate	39,510,023	569,302	280,008	95,975	945,285	38,564,738
Consumer						
Auto	2,432,211	25,077	2,841	-	27,918	2,404,293
Other	4,467,069	1,299	-	-	1,299	4,465,770
<b>Total</b>	<b>\$ 92,821,204</b>	<b>\$ 764,323</b>	<b>\$ 648,330</b>	<b>\$ 453,238</b>	<b>\$ 1,865,891</b>	<b>\$ 90,955,313</b>

### Troubled Debt Restructurings:

The Bank has allocated \$207,000 and \$0 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2011 and December 31, 2010. The Bank has not committed to lend additional amounts as of September 30, 2011 and December 31, 2010 to customers with outstanding loans that are classified as troubled debt restructurings.

During the period ending September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. However, no modifications resulted in a permanent reduction of the recorded investment.

### NOTE 3 – LOANS (continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2011:

	<u>Number of Loans</u>	<u>Outstanding Recorded Investment at Modification Date</u>
Troubled Debt Restructurings:		
Commercial		\$ -
Commercial real estate:		
Construction		-
Other	4	664,500
Consumer:		
Auto	1	45,658
Other	2	8,309
Residential real estate		-
	<hr/>	<hr/>
Total	<u>7</u>	<u>\$ 718,467</u>

There were no loans modified as troubled debt restructurings that occurred during the quarter ended September 30, 2011.

The troubled debt restructurings described above increased the allowance for loan losses by \$207,000 during the nine months ended September 30, 2011 but have not resulted in any charge offs during the nine months ended September 30, 2011.

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and nine months ended September 30, 2011. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

#### **Credit Quality Indicators:**

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Bank uses the following definitions for risk ratings:

**NOTE 3 – LOANS (continued)**

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution 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 liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are evaluated for credit quality based on aging status, which was previously presented. Based on the most recent analysis performed, the risk category of loans by class of loans as of September 30, 2011 was as follows:

September 30, 2011	<u>Total Loans</u>	<u>Not Rated</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
Commercial	\$ 12,726,044	\$ 7,433,625	\$ 5,222,426	\$ -	\$ 42,103	\$ 27,890
Commercial real estate						
Construction	-	-	-	-	-	-
Other	36,091,750	7,290,795	26,837,016	-	1,628,844	335,095
Residential real estate	37,027,000	14,758,536	21,523,925	206,974	537,565	-
Consumer-auto	2,129,415	2,063,989	5,057	-	60,369	-
Other	4,252,301	3,991,448	254,156	-	6,697	-
Total	<u>\$ 92,226,510</u>	<u>\$ 35,538,393</u>	<u>\$ 53,842,580</u>	<u>\$ 206,974</u>	<u>\$ 2,275,578</u>	<u>\$ 362,985</u>

### NOTE 3 – LOANS (continued)

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2010 was as follows:

December 31, 2010	<u>Total Loans</u>	<u>Not Rated</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
Commercial	\$ 8,448,416	\$ 5,252,556	\$ 3,013,875	\$ -	\$ 100,815	\$ 81,170
Commercial real estate						
Construction	1,260,143	1,260,143	-	-	-	-
Other	36,703,342	14,481,398	21,031,225	-	1,108,577	82,142
Residential real estate	39,510,023	19,100,966	19,878,170	247,768	283,119	-
Consumer-auto	2,432,211	2,399,351	32,860	-	-	-
Other	<u>4,467,069</u>	<u>4,342,634</u>	<u>71,106</u>	<u>-</u>	<u>53,329</u>	<u>-</u>
Total	<u>\$ 92,821,204</u>	<u>\$ 46,837,048</u>	<u>\$ 44,027,236</u>	<u>\$ 247,768</u>	<u>\$ 1,545,840</u>	<u>\$ 163,312</u>

### NOTE 4 – SUPPLEMENTAL EMPLOYEE RETIREMENT PLAN

The Board of Directors adopted a supplemental employee retirement plan for certain officers of the Bank on April 15, 2010. Participants will receive 30% of their final base salary annually for fifteen years beginning with the later of retirement or age 65 subject to vesting provisions for years of service. The plan requires ten years of service to be fully vested. Upon adoption, each participant was credited with service for years they have been with the Bank which resulted in participants being 35% vested on average. The prior service cost upon adoption of the supplemental retirement plan was approximately \$130,000. The prior service cost is being amortized over the estimated future service period on a straight line basis. Total expense related to the plan for the three and nine months ended September 30, 2011 was \$12,423 and \$45,166. The accrued supplemental retirement liability for this plan was \$216,328 at September 30, 2011. Amortization of prior service cost for the three and nine months ended September 30, 2011 was \$1,800 and \$5,400. At September 30, 2011 and December 31, 2010, the unamortized prior service cost from the supplemental retirement plan was \$121,000 and \$126,400, for an after tax amount of \$79,860 and \$83,424 recorded in accumulated other comprehensive loss.

## NOTE 5 – SECURITIES AVAILABLE FOR SALE

Available-for-sale securities at September 30, 2011 and December 31, 2010 consisted of the following:

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	\$ 7,994,847	\$ 276,743	\$ (6,313)	\$ 8,265,277
State and municipal bonds-tax-free	6,504,326	145,239	(11,193)	6,638,372
U.S. government sponsored entities and agencies	2,024,112	41,668	-	2,065,780
	<u>\$ 16,523,285</u>	<u>\$ 463,650</u>	<u>\$ (17,506)</u>	<u>\$ 16,969,429</u>

  

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	\$ 7,299,587	\$ 102,316	\$ (36,960)	\$ 7,364,943
State and municipal bonds-tax-free	2,211,105	-	(131,319)	2,079,786
U.S. government sponsored entities and agencies	1,500,000	12,152	-	1,512,152
	<u>\$ 11,010,692</u>	<u>\$ 114,468</u>	<u>\$ (168,279)</u>	<u>\$ 10,956,881</u>

The following table summarizes the investment securities with unrealized losses at September 30, 2011 and December 31, 2010 aggregated by major security type and length of time in a continuous unrealized loss position:

	September 30, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011						
Available-for-sale						
Residential mortgage-backed securities	\$ 1,519,372	\$ (6,313)	\$ -	\$ -	\$ 1,519,372	\$ (6,313)
State and municipal bonds-tax free	1,003,922	(7,544)	507,866	(3,649)	1,511,788	(11,193)
U.S. government sponsored entities and agencies	-	-	-	-	-	-
Total available-for-sale	<u>\$ 2,523,294</u>	<u>\$ (13,857)</u>	<u>\$ 507,866</u>	<u>\$ (3,649)</u>	<u>\$ 3,031,160</u>	<u>\$ (17,506)</u>

## NOTE 5 – SECURITIES AVAILABLE FOR SALE (continued)

	December 31, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010						
Available-for-sale						
Residential mortgage-backed securities	\$ 2,730,413	\$ (36,960)	\$ -	\$ -	\$ 2,730,413	\$ (36,960)
State and municipal bonds-tax free	2,079,786	(131,319)	-	-	2,079,786	(131,319)
U.S. government sponsored entities and agencies	-	-	-	-	-	-
Total available-for-sale	<u>\$ 4,810,199</u>	<u>\$ (168,279)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,810,199</u>	<u>\$ (168,279)</u>

The following is a schedule of the contractual maturity of securities available for sale, excluding equity securities, at September 30, 2011 and December 31, 2010:

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
1 year or less	\$ -	\$ -	\$ -	\$ -
1 year – 5 years	1,024,112	1,038,987	1,000,000	1,011,710
5 years – 10 years	1,991,101	2,057,388	700,000	690,610
After 10 years	5,513,225	5,607,777	2,011,105	1,889,618
	<u>8,528,438</u>	<u>8,704,152</u>	<u>3,711,105</u>	<u>3,591,938</u>
Residential mortgage backed securities	<u>7,994,847</u>	<u>8,265,277</u>	<u>7,299,587</u>	<u>7,364,943</u>
Total debt securities	<u>\$ 16,523,285</u>	<u>\$ 16,969,429</u>	<u>\$ 11,010,692</u>	<u>\$ 10,956,881</u>

Residential mortgage backed securities are not due at a single maturity date; periodic payments are received based on the payment patterns of the underlying collateral.

The Bank did not have any sales of securities available for sale during the nine months ended September 30, 2011 or 2010. Of the Bank's investment securities, \$5,431,000 was pledged at September 30, 2011 to secure public deposits.

## NOTE 6 – FAIR VALUE DISCLOSURE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

## NOTE 6 – FAIR VALUE DISCLOSURE (continued)

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect the Bank’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities Available for Sale: The fair values for investment securities available for sale are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: 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 usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Foreclosed Assets: Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed assets are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

**NOTE 6 – FAIR VALUE DISCLOSURE (continued)**

Assets measured at fair value on a recurring basis are summarized below:

Description	September 30, 2011 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Residential mortgage-backed securities	\$ 8,265,277	\$ -	\$ 8,265,277	\$ -
State and municipal bonds-tax-free	6,638,372	-	6,638,372	-
U.S. government sponsored entities and agencies	<u>2,065,780</u>	<u>2,065,780</u>	<u>-</u>	<u>-</u>
Total investment securities available-for-sale	<u>\$ 16,969,429</u>	<u>\$ 2,065,780</u>	<u>\$ 14,903,649</u>	<u>\$ -</u>

Description	December 31, 2010 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Residential mortgage-backed securities	\$ 7,364,943	\$ -	\$ 7,364,943	\$ -
State and municipal bonds-tax-free	2,079,786	-	2,079,786	-
U.S. government sponsored entities and agencies	<u>1,512,152</u>	<u>1,512,152</u>	<u>-</u>	<u>-</u>
Total investment securities available-for-sale	<u>\$ 10,956,881</u>	<u>\$ 1,512,152</u>	<u>\$ 9,444,729</u>	<u>\$ -</u>

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2011 and December 31, 2010 are as follows:

Description	September 30, 2011 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Foreclosed assets	\$ 257,000	\$ -	\$ -	\$ 257,000
Impaired loans:				
Commercial	\$ 42,000	\$ -	\$ -	\$ 42,000
Commercial real estate	756,000	-	-	756,000
Consumer:				
Auto	15,000	-	-	15,000
Other	2,000	-	-	2,000

**NOTE 6 – FAIR VALUE DISCLOSURE (continued)**

Description	December 31, 2010 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Foreclosed assets	\$ 257,000	\$ -	\$ -	257,000
Impaired loans:				
Commercial	\$ 66,000	\$ -	\$ -	66,000
Commercial real estate	200,000	-	-	200,000

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance or carrying amount of \$1,148,000, with a valuation allowance of \$333,000 at September 30, 2011, resulting in additional provision for loan losses of \$167,000 and \$226,000 for the three and nine months then ended. At December 31, 2010, impaired loans had a principal balance of \$653,000, with a valuation allowance of \$387,000 for the year ending December 31, 2010. Impaired loans measured at the fair value resulted in an additional provision of \$0 and \$74,000 for the three and nine months ended September 30, 2010.

Foreclosed assets with a valuation allowance had an outstanding balance and net carrying amount of \$257,000 at September 30, 2011 and December 31, 2010, comprised of a property carried at fair value totaling \$257,000 net of a valuation allowance of \$12,000, taken in 2010.

The carrying amount and estimated fair values of the Bank's financial instruments were as follows at September 30, 2011 and December 31, 2010.

	September 30, 2011 Carrying Amount	September 30, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value
Financial assets:				
Cash and cash equivalents	\$ 7,004,726	\$ 7,004,726	\$ 7,684,915	\$ 7,684,915
Certificates of deposit	1,844,000	1,853,589	2,292,000	2,295,438
Securities available for sale	16,969,429	16,969,429	10,956,881	10,956,881
Restricted bank stock	342,500	N/A	323,800	N/A
Loans receivable, net	91,019,602	91,281,985	91,572,859	91,897,832
Accrued interest receivable	334,912	334,912	304,534	304,534
Financial liabilities:				
Deposits	(109,395,579)	(108,670,431)	(106,592,494)	(105,752,360)
Accrued interest payable	(110,921)	(110,921)	(124,227)	(124,227)

## NOTE 6 – FAIR VALUE DISCLOSURE (continued)

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities available for sale were described previously. For certificates of deposits, fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. It was not practicable to determine the fair value of restricted bank stock due to restrictions placed on their transferability. The fair value of off-balance sheet items is not considered material.

## NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF BALANCE-SHEET RISK

There are various outstanding commitments and contingent liabilities arising in the normal course of business that are not reflected in the accompanying financial statements. These commitments and contingent liabilities represent financial instruments with off-balance-sheet risk.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	September 30, 2011		December 31, 2010	
	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>
Commitments to make loans	\$ 834,000	\$ 948,000	\$ 360,000	\$ 938,000
Unused lines of credit	202,000	5,840,000	731,000	5,711,000
Standby letters of credit	367,000	-	157,000	-

These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The same credit policies are used in making commitments and conditional obligations as for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation of the party. The terms are typically for a one-year period, with annual renewal options subject to prior approval by management. The fixed rate loan commitments have interest rates ranging from 4.25% to 6.99% at September 30, 2011.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments are comprised primarily of outstanding commercial and personal lines of credit.

The exposure to loss under these commitments is limited by subjecting them to credit approval and monitoring procedures. Substantially all of the commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of the loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for loan losses. Since many of the commitments are expected to expire without being drawn upon, the total contractual amounts do not necessarily represent future funding requirements.

**NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**  
**(continued)**

The Bank does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risks involved in issuing letters of credit are essentially the same as those that are involved in extending loan facilities to customers. The Bank generally holds collateral and/or personal guarantees supporting these commitments. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. Management believes that the current amount of the liability as of September 30, 2011 for guarantees under issued standby letters of credit is not material.

## **Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Quarterly Report on Form 10-Q may contain forward-looking statements. These forward-looking statements relate to such matters as anticipated financial performance, business prospects, technological developments, new products and similar matters. When used in this discussion, the word "may", "could", "would", "should", "believes", "anticipates", "estimates", "contemplates", "projects", "expects", "intends", "plans" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Those risks and uncertainties include the following: fluctuating interest rates; general economic conditions; non-payment of loans by our borrowers; business conditions in the banking industry; the regulatory environment, including the imposition of increased deposit insurance rates and other regulatory requirements; rapidly changing technology and evolving banking industry standards; competitive factors; activities of shareholders hostile to management; new service and product offerings by competitors and price pressures; and similar items. Our ability to predict results or the actual effects of our plans or strategies is inherently uncertain. As such, forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this filing. We do not intend to update any of the forward-looking statements after the date of this Form 10-Q or to conform these statements to actual events.

### **General**

The Bank is a Pennsylvania-chartered commercial bank that commenced operations on January 8, 2004.

### **Critical Accounting Policies**

Our accounting policies are fundamental to understanding this Management's Discussion and Analysis of Financial Condition and Results of Operations. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in our financial statements and accompanying notes. Since future events and their effect cannot be determined with absolute certainty, actual results may differ from those estimates. Management makes adjustments to its assumptions and judgments when facts and circumstances dictate. The amounts currently estimated by us would change if different assumptions as to the outcome of future events were made. We evaluate our estimates and judgments on an ongoing basis and predicate those estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Management believes the following critical accounting policies encompass the more significant judgments and estimates used in preparation of our financial statements.

#### Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses. Loans that are determined to be uncollectible are charged against the allowance account, and subsequent recoveries, if any, are credited to the allowance. When evaluating the adequacy of the allowance, an assessment of the loan portfolio will typically include

changes in the composition and volume of the loan portfolio, overall portfolio quality and past loss experience, review of specific problem loans, current economic conditions which may affect borrowers' ability to repay, and other factors which may warrant current recognition. Such periodic assessments may, in management's judgment, require the Bank to recognize additions or reductions to the allowance.

Various regulatory agencies periodically review the adequacy of the Bank's allowance for loan losses as an integral part of their examination process. Such agencies may require the Bank to recognize additions or reductions to the allowance based on their evaluation of information available to them at the time of their examination. It is reasonably possible that the above factors may change significantly and, therefore, affect management's determination of the allowance for loan losses in the near term.

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 loans by either the present value of expected future cash flows discounted at the loans 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 Bank does not separately identify individual consumer and residential loans for impairment disclosures.

### Income Taxes

The Bank uses an asset and liability approach to financial accounting and reporting for income taxes. Deferred federal tax assets and liabilities were recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. Deferred tax assets were reduced by a valuation allowance, when, in the opinion of management, it was more likely than not that some portion of the deferred tax assets would not be realized. As of September 30, 2009, due to a steady increase in income and the determination that it appeared probable that future earnings would continue, management chose to reverse the deferred tax asset valuation allowance. Management's reversal of the valuation allowance against deferred tax assets was predicated on the Bank's profitability which included net income being generated for the years ending 2007 and 2008 and net income through the first three quarters of 2009. Additionally at the time of reversal, the Bank expected to generate taxable income for 2010 which has occurred and has generated taxable income for the first nine months of 2011. Furthermore, the Bank has consistently met budget and strategic planning profitability projections during these periods.

## Use of Fair Value Measurements

On January 1, 2008, the Bank adopted ASC 820-10, "Fair Value Measurements" (ASC 820-10) to determine the fair value of its financial instruments based on the fair value hierarchy established in ASC 820-10, which also clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs in the methodology for determining fair value are observable or unobservable. Observable inputs reflect market-based information obtained from independent sources (Level 1 or Level 2), while unobservable inputs reflect management's estimate of market data (Level 3). For assets and liabilities that are actively traded and have quoted prices or observable market data, a minimal amount of subjectivity concerning fair value is needed. Prices and values obtained from third party vendors that do not reflect forced liquidation or distressed sales are not adjusted by management. When quoted prices or observable market data are not available, management's judgment is necessary to estimate fair value.

At September 30, 2011, approximately 14.8% of total assets, or \$18.0 million, consisted of financial instruments recorded at fair value either on a recurring or nonrecurring basis. A total of \$2.1 million of these financial instruments used valuation methodologies involving Level 1, observable market data (quoted prices in active markets for identical assets). A total of \$14.9 million used valuation methodologies involving Level 2, significant other observable inputs (quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability). The remaining \$1.0 million used valuation methodologies involving Level 3, significant unobservable inputs that reflect the Bank's own assumptions about what market participants would use in pricing an asset or liability.

## **Recent Accounting Pronouncements**

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 interim and annual reporting periods beginning after December 15, 2011. The Bank is currently evaluating the impact of this amendment on the consolidated financial statements.

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 as of the beginning of a fiscal reporting year, and interim periods within that year that begins after December 15, 2011. Early adoption is permitted. The adoption of this amendment will have no impact on the consolidated financial statements as the current presentation of comprehensive income is in compliance with this amendment.

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a TDR. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties.

With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The adoption of this guidance did not have a material impact on the Bank's consolidated financial statements. See Note 3 Loans, for TDR disclosures in accordance with this ASU.

### **Financial Condition**

At September 30, 2011, the Bank's total assets increased from December 31, 2010 by \$4.0 million resulting primarily from an increase in deposits of \$2.8 million due to increases in both non-interest bearing and interest bearing deposits, net income of \$793,538 for the nine month period, and an increase \$333,533 in other comprehensive income due to unrealized gains on its investments. Securities available for sale increased by approximately \$6.0 million due to purchases, while liquid assets such as cash and due from banks, interest-bearing deposits in banks, certificates of deposit, and federal funds sold decreased by \$1.1 million, net loans decreased by \$0.6 million, and the remaining asset categories decreased by \$0.3 million. We have continued to see a reduction in the demand for loans.

At September 30, 2011, the Bank had seven non-performing commercial and commercial real estate loans totaling \$639,000, seven non-performing residential real estate loans totaling \$450,000, and one non-performing consumer loan totaling \$2,000. The total of nonperforming loans at September 30, 2011 was \$1,091,000 or 1.18% of total loans. Nonperforming loans totaled \$778,000 at December 31, 2010, or 0.84% of loans. Performing loans delinquent thirty to eighty-nine days totaled \$747,000 or 0.81% of loans at September 30, 2011 compared to \$1,413,000, or 1.52% of loans at December 31, 2010. At September 30, 2011, the allowance for loan losses was \$1,093,000, which represented 1.19% of total loans as compared to an allowance of \$1,155,000 representing 1.25% of total loans at December 31, 2010 and an allowance of \$882,000 representing 0.96% of total loans at September 30, 2010. The primary reason for the decline in the allowance for loan losses as a percentage of loans since December 31, 2010 was the partial or full charge-offs of impaired loans which were specifically reserved for at December 31, 2010, during the first quarter. Additionally this decrease in the allowance was supported by lower delinquency levels. In management's opinion, the allowance for loan losses at September 30, 2011 is adequate to absorb probable loan losses based on information presently known. Management cannot assure, however, that additions to the allowance will not be required in the future to cover losses that are presently unforeseen.

## Average Balance Sheet

The following tables set forth certain information relating to the Bank's year to date and third quarter average balance sheets and reflects the average yield on assets and average cost of liabilities for the period indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from average daily balances. The yield on earning assets and the net interest margin are presented on an annualized basis. Nonaccrual loans are included in the average balance of loans. Interest income on tax exempt securities has not been presented on a tax equivalent basis.

	Nine months ended September 30					
	2011			2010		
	Average Balance	Interest	Average Yield/ Rate <sup>(1)</sup>	Average Balance	Interest	Average Yield/ Rate <sup>(1)</sup>
<b>EARNING ASSETS:</b>						
Federal funds sold	\$2,107	\$3	0.22%	\$1,621	\$4	0.33%
Interest-bearing deposits	\$6,248	\$16	0.34%	\$6,614	\$9	0.18%
Investment securities <sup>(2)</sup>	\$12,836	\$282	2.94%	\$6,001	\$137	3.11%
Loans						
Commercial	\$47,795	\$2,017	5.64%	\$43,495	\$1,994	6.13%
Residential real estate	\$38,301	\$1,857	6.48%	\$42,671	\$2,026	6.35%
Consumer	\$6,829	\$284	5.57%	\$4,149	\$213	6.86%
Total loans	\$92,925	\$4,158	5.98%	\$90,315	\$4,233	6.27%
Total interest earning assets	\$114,116	\$4,459	5.23%	\$104,551	\$4,383	5.60%
Less – Allowance for loan losses						
	(\$994)			(\$742)		
All other assets	\$5,650			\$5,574		
<b>Total Assets</b>	<b>\$118,772</b>			<b>\$109,383</b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Deposits						
Interest-bearing checking	\$2,968	\$4	0.17%	\$3,085	\$16	0.71%
Money Market accounts	\$19,163	\$122	0.85%	\$15,812	\$183	1.54%
Savings accounts	\$20,771	\$79	0.51%	\$15,777	\$142	1.20%
Time deposits	\$52,882	\$847	2.14%	\$54,298	\$1,019	2.51%
Total interest-bearing deposits	\$95,784	\$1,052	1.47%	\$88,972	\$1,360	2.04%
FHLB borrowings	0	-		-	-	-
Total interest-bearing liabilities	\$95,784	\$1,052	1.47%	\$88,972	\$1,360	2.04%
Non-interest bearing demand deposits	\$11,520			\$9,760		
Other liabilities	\$516			\$322		
Shareholders' equity	\$10,952			\$10,329		
<b>Total liabilities and shareholders' equity</b>	<b>\$118,772</b>			<b>\$109,383</b>		
<b>NET INTEREST INCOME</b>		<b>\$3,407</b>			<b>\$3,023</b>	
<b>INTEREST RATE SPREAD <sup>(3)</sup></b>			<b>3.76%</b>			<b>3.56%</b>
<b>NET INTEREST MARGIN <sup>(4)</sup></b>			<b>3.99%</b>			<b>3.87%</b>

(1) Average rates are computed using annualized interest income and expense for the period.

(2) Securities available-for-sale are presented at average fair value.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

**Three months ended September 30**

	2011			2010		
	Average Balance	Interest	Average Yield/ Rate <sup>(1)</sup>	Average Balance	Interest	Average Yield/ Rate <sup>(1)</sup>
<b>EARNING ASSETS:</b>						
Federal funds sold	\$1,432	\$1	0.18%	\$2,500	\$2	0.33%
Interest-bearing deposits	\$7,357	\$5	0.26%	\$7,635	\$5	0.27%
Investment securities <sup>(2)</sup>	\$15,458	\$118	3.04%	\$8,511	\$56	2.62%
Loans						
Commercial	\$48,060	\$678	5.60%	\$44,461	\$692	6.18%
Residential real estate	\$37,287	\$603	6.42%	\$43,171	\$674	6.18%
Consumer	\$6,607	\$93	5.58%	\$4,357	\$75	6.85%
Total loans	\$91,954	\$1,374	5.93%	\$91,989	\$1,441	6.21%
Total interest earning assets	\$116,201	\$1,498	5.12%	\$110,635	\$1,504	5.39%
Less – Allowance for loan losses	(1,057)			(809)		
All other assets	\$5,641			\$5,654		
<b>Total Assets</b>	\$120,785			\$115,480		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>Deposits</b>						
Interest-bearing checking	\$2,885	\$1	0.17%	\$2,505	\$2	0.35%
Money Market accounts	\$19,708	\$43	0.85%	\$19,312	\$64	1.32%
Savings accounts	\$21,040	\$23	0.44%	\$17,852	\$48	1.07%
Time deposits	\$52,942	\$278	2.09%	\$54,296	\$327	2.39%
Total interest-bearing deposits	\$96,575	\$345	1.42%	\$93,965	\$441	1.86%
FHLB borrowings	-	-		-	-	
Total interest-bearing liabilities	\$96,575	\$345	1.42%	\$93,965	\$441	1.86%
Non-interest bearing demand deposits	\$12,306			\$10,600		
Other liabilities	\$597			\$389		
Shareholders' equity	\$11,307			\$10,526		
<b>Total liabilities and shareholders' equity</b>	\$120,785			\$115,480		
<b>NET INTEREST INCOME</b>		\$1,153			\$1,063	
<b>INTEREST RATE SPREAD <sup>(3)</sup></b>			3.70%			3.53%
<b>NET INTEREST MARGIN <sup>(4)</sup></b>			3.98%			3.81%

(1) Average rates are computed using annualized interest income and expense for the period.

(2) Securities available-for-sale are presented at average fair value.

(3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

## Results of Operations

### Net Income

For the nine-month period ended September 30, 2011, the Bank recognized net income of \$794,000, an increase of \$233,000 from the net income of \$561,000 recognized in the same period in the prior year. This increase is attributable to increases of \$335,000 in net interest income after provision for loan losses and \$71,000 in service fees, bank owned life insurance income, and other non-interest income, partially offset by increases of \$72,000 in provision for income taxes,

\$18,000 in data processing fees, \$18,000 in occupancy expenses, and \$65,000 in various other expenses.

For the three-month period ended September 30, 2011, the Bank recognized net income of \$260,000, an increase of \$37,000 from the net income of \$223,000 recognized in the same period in the prior year. This increase is attributable to increases in net interest income after provision for loan losses of \$87,000 and non-interest income of \$3,000, partially offset by increases in occupancy expenses of \$19,000, data processing expenses of \$8,000, provision for income taxes of \$7,000, salaries and employee benefits of \$7,000, and various other expenses of \$12,000.

The Bank's net interest margin (net interest income as a percentage of average interest-earning assets) increased from 3.87% for the nine months ended September 30, 2010 to 3.99% for the nine months ended September 30, 2011. The net interest margin increased from 3.81% for the three months ended September 30, 2010 to 3.98% for the three months ended September 30, 2011. The increase in the net interest margin was primarily due to a decrease in the cost of interest bearing deposits which was partially offset by a decrease in the yield on interest earning assets.

### **Net Interest Income**

Interest income for the nine-month period ended September 30, 2011 was \$4,459,000, an increase of \$77,000 from the nine-month period ended September 30, 2010. This increase is primarily attributed to an \$9.6 million increase in average earning assets during this period offset by a decrease in yield on interest earning assets from 5.60% for the nine month period ended September 30, 2010 to 5.23% for the same period ended September 30, 2011. The decrease in yield was due to nearly three-fourths of those increased earning assets being invested in lower yielding liquid assets and investment securities rather than in loans, and the continued downward repricing of earning assets in this continued low interest rate environment. Interest expense for the nine-month period ended September 30, 2011 was \$1,052,000, a \$308,000 decrease compared to the nine-month period ended September 30, 2010. Management attributes this decrease primarily to the decrease in the cost of funds from 2.04% for the nine month period ended September 30, 2010 to 1.47% for the same period ended September 30, 2011. The effect of the decreased cost of funds was partially offset by a \$6.8 million increase in average interest-bearing liabilities from the nine-month period ended September 30, 2010 to the nine-month period ended September 30, 2011.

Interest income for the three-month period ended September 30, 2011 was \$1,498,000, a decrease of \$5,000 from the three-month period ended September 30, 2010. This decrease is primarily attributed to a decrease in the average yield on interest earning assets from 5.39% for the quarter ended September 30, 2010 to 5.12% for the quarter ended September 30, 2011. The effect of the decreased yield was largely offset by a \$5.6 million increase in average earning assets during this period. The decrease in yield was due to all of those increased earning assets being invested in lower yielding liquid assets and investment securities rather than in loans, and the continued downward repricing of earning assets in this low interest rate environment. Interest expense for the three-month period ended September 30, 2011 was approximately \$345,000, a \$96,000 decrease compared to the three-month period ended September 30, 2010. This decrease was due to a decrease in the cost of funds from 1.86% for the three-month period ended September 30, 2010 to 1.42% for the same period ended September 30, 2011. The effect of the decreased cost of funds was partially offset by an increase of \$2.6 million in average interest-bearing liabilities over the 2010 period.

## Provision for Loan Losses

The provision for loan losses is based upon management's ongoing assessment of the probable incurred loss in the outstanding loan portfolio. Management's risk assessment is based on the evaluation of individual loans, current economic conditions, and other relevant factors. While management uses the best information available to make such evaluations, future adjustments to the allowance for loan losses may be necessary. The Bank continues to monitor its loan portfolio on a regular basis and will make additions to its allowance based on its determination of the necessary level of the allowance. For the nine-month period ended September 30, 2011, the Bank recorded \$282,000 to the provision for loan losses as compared to \$233,000 for the same period in 2010. The Bank had fourteen charged-off loans during the nine months ended September 30, 2011 totaling \$345,000. At September 30, 2011, the Bank had fifteen non-performing loans totaling \$1,091,000, including seven commercial loans totaling \$639,000, seven residential real estate property loans totaling \$450,000 and one consumer loan totaling \$2,000. The Bank had thirteen impaired loans totaling \$1,150,000 with specific allowance allocations totaling \$333,000, and seven loans totaling \$745,000 reported as troubled debt restructurings which are also impaired. The Bank also had one commercial real estate property totaling \$257,000 and one residential real estate property totaling \$85,000 in foreclosed assets. At December 31, 2010, the Bank had fourteen non-performing loans totaling \$778,000, sixteen impaired loans totaling \$755,000 with specific allowance allocations totaling \$387,000, two properties in foreclosed assets totaling \$342,000 and no loans reported as troubled debt restructurings. The provision for loan losses was higher for the nine months ended September 30, 2011 compared to the prior year's comparable period due to increases in nonperforming loans and increases in specific allocations on impaired loans compared to the September 30, 2010 nine month period.

The following table summarizes the activity in the allowance for loan losses for the nine months ended September 30, 2011 and the year ended December 31, 2010. Also presented are certain key ratios regarding the allowance:

	Nine months ended September 30, 2011	Year ended December 31, 2010
Allowance for loan losses, beginning of period	\$ 1,155,447	\$ 638,099
Real estate loans charged-off	(231,840)	(54,950)
Consumer loans charged-off	(10,052)	(8,719)
Commercial loans charged-off	(103,171)	(16,742)
Recoveries	615	5,759
Provision for loan losses	<u>282,000</u>	<u>592,000</u>
Allowance for loan losses, end of period	<u>\$ 1,092,999</u>	<u>\$ 1,155,447</u>
Average loans	\$ 92,925,217	\$ 90,835,848
Total gross loans at end of period	92,112,601	92,728,306
Allowance as a percentage of total gross loans	1.19%	1.25%
Annualized net charge-offs to average total loans	0.49%	0.08%

## **Other Income**

Other income for the nine-month period ended September 30, 2011 was approximately \$250,000, an increase of \$71,000 over the nine-month period ended September 30, 2010. This increase is primarily attributable to \$37,000 of one-time other miscellaneous income that was recorded in the second quarter of 2011 due to restitution received in relation to a loss recorded in 2010, as well as increases of \$17,000 in service fees, such as non-sufficient funds charges, \$4,000 in income from an investment in Bank Owned Life Insurance, and \$13,000 for other miscellaneous income. \$37,000 of the other miscellaneous income item was recorded in the second quarter due to restitution received in relation to a loss recorded at prior year-end. Regarding the 2010 loss, it was both probable and estimable at December 31, 2010 and any restitution was unknown at that time.

Other income for the three-month period ended September 30, 2011 was approximately \$71,000, an increase of \$3,000 over the three-month period ended September 30, 2010. This increase is primarily attributable to increases of \$1,000 in service fees, such as non-sufficient funds charges and \$2,000 for other miscellaneous income.

## **Other Expenses**

Total other expenses for the nine-month period ended September 30, 2011 were approximately \$2,238,000, an increase of \$102,000 when compared to the same period in the prior year. This increase is attributed to increases in data processing expenses of \$18,000 due to the growth of the Bank, occupancy expenses of \$18,000 primarily due to \$20,000 in necessary repairs to the parking lot of the Clarion office, and various other operating expenses of \$65,000.

Total other expenses for the three-month period ended September 30, 2011 were approximately \$766,000, an increase of \$46,000 when compared to the same period in the prior year. This increase is attributed to increases in occupancy expense of \$19,000, and data processing expenses of \$8,000, both due to the reasons set forth above, an increase in salaries and employee benefits of \$7,000 due to annual raises, and increases in various other operating expenses of \$12,000.

## **Liquidity and Capital Resources**

Liquidity represents the ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, federal funds sold, balances with banks such as the Federal Home Loan Bank, securities classified as available for sale or those maturing within one year, and loans maturing within one year. Because the Bank has been able to invest a sufficient portion of its assets in liquid assets, management believes that the Bank maintains liquidity sufficient to satisfy its deposit requirements and meet its customers' credit needs.

Net cash from operating activities during the nine months ended September 30, 2011 totaled \$1,485,000 and resulted primarily from net income of \$794,000 plus the following non-cash adjustments to net income; the provision for loan losses of \$282,000, the deferred tax asset of \$110,000, depreciation of \$128,000, investment amortization of \$78,000, changes in accrued interest and other liabilities of \$76,000, changes in accrued interest receivable and other assets of

\$32,000, and deferred loan fees of \$21,000, partially offset by a decrease in cash of \$36,000 related to non-cash earnings from the investment in bank owned life insurance.

Net cash used by investing activities during the nine months ended September 30, 2011 totaled \$4,968,000 due to purchases of available for sale securities of \$7,862,000, purchases of certificates of deposit of \$1,595,000, purchases of restricted bank stock of \$65,000, and the purchase of premises and equipment of \$57,000, partially offset by proceeds from maturities of available for sale securities of \$2,272,000, proceeds from the maturity of a certificate of deposit of \$2,043,000, repayment of loans to customers of \$250,000, and calls of restricted stock of \$46,000.

Net cash from financing activities during the nine months ended September 30, 2011 totaled \$2,803,000 resulting from an increase in deposits of \$2,803,000. Net cash used by investing activities for the nine months ended September 30, 2011 exceeded net cash from operating activities and financing activities for such period, resulting in a decrease in cash and cash equivalents of \$680,000.

As of September 30, 2011, cash, federal funds sold, and balances with banks were 5.77% of total assets. Asset liquidity is also provided by managing loan and securities investment maturities. To the extent possible, loans are funded with deposits or other funding that matures or reprices about the same time as such loans. At September 30, 2011, the Bank's ratio of total loans to total deposits was 84.2%. The Bank also currently has available lines of credit for borrowing from the Federal Home Loan Bank in the amount of \$47.0 million and Atlantic Central Bankers' Bank in the amount of \$2.0 million.

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions, economic forces and growth and expansion activities. The Bank seeks to maintain a capital base to support its growth and expansion activities, to provide stability to current operations and to promote public confidence.

The primary indicators relied upon by bank regulators in measuring strength of capital position are the Tier 1 Risk-Based Capital Ratio, Total Risk-Based Capital Ratio and Leverage Ratio. Tier 1 Capital consists of common and qualifying preferred stockholders equity less goodwill. Total Capital consists of Tier 1 Capital, and a portion of the allowance for possible loan losses. Risk-based capital ratios are calculated with reference to risk weighted assets that consist of both on and off-balance-sheet risks, such as letters of credit and unused lines of credit. The Leverage Ratio consists of Tier 1 Capital divided by quarterly average assets.

At September 30, 2011, the Bank was "well-capitalized," as defined by its regulators, as its Tier 1 Risk-Based Capital Ratio, Total Risk-Based Capital Ratio and Leverage Ratio were 14.50%, 15.75%, and 9.28%, respectively. At September 30, 2010, the Bank's Tier 1 Risk-Based Capital Ratio, Total Risk-Based Capital Ratio and Leverage Ratios were 13.36%, 14.42%, and 9.15%, respectively. The mandated minimum regulatory capital requirements are 4.0%, 8.0% and 4.0%, respectively. To be considered "well capitalized," the regulatory requirements are 6.0%, 10.0% and 5.0%, respectively.

### **Regulatory Activity**

From time to time, various types of federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of the Bank. Management cannot

predict whether such legislation will be adopted, or if adopted, how such legislation would affect the business of the Bank. As a consequence of the extensive regulation of commercial banking activity in the United States, the cost of doing business may increase in the future.

On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, a financial regulatory reform bill into legislation. The act includes the creation of a Consumer Financial Protection Bureau within the Federal Reserve Board and increases premiums paid to the FDIC by financial institutions with \$10 billion or more in assets. The act also requires the creation of a nine-member Financial Stability Oversight Council to monitor and make recommendations to the Federal Reserve to increase the capital, leverage, liquidity, and risk management requirements for financial institutions, as companies grow in size and complexity. This act subjects the Bank to increased regulation, which may impose additional cost and operational burdens on the Bank. However, we cannot say with any certainty whether or how the regulations which may be promulgated under the authority of this legislation will affect our business. There can be no assurance that the regulations will be effective at dealing with the ongoing economic crisis or in improving economic conditions globally, nationally or in our markets.

The FDIC required that all institutions prepay their estimated risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 by December 31, 2010 in order to recapitalize the Deposit Insurance Fund (DIF). The Bank was required to pay \$455,000 which will be recognized as expense over thirteen quarters ending December 31, 2012. The remaining balance of the FDIC prepaid account at September 30, 2011 was \$198,000.

Except as described above, management is not aware of any current specific recommendations by regulatory authorities or proposed regulation, which, if they were implemented, would have a material adverse effect upon liquidity, capital resources, or results of operation of the Bank, although the general cost of compliance with the numerous and multiple federal and state laws and regulations does have a negative impact on the Bank's results of operations.

Further, the business of the Bank is also affected by the state of the financial services industry in general. As a result of legal and industry changes, management expects the industry will continue to experience an increase in consolidations and mergers as the financial services industry strives for greater cost efficiencies and market share, and institutions weakened by the poor economy find themselves unable to recover or to comply with the increasing regulatory burden. Management also expects increased diversification of financial products and services offered by the Bank and its competitors. Management believes that such consolidations and mergers may enhance the Bank's competitive position as a community bank.

### **Interest Rate Sensitivity**

The Bank is subject to interest rate risk inherent in its lending, investing and financing activities. Fluctuations in interest rates will impact both interest income and interest expense on interest-earning assets and interest-bearing liabilities that have variable interest rates, other than those with short-term maturities. In addition, the fair value of the Bank's interest-earning assets and interest-bearing liabilities that have fixed interest rates will be impacted by changes in interest rates, excluding those assets and liabilities with short-term maturities.

The following table sets forth our interest rate risk profile at September 30, 2011. The interest rate sensitivity of our assets and liabilities, and the impact on net interest income illustrated in the following table, would vary substantially if different assumptions were used or if actual experience differs from that indicated by the assumptions. The Bank has not presented the impact on net interest income for decreases in interest rates as further interest rate reductions in the current interest rate environment are not likely.

<b>At September 30, 2011</b>		
	<b>Change in Net Interest Income</b>	<b>Percent Change in Net Interest Income</b>
	<b>(Dollars in thousands)</b>	
Up 400 basis points .....	<b>(172)</b>	<b>(3.79%)</b>
Up 300 basis points .....	<b>(61)</b>	<b>(1.31%)</b>
Up 200 basis points .....	<b>(29)</b>	<b>(0.62%)</b>
Up 100 basis points .....	<b>1</b>	<b>0.02%</b>

At September 30, 2011, 40.2% of the Bank's loan portfolio consisted of fixed-rate residential mortgage loans, a decrease from 42.6% of the loan portfolio at December 31, 2010. The Bank has been seeking to increase its commercial loan portfolio to diversify its loan portfolio and reduce its exposure to the interest rate risk associated with fixed-rate residential mortgages.

#### **Item 4 – CONTROLS AND PROCEDURES**

Based on the evaluation of disclosure controls and procedures as of September 30, 2011, the Bank's principal executive officer and principal financial officer have concluded that the Bank's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Bank in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission and Federal Deposit Insurance Corporation rules and forms.

There were no changes in the Bank's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act that occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1 – Legal Proceedings**

None

### **Item 1A – Risk Factors**

Not applicable to smaller reporting companies such as the registrant.

### **Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

None

### **Item 3 – Defaults Upon Senior Securities**

None

### **Item 4 – (Removed and Reserved)**

### **Item 5 – Other Information.**

None

## Item 6 – Exhibits

<b>Number</b>	<b>Title</b>
3.1	Articles of Incorporation of Clarion County Community Bank (Incorporated by reference to Exhibit 2.1 to the Bank’s Form 10-SB filed with the FDIC.)
3.2	Articles of Amendment to Articles of Incorporation of Clarion County Community Bank (Incorporated by reference to Exhibit 2.2 to the Bank’s Form 10-SB filed with the FDIC.)
3.3	Bylaws of Clarion County Community Bank (Incorporated by reference to Exhibit 2.3 to the Bank’s Form 10-SB filed with the FDIC.)
4.1	Form of certificate evidencing shares of Clarion County Community Bank Common Stock (Incorporated by reference to Exhibit 3.1 to the Bank’s Form 10-SB filed with the FDIC.)
31.1	Chief Executive Officer / Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer / Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLARION COUNTY COMMUNITY BANK

Date: November 11, 2011

By: /s/ James L. Kifer  
James L. Kifer  
President, Chief Executive Officer  
and Chief Financial Officer

## **EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Title</b>	<b>Page Number In Manually <u>Signed Original</u></b>
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The following exhibits are files herewith or incorporated by reference as a part of this Quarterly Report.

- |      |                                                                                                                                                                                                   |  |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| 3.1  | Articles of Incorporation of Clarion County Community Bank (Incorporated by reference to Exhibit 2.1 to the Bank's Form 10-SB filed with the FDIC.)                                               |  |
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