10-K 1 firstcent-10k_0329.htm ANNUAL REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
For The Fiscal Year December 31, 2010.

or

☐ **Transition Report Pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934**
For the Transition Period from ___________ to ________________

Commission file number: 001-16413

FIRST CENTURY BANCORP.

(Exact name of registrant as specified in its charter)

Georgia	**58-2554464**
(State of Incorporation)	(I.R.S. Employer Identification No.)
807 Dorsey Street, Gainesville, Georgia	**30501**
(Address of principal executive offices)	(Zip Code)

(770) 297-8060
(Telephone Number)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ☐ No ☒

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 preceding 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 "larege accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporing company	☒

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant (computed by reference to the price at which the common

stock was recently sold) was $1,614,707 as of the last business day of the registrant's most recently completed second fiscal quarter.

8,120,623 shares of the registrant's common stock were outstanding as of March 29, 2011

DOCUMENTS INCORPORATED BY REFERENCE

CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of management, as well as assumptions made by and information currently available to management. The words "may," "will," "anticipate," "should," "would," "believe," "contemplate," "expect," "estimate," "continue," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance each quarter is subject to various risks and uncertainties that are discussed in detail in our filings with the Securities and Exchange Commission (the "SEC"), including, without limitation:

- our ability to successfully implement our business plan;
- our ability to raise capital;
- the failure of our assumptions underlying the establishment of allowances for loan losses and other estimates, or dramatic changes in those underlying assumptions or judgments in future periods, that, in either case, render the allowance for loan losses inadequate or require that further provisions for loan losses be made;
- our ability to identify and retain experienced management and other employees;
- the strength of our overall credit risk management process;
- general economic conditions, either nationally or regionally and especially in our primary service areas, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- the effects of the current global economic crisis, including, without limitation, the recent and dramatic deterioration of real estate values and credit and liquidity markets, as well as the Federal Reserve Board's actions with respect to interest rates, may lead to a further deterioration in credit quality, thereby requiring increases in our provision for loan losses, or a reduced demand for credit, which would reduce earning assets;
- governmental monetary and fiscal policies, the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations, including changes in accounting standards and banking, securities and tax laws and regulations and governmental intervention in the U.S. financial system, as well as changes affecting financial institutions' ability to lend and otherwise do business with consumers;
- the effect of any regulatory or judicial proceedings, board resolutions, informal memorandums of understanding or formal enforcement actions imposed on us;
- our ability to maintain liquidity or access other sources of funding and control costs, expenses, and loan delinquency rates;
- changes in interest rates and their effect on the level and composition of deposits, loan demand, and the values of loan collateral, securities and other interest-sensitive assets and liabilities;
- changes occurring in business conditions and inflation;
- the anticipated rate of loan growth and the lack of seasoning of our loan portfolio;
- the amount of residential and commercial construction and development loans and commercial real estate loans, and the weakness in the residential and commercial real estate markets;
- risks with respect to future expansion and acquisitions;
- losses due to fraudulent and negligent conduct of our loan customers, third party service providers or employees;

- our ability to sell residential mortgage loans that we originate;

- our required repurchase of residential mortgage loans we have sold or indemnity of institutional loan purchasers;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- the effects of competition from financial institutions and other financial service providers;
- changes in the banking system and financial markets; and
- other risks and uncertainties detailed from time to time in our filings with the SEC.

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations will be achieved. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

These risks are exacerbated by the recent developments in national and international financial markets, and we are unable to predict what impact these uncertain market conditions will have on us. During 2008 and 2009, the capital and credit markets experienced extended volatility and disruption. There can be no assurance that these unprecedented recent developments will not continue to materially and adversely impact our business, financial condition, and results of operations

Unless the context indicates otherwise, all references to "FCB," "the Company," "we," "us" and "our" in this Annual Report on Form 10-K refer to First Century Bancorp. and our wholly owned subsidiary, First Century Bank, National Association (the "Bank").

PART I

Item 1. Business

First Century Bancorp.

We are a Georgia corporation organized in 2000 to serve as the holding company for First Century Bank, National Association, with its principal executive offices in Gainesville, Georgia. We opened the Bank in March 2002. The Bank is chartered and regulated by the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation (the "FDIC"). On September 20, 2007, we changed our name from NBOG Bancorporation, Inc. to First Century Bancorp. The Bank's name was also changed from The National Bank of Gainesville to First Century Bank, National Association. Since our inception, we have focused on serving the banking needs of individuals and businesses that prefer community-oriented banking in the Gainesville and Hall County markets. We currently engage in no business other than owning and managing the Bank. As of December 31, 2010, on a consolidated basis, our total assets were $72.1 million, our total loans were $31.9 million, our total deposits were $62.7 million, and our total stockholders' equity was $6.6 million.

First Century Bank

Since the Bank's opening in March 2002, the Bank has been primarily engaged in the business of accepting deposits insured by the FDIC and providing commercial, consumer and mortgage loans to the general public. We operate under a traditional banking model, with a particular focus on real estate and small business lending.

Our net income is dependent primarily on our net interest income, which is the difference between the interest income earned on loans, investments, and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. In addition, our net income also is affected by our noninterest income derived principally from service charges and fees and income from the sale and/or servicing of financial assets such as loans and investments, as well as the level of noninterest expenses such as salaries, employee benefits and occupancy costs.

Our operations are significantly affected by prevailing economic conditions, competition, and the monetary, fiscal, and regulatory policies of governmental agencies. Lending activities are influenced by a number of factors, including the general credit needs of individuals and small and medium-

sized businesses in our market areas, competition among lenders, the level of interest rates, and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily the rates paid on competing investments, account maturities, and the levels of personal income and savings in our market areas.

Products and Services

Deposit Services. We offer a full range of interest-bearing and non-interest-bearing accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, regular interest-bearing statement savings accounts and certificates of deposit with fixed rates along with a range of maturity date options. The sources of deposits are residents, businesses, and employees of businesses within our market area, obtained through the personal solicitation of its officers and directors, direct mail solicitation, and advertisements published in the local media. In addition, at times when needed, we may obtain deposits from other financial institutions through a nation-wide deposit network. We pay competitive interest rates on time and savings deposits up to the maximum permitted by law or regulation. In addition, we offer a service charge fee schedule competitive with other financial institutions in our market area, covering such matters as maintenance fees on checking accounts, per item processing fees on checking accounts, returned check charges and the like.

Credit Services. We emphasize a range of lending services, including real estate, commercial and consumer loans, to individuals and small-to medium-sized businesses and professional concerns that are located in or conduct a substantial portion of their business in our market area. The principal economic risk associated with each category of loans that the Bank makes is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic conditions and the strength of the relevant business market segment. General economic factors affecting a borrower’s ability to repay include interest, inflation and employment rates, as well as other factors affecting a borrower’s customers, suppliers and employees.

Real Estate Loans. One of the primary components of our loan portfolio is loans secured by first or second mortgages on real estate. As of December 31, 2010, loans secured by first or second mortgages on real estate made up approximately $28.1 million, or 88% of our loan portfolio. These loans generally consist of commercial real estate loans, construction and development loans, and residential real estate loans.

- *Commercial Real Estate Loans.* At December 31, 2010, our individual commercial real estate loans ranged in size from $13,000 to $921,000, with an average commercial real estate loan size of approximately $338,000. Loan terms generally are limited to five years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable, and will more likely be fixed in the case of shorter term loans. We also make a concerted effort to establish rate floors to mitigate interest rate risk and improve margins. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio, established by independent appraisals, does not exceed 80%. In addition, we typically require personal guarantees of the principal owners of the collateral property, combined with our review of the personal financial statements of the principal owners. At December 31, 2010, commercial real estate loans (other than construction loans) totaled $10.5 million, or approximately 33% of our loan portfolio. Some specific risks associated with commercial real estate loans include tenant vacancy rates and the quality of the borrower’s management. As such, we place a heavy emphasis on owner occupied commercial real estate. As of December 31, 2010, owner occupied loans totaled $8.6 million, and non-owner occupied loans totaled $1.90 million.

- *Residential Real Estate Loans and Home Equity Loans.* At December 31, 2010, our individual residential real estate loans ranged in size from $1,000 to $794,000, with an average loan size of approximately $97,000. Generally, we limit the loan-to-value ratio on our residential real estate loans to 85%. We also offer home equity lines of credit. Our underwriting criteria for, and the risks associated with, home equity loans and lines of credit are generally the same as those for first mortgage loans. Home equity lines of credit typically have terms of 10 years or less. We limit the extension of credit to 85% of the available equity of each property. At December 31, 2010, residential real estate loans (other than construction loans) totaled $11.0 million, or 34.6% of our loan portfolio.

- *Construction and Development Real Estate Loans.* We offer adjustable and fixed rate residential and commercial construction loans to builders and developers and to consumers who wish to build their own homes. At December 31, 2010, our construction and development real estate loans ranged in size from approximately $1,000 to $900,000, with an average loan size of approximately $191,000. The duration of our construction and development loans generally is limited to 12 months, although payments may be structured on a longer amortization basis. Construction and development loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and usually on the sale of the property. Specific risks include:

    - cost overruns;
    - mismanaged construction;
    - inferior or improper construction techniques;
    - economic changes or downturns during construction;
    - a downturn in the real estate market;
    - rising interest rates which may prevent sale of the property; and

- failure to sell completed projects in a timely manner.

We attempt to reduce the risk associated with construction and development loans by obtaining personal guarantees and by keeping the loan-to-value ratio of the completed project at or below 80%, as well as analyzing global cash flow of each builder or developer and their personal liquidity. At December 31, 2010, total construction loans amounted to $5.2 million, or 16.2% of our total loan portfolio.

Consumer Loans. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured installment and term loans and lines of credit. At December 31, 2010, our individual consumer loans ranged in size from $1,000 to $127,000, with an average loan size of approximately $11,000. These loans typically carry balances of less than $25,000 and, in the case of non-revolving loans, are amortized over a period not to exceed 60 months. The revolving loans typically bear interest at a fixed rate and require monthly payments of interest and a portion of the principal balance. Consumer loans generally involve more risks than residential mortgage loans because the collateral for defaulted loans may not provide an adequate source of repayment of the principal due to damage to the collateral or other loss of value. In addition, consumer loan performance depends upon the borrower's continued financial stability and is therefore more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. At December 31, 2010, consumer loans amounted to $838,000, or 2.6% of our loan portfolio.

Commercial Loans. We make loans for commercial purposes in various lines of businesses. At December 31, 2010, our individual commercial business loans ranged in size from approximately $1,000 to $819,000, with an average loan size of approximately $58,000. Equipment loans are typically for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the financed equipment and with a loan-to-value ratio of 80% or less. Working capital loans typically have terms not exceeding one year and are usually secured by accounts receivable, inventory, or personal guarantees of the

principals of the business. For loans secured by accounts receivable or inventory, principal is typically repaid as the assets securing the loan are converted into cash, and in other cases principal is typically due at maturity. Margining on accounts receivable is done based on those accounts that are current (60 days or less). The quality of the commercial borrower's management and its ability to both evaluate properly changes in the supply and demand characteristics affecting its markets for products and services and to respond effectively to such changes are significant factors in a commercial borrower's creditworthiness. At December 31, 2010, commercial loans amounted to $2.9 million, or 9.2% of our loan portfolio.

Online Mortgage Channel. In January 2008 we launched our online lending division, Century Point Mortgage ("CPM"). CPM is an internet-based lender with offices located in Atlanta, Georgia. CPM responds to borrowers' internet requests in all fifty states and the District of Columbia, offering a full line of mortgage products, including loans for purchase or refinancing of primary residences, second homes and investment property, as well as home equity loans. We offer traditional mortgage services through CPM and generally limit our mortgage originations to conforming Fannie Mae and Freddie Mac loans. CPM does not originate any subprime mortgages. Prior to closing on the loans, which we originate, the Bank has commitments to sell them to various mortgage investors. During the second quarter 2010, the Bank added a new mortgage call center in Norcross, Georgia, which expands the solicitation activities for this channel to outbound promotions. For the year ended December 31, 2010, the Online Mortgage Channel originated $87.2 million in loans

Retail Mortgage Channel. Beginning in October, 2009 First Century Bank, NA began originating mortgages through retail loan officers located in a Loan Production Office (LPO) located in Roswell, Georgia and the bank facility located in Gainesville, Georgia. The individual loan officers facilitate these loans by personal interview or phone conversation with the customer to obtain application information. The location of the properties securing the loan is primarily in the north Georgia area and is primarily single family 1-4 family owner occupied. These loans are conforming Fannie Mae and Freddie Mac loans. Prior to the closing of the loans, the Bank has commitments to sell them to various investors. For the year ended December 31, 2010, the Retail Mortgage channel originated $124.6 million in loans.

Loan Approval and Review. Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. We attempt to mitigate repayment risks by adhering to internal credit policies and procedures. These policies and procedures include officer and customer lending limits, a multi-layered approval process for larger loans, documentation examination, and follow-up procedures for any exceptions to credit policies. Our loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds an individual officer's lending authority, the loan request will be reviewed by an officer with a higher lending authority. We have established a loan committee of the board of directors that must approve any loan that exceeds the lending limit of the Officer's Loan Committee which consists of the chief executive officer, chief lending officer and the market presidents. We will not make any loans to any director, officer, or employee on terms more favorable to such person than would be available to an unaffiliated person.

Other Services. In addition to deposit and loan services, the Bank offers banking, direct deposit of payroll and social security checks, and automatic drafts for various accounts. The Bank is a member of a network of automated teller machines that may be used by customers in major cities throughout Georgia, the United States, and in various cities worldwide. The Bank offers merchant credit card processing to the Bank's customers through third party vendors. The Bank offers telephone banking and internet banking services through a third party vendor relationship. These services include cash management, bill pay services, e-Statements, and online item images which allows the customer to view images of their cleared checks via connection to the internet through a secure link in the Bank's website. The bank also offers Remote Deposit Capture Services which allows business customers to scan

and electronically deposit checks from their office.

Lending Policies

The Bank's lending activities are subject to a variety of lending limits imposed by federal law. Differing limits apply based on the type of loan and the nature of the borrower, including the borrower's relationship to the Bank. In general, however, the Bank is able to loan any one borrower a maximum amount equal to either:

- 15% of the Bank's capital and surplus; or
- 25% of its capital and surplus if the excess over 15% is within federal guidelines, which provides an exception to the 15% limit for debt secured by readily marketable collateral, as defined by OCC regulations.

The Bank complies with the statutory lending limits, as described above. As of December 31, 2010, our legal lending limit to one borrower was approximately $932,000. We seek to sell loan participations to other financial institutions to meet the needs of customers requiring loans above these limits. Nevertheless, because this amount is substantially lower than the lending limit for most of our competitors, it is difficult for us to compete for many loan relationships. The Bank's legal lending limits will increase or decrease as the Bank's capital increases or decreases as a result of, among other reasons, its earnings or losses.

The interagency guidelines adopted by federal bank regulators, including the OCC, mandate that financial institutions establish real estate lending policies and establishing particular minimum real estate loan-to-value standards. The Bank has adopted these federal standards as its minimum standards. These standards require maximum loan-to-value ratios for various types of real estate loans, although the Bank may make exceptions to the maximum guidelines, such exceptions must be accounted for and tracked.

Asset Management Policies

A committee composed of the senior officers of the Bank is charged with managing the Bank's assets and liabilities pursuant to policies established by the Asset/Liability and Investment Committee of the Board of Directors (the "Asset/Liability Committee"). The Asset/Liability Committee attempts to manage asset growth, liquidity and capital in order to optimize income and reduce interest-rate risk. The Asset/Liability Committee directs the Bank's overall acquisition and allocation of funds. The Management Committee meets with the Asset/Liability Committee on a quarterly basis. The Asset/Liability Committee reviews and discusses the monthly asset and liability funds budget in relation to the actual flow of funds, as well as peer group comparisons; the ratio of the amount of rate-sensitive assets to the amount of rate-sensitive liabilities; local market rates and rate forecasts; and other variables, such as expected loan demand, expected loan and deposit maturities, investment opportunities, core deposit growth within specified categories, regulatory changes, monetary policy adjustments and the overall state of the economy.

The Bank's investment policy is to optimize income, consistent with liquidity, asset quality and regulatory constraints. The policy is reviewed from time to time by the Board of Directors of the Bank. Individual transactions, portfolio composition and performance are reviewed and approved monthly by the Board of Directors or a committee thereof. Management of the Bank implements the policy and reports to the full Board of Directors on a quarterly basis information concerning sales, purchases, resultant gains or losses, average maturity, federal taxable equivalent yields, and appreciation or depreciation by investment categories.

Correspondent banking involves the provision of services by one bank to another bank which cannot provide that service for itself from an economic or practical standpoint. The Bank has purchased correspondent services offered by larger banks, including check collections, services relating to the purchase of Federal Funds, security safekeeping, investment services, coin and currency supplies, overline and liquidity loan participations and sales of loans to or participations with correspondent banks. The Bank sells loan participations to correspondent banks with respect to loans that exceed the Bank's lending limit. As compensation for services provided by a correspondent, the Bank may maintain balances with such correspondents in noninterest-bearing accounts.

Competition

The Bank primarily serves the northern Georgia market of Hall County. Hall County is located in Northeast Georgia and encompasses 392 square miles. Gainesville, the county seat, is situated 50 miles northeast of Atlanta and 40 miles northwest of Athens. Bordered on the west by Lake Sidney Lanier, Hall County lies at the southern edge of the Chattahoochee Natural Forest and the foothills of the Blue Ridge Mountains. According to 2009 Census Bureau estimates, the population in Hall County was approximately 187,743 with a median income for a family in Hall County of $53,083.

The banking business is highly competitive. We compete as a financial intermediary with other lenders and deposit-takers, including other commercial banks, thrift institutions, credit unions, finance companies, mutual funds, insurance companies, and brokerage companies and investment

banking firms. The competition among the various financial institutions is based upon a variety of factors, including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities and, in the case of loans to large commercial borrowers, relative lending limits. According to information provided by the FDIC, as of June 30, 2010, there were 55 offices of 17 banks operating in Hall County with a total of approximately $2.5 billion in deposits. As of June 30, 2010, the Bank had approximately 2.38% of the deposit market share. In addition to competition from large national and regional banks, including Regions Bank, Wells Fargo Bank, N.A., SunTrust Bank and Bank of America, N.A., the Bank also competes with a number of local competitors, including South Carolina Bank and Trust, United Community Bank, Chattahoochee Bank of GA and Peach State Bank. Size gives larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offer services in other areas of Georgia. As a result, we do not generally attempt to compete for the banking relationships of large corporations, but concentrate our efforts on small- to medium-sized businesses and individuals.

Employees

As of December 31, 2010, we had 70 full-time employees. We consider the relationship with our employees to be good.

SUPERVISION AND REGULATION

Both the Company and the Bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

The following is an explanation of the supervision and regulation of the Company and the Bank as financial institutions. This explanation does not purport to describe all state and federal supervision and regulation of general business corporations. The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

First Century Bancorp.

We own 100% of the outstanding capital stock of the Bank, and therefore we are a bank holding company under the federal Bank Holding Company Act of 1956 (the “Bank Holding Company Act”). As a result, we are primarily subject to the supervision, examination and reporting requirements of the Board of Governors of the Federal Reserve (the “Federal Reserve Board”) under the Bank Holding Company Act and its regulations promulgated thereunder. Moreover, because we control a national bank located in Georgia, we are a bank holding company for purposes of the Georgia Bank Holding Company Act as well.

Permitted Activities. Under the Bank Holding Company Act, a bank holding company is generally permitted to engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and
- any activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve Board has found by regulation to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and related activities;
- leasing personal or real property;
- operating a non-bank depository institution;
- trust company functions;

- financial and investment advisory activities;
- conducting agency and riskless principal securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- foreign exchange activities;
- engaging in certain derivative and similar contracts as principal;
- providing specified management consulting and counseling activities;
- performing selected data processing, courier and other support services;
- acting as agent or broker, and in some cases principal, in selling credit life insurance and other types of insurance in connection with credit transactions;

- performing selected insurance underwriting activities;
- performing community development activities; and
- issuing and selling money orders, savings bonds and traveler's checks.

As a bank holding company, we also can elect to be treated as a "financial holding company," which would allow us to engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complementary to financial activities, including expanded insurance underwriting, sales and brokerage activities, expanded securities brokerage activities and certain merchant banking activities. We have not sought financial holding company status, but may elect such status in the future as our business matures. If we were to elect financial holding company status, each insured depository institution we control would have to have and maintain well capitalized and well managed status, and a satisfactory rating under the Community Reinvestment Act (discussed below).

The Federal Reserve Board has the authority to order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries. Further, federal bank regulatory authorities have discretion to require a bank holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

Source of Strength. In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which we might not otherwise do so. Under the Bank Holding Company Act, the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary, other than a non-bank subsidiary of a bank, upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any depository institution subsidiary of a bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or non-bank subsidiaries if the agency determines that divestiture may aid the depository institution's financial condition. Further, any loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank at a certain level would be assumed by the bankruptcy trustee and entitled to priority payment.

Capital Requirements. The Federal Reserve Board imposes certain capital requirements on the bank holding company under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are essentially the same as those that apply to the Bank and are described below under "First Century Bank." Under the Federal Reserve Board's Small Bank Holding Company Policy Statement, our ability to take on debt, thus increasing our leverage ratios, is less strictly applied as compared to larger bank holding companies, and we are not held to the specific capital guidelines applicable to those larger bank holding companies. Nonetheless, we are required to serve as a source of strength to the Bank. We are able to borrow money to make a capital contribution to the Bank, and these loans may be repaid from dividends paid from the Bank to the Company. We are also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

Our ability to pay dividends is subject to regulatory restrictions as described below in "First Century Bank – Dividends."

First Century Bank, N.A.

The Bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the OCC. The OCC and the FDIC regulate or monitor virtually all areas of the Bank's operations, including:

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;

- issuances of securities;
- payment of dividends;
- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

Capital Requirements. Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The OCC requires that the Bank maintain specified ratios of capital to assets and imposes limitations on the Bank's aggregate investment in real estate, bank premises, and furniture and fixtures. Two categories of regulatory capital are used in calculating these ratios—Tier 1 capital and total capital. Tier 1 capital generally includes common equity, retained earnings, a limited amount of qualifying preferred stock, and qualifying minority interests in consolidated subsidiaries, reduced by goodwill and certain other intangible assets, such as core deposit intangibles, and certain other assets. Total capital generally consists of Tier 1 capital plus Tier 2 capital, which includes the allowance for loan losses, preferred stock that did not qualify as Tier 1 capital, certain types of subordinated debt and a limited amount of other items.

The Bank is required to calculate three capital ratios: the ratio of Tier 1 capital to risk-weighted assets, the ratio of total capital to risk-weighted assets, and the "leverage ratio," which is the ratio of Tier 1 capital to average assets on a non-risk-adjusted basis. For the two ratios of capital to risk-weighted assets, certain assets, such as cash and U.S. Treasury securities, have a zero risk weighting. Others, such as commercial and consumer loans, have a 100% risk weighting. Some assets, notably purchase-money loans secured by first-liens on residential real property, are risk-weighted at 50%. Assets also include amounts that represent the potential funding of off-balance sheet obligations such as loan commitments and letters of credit. These potential assets are assigned to risk categories in the same manner as funded assets. The total assets in each category are multiplied by the appropriate risk weighting to determine risk-adjusted assets for the capital calculations. At December 31, 2010, our ratio of total capital to risk-weighted assets was 15.99%, our ratio of Tier 1 Capital to risk-weighted assets was 14.86% and our ratio of Tier 1 Capital to average assets was 8.50%.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to total assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve Board's risk-based capital measure for market

risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without reliance on intangible assets. The Federal Reserve Board considers the leverage ratio and other indicators of capital strength in evaluating proposals for expansion or new activities.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. As described below, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. See “First Century Bank—Prompt Corrective Action.”

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) established a “prompt corrective action” program under which every bank is placed in one of five regulatory categories, depending primarily on its regulatory capital levels. The OCC and the other federal banking regulators are permitted to take increasingly severe action as a bank’s capital position or financial condition declines below the “Adequately Capitalized” level described below. Regulators are also empowered to place in receivership or require the sale of a bank to another depository institution when a bank’s leverage ratio reaches 2%. Better capitalized institutions are generally subject to less onerous regulation and supervision than banks with lesser amounts of capital. The OCC’s regulations set forth five capital categories, each with specific regulatory consequences. The categories are:

- Well Capitalized — The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution is one (i) having a total capital ratio of 10% or greater, (ii) having a Tier 1 capital ratio of 6% or greater, (iii) having a leverage capital ratio of 5% or greater and (iv) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

- Adequately Capitalized — The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution is one (i) having a total capital ratio of 8% or greater, (ii) having a Tier 1 capital ratio of 4% or greater and (iii) having a leverage capital ratio of 4% or greater or a leverage capital ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.

- Undercapitalized — The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution is one (i) having a total capital ratio of less than 8%, (ii) having a Tier 1 capital ratio of less than 4% or (iii) having a leverage capital ratio of less than 4%, or if the institution is rated a composite 1 under the CAMELS rating system, a leverage capital ratio of less than 3%.

- Significantly Undercapitalized — The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one (i) having a total capital ratio of less than 6%, (ii) having a Tier 1 capital ratio of less than 3% or (iii) having a leverage capital ratio of less than 3%.

- Critically Undercapitalized — The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2%.

If the OCC determines, after notice and an opportunity for hearing, that the Bank is in an unsafe or unsound condition, the regulator is authorized to reclassify the Bank to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

The federal regulatory authorities’ risk-based capital guidelines parallel the 1988 Capital Accord of the Basel Committee on Banking Supervision (the “Basel Committee”). The Basel Committee is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines for use by each country’s supervisors in determining the supervisory policies they apply. On December 17, 2009, the Basel Committee issued a set of proposals (the “Capital Proposals”) that would significantly revise the definitions of Tier 1 Capital and Tier 2 Capital, with the most significant changes being to Tier 1 Capital. Most notably, the Capital Proposals would disqualify certain structured capital instruments, such as trust preferred securities, from Tier 1 Capital status. The Capital Proposals would also re-emphasize that common equity is the predominant component of Tier 1 Capital by adding a minimum common equity to risk-weighted assets ratio and requiring that goodwill, general intangibles and certain other items that currently must be deducted from Tier 1 Capital instead be deducted from common equity as a component of Tier 1 Capital. The Capital Proposals also leave open the possibility that the Basel Committee will recommend changes to the minimum Tier 1 Capital and Total Capital ratios of 4.0% and 8.0%, respectively.

Concurrently with the release of the Capital Proposals, the Basel Committee also released a set of proposals related to liquidity risk exposure (the “Liquidity Proposals,” and together with the Capital Proposals, the “2009 Basel Committee Proposals”). The Liquidity Proposals have three key elements, including the implementation of (i) a “liquidity coverage ratio” designed to ensure that a bank maintains an adequate level of unencumbered, high quality

assets sufficient to meet the bank's liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a "net stable funding ratio" designed to promote more medium and long-term funding of the assets and activities of banks over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors and that supervisors should use in monitoring the liquidity risk profiles of supervised entities.

Final provisions to the Basel Committee's proposal are expected to be finalized by December 31, 2012. Any implementation of such proposals in the U.S. will be subject to the discretion of the U.S. bank regulators, and the regulations or guidelines adopted by such agencies may, of course, differ from the 2009 Basel Committee Proposals and other proposals that the Basel Committee may promulgate in the future.

As of December 31, 2010, the Bank was "well capitalized."

Standards for Safety and Soundness. The Federal Deposit Insurance Act (the "FDIA") also requires the federal banking regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset growth. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if the OCC determines that the Bank fails to meet any standards prescribed by the guidelines, the agency may require the Bank to submit to the agency an acceptable plan to achieve compliance with the standard. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted on July 21, 2010. The Dodd-Frank Act resulted in sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. Among other things, the Dodd-Frank Act includes the following provisions:

- Creates a new Consumer Financial Protection Bureau with power to promulgate and enforce consumer protection laws. Smaller depository institutions, those with $10 billion or less in assets, will be subject to the Consumer Financial Protection Bureau's rule-writing authority, and existing depository institution regulatory agencies will retain examination and enforcement authority for such institutions;

- Establishes a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk;

- Implements corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all companies whose securities are registered with the SEC, not just financial institutions;

- Changes the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital;

- Provides that interchange fees for debit cards will be set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard;

- Applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies and require the FDIC and Federal Reserve to seek to make their respective capital requirements for state nonmember banks and bank holding companies countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;

- Makes permanent the $250,000 limit for federal deposit insurance and provides unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions; and

- Repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us, our customers or the financial industry more generally.

Troubled Asset Relief Program. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted establishing the Troubled Asset Relief Program ("TARP"). On October 14, 2008, Treasury announced its intention to inject capital into U.S. financial institutions under the TARP Capital Purchase Program ("CPP") and since has injected capital into many financial institutions,

American Recovery and Reinvestment Act of 2009. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 ("ARRA") was enacted. The ARRA, commonly known as the economic stimulus or economic recovery package, includes a wide variety of programs intended to

stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes additional executive compensation and corporate expenditure limits on all current and future TARP recipients until the institution has repaid Treasury. This repayment is now permitted under ARRA without penalty and without the need to raise new capital, subject to Treasury's consultation with the recipient's appropriate regulatory agency. The executive compensation standards include (i) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the TARP period up to one-third of the executive's total annual compensation, (ii) prohibitions on severance payments for departure from a company, (iii) an expanded clawback of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria, (iv) prohibitions on compensation plans that encourage manipulation of reported earnings, (v) required establishment of a company-wide policy regarding "excessive or luxury expenditures", and (vi) inclusion in a participant's proxy statements for annual shareholder meetings of a nonbinding "say on pay" shareholder vote on the compensation of executives.

Incentive Compensation. On October 22, 2009, the Federal Reserve issued a proposal on incentive compensation policies (the "Incentive Compensation Proposal") intended to ensure that the incentive compensation policies of financial institutions do not undermine the safety and soundness of such institutions by encouraging excessive risk-taking. The Incentive Compensation Proposal, which covers all employees that have the ability to materially affect the risk profile of an institution, either individually or as part of a group, is based upon the key principles that a financial institution's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the institution ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the institution's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of financial institutions, such as the Company, that are not "large, complex banking organizations." These reviews will be tailored to each financial institution based on the scope and complexity of the institution's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the financial institution's supervisory ratings, which can affect the institution's ability to make acquisitions and take other actions. Enforcement actions may be taken against a financial institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the institution's safety and soundness and the institution is not taking prompt and effective measures to correct the deficiencies.

The scope and content of banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such policies will adversely affect the Company's ability to hire, retain and motivate its key employees.

Insurance of Accounts and Regulation by the FDIC. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Regulatory Examination. The OCC requires the Bank to prepare quarterly and annual reports on the Bank's financial condition and to conduct an annual audit of its financial affairs in compliance with its minimum standards and procedures.

All insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate federal banking agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit quarterly and annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The FDIC has developed a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The federal banking regulatory agencies prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- internal controls;
- information systems and audit systems;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and

- asset quality.

Transactions with Affiliates and Insiders. The Company is a legal entity separate and distinct from the Bank and its other subsidiaries. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company or its non-bank subsidiaries. The Company and the Bank are subject to Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W.

Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit to, of for the benefit of, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements of between 100 and 130% depending on the type of collateral. The Bank is forbidden to purchase low quality assets from an affiliate.

Section 23B of the Federal Reserve Act, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates. The regulation also limits the amount of loans that can be purchased by a bank from an affiliate to not more than 10% of the bank's capital and surplus for any one affiliate or 20% of the bank's capital and surplus for all affiliates.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Commercial Real Estate Lending. The Bank's lending operations may be subject to enhanced scrutiny by the OCC based on its concentration of commercial real estate loans. Commercial real estate ("CRE") loans generally include land development, construction loans and loans secured by multifamily property, and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land represent 100% or more of the institution's total capital; or
- total CRE loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

Fair Value. The Company's impaired loans and foreclosed assets may be measured and carried at "fair value", the determination of which requires management to make assumptions, estimates and judgments. When a loan is considered impaired, a specific valuation allowance is allocated or a partial charge-off is taken, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. In addition, foreclosed assets are carried at the lower of cost or "fair value", less cost to sell, following foreclosure. "Fair value" is defined by accounting principles generally accepted in the United States of America ("GAAP") "as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date." GAAP further defines an "orderly transaction" as "a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets; it is not a forced transaction (for example, a forced liquidation or distress sale)." Recently in the Bank's markets there have been very few transactions in the type of assets which represent the vast majority of the Bank's impaired loans and foreclosed properties which reflect "orderly transactions" as so defined. Instead, most transactions in comparable assets have been distressed sales not indicative of "fair value." Accordingly, the determination of fair value in the current environment is difficult and more subjective than it would be in a stable real estate environment. Although management believes its processes for determining the value of these assets are appropriate factors and allow the Company to arrive at a fair value, the processes require management judgment and assumptions and the value of such assets at the time they are revalued or divested may be significantly different from management's determination of fair value. Because of this increased subjectivity in fair value determinations, there is greater than usual grounds for differences in opinions, which may result in increased disagreements between management and the Bank's regulators, disagreements which could impair the relationship between the Bank and its regulators.

Anti-Tying Restrictions. Under amendments to the Bank Holding Company Act and Federal Reserve Board regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that (i) the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or subsidiaries thereof or (ii) the customer may not obtain some other credit, property, or services from a

competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. Certain arrangements are permissible: a bank may offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products; and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti-tying requirements in connection with electronic benefit transfer services.

Community Reinvestment Act. The Community Reinvestment Act requires that the OCC evaluate the record of the Bank in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank.

Consumer Protection Regulations. Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to:

- the Truth-in-Savings Act, which establishes uniformity in the disclosure of terms and conditions regarding interest and fees on savings accounts;
- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Enforcement Powers. The Bank and its "institution-affiliated parties," including its management, employees, agents, independent contractors and consultants, such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs, are subject to potential civil and criminal penalties for violations of law, regulations or written orders of a government agency. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1,375,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to 20 years imprisonment. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies have authority to issue cease-and-desist orders, memoranda of understanding and other agreements. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Anti-Money Laundering. Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and "knowing your customer" in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and these laws provide law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering obligations have been substantially strengthened as a result of the USA PATRIOT Act, enacted in 2001 and renewed in 2006. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing "cease and desist" orders and money penalty sanctions against institutions found to

be violating these obligations.

USA PATRIOT Act/Bank Secrecy Act and OFAC. The USA PATRIOT Act, amended, in part, the Bank Secrecy Act and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering by enhancing anti-money laundering and financial transparency laws, as well as enhanced information collection tools and enforcement mechanics for the U.S. government, including: (i) requiring standards for verifying customer identification at account opening; (ii) rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; (iii) reports by nonfinancial trades and businesses filed with the Treasury's Financial Crimes Enforcement Network for transactions exceeding $10,000; and (iv) filing suspicious activities reports if a bank believes a customer may be violating U.S. laws and regulations. These laws require enhanced due diligence for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications.

Under the USA PATRIOT Act, the FBI can send to the banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank can be requested to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI.

The Office of Foreign Assets Control ("OFAC"), which is a division of the Treasury, is responsible for helping to insure that U.S. entities do not engage in transactions with known or suspected criminals or terrorists, as defined by various Executive Orders and Acts of Congress. OFAC maintains a public list of persons and organizations suspected of aiding, harboring or engaging in terrorist or criminal acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must confirm the legitimacy of the match, freeze such account, file a suspicious activity report and notify law enforcement. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank performs checks of customer names utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

Privacy and Credit Reporting. Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. It is the Bank's policy not to disclose any personal information unless required by law. The OCC and the federal banking agencies have prescribed standards for maintaining the security and confidentiality of consumer information. The Bank is subject to such standards, as well as certain state laws and OCC guidance that require notification to consumers in the event of a security breach.

Like other lending institutions, the Bank utilizes credit bureau data in its underwriting activities. Use of such data is regulated under the Federal Credit Reporting Act on a uniform, nationwide basis, including credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act") permits states to enact identity theft laws that are not inconsistent with the conduct required by the provisions of the FACT Act.

Check 21. The Check Clearing for the 21st Century Act gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring the re-crediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

Effect of Governmental Monetary Policies**.** Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the Federal Reserve Board's power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Proposed Legislation and Regulatory Action**.** New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Dividends

The Company is a legal entity separate and distinct from the Bank. The principal sources of the Company's cash flow, including cash flow to pay dividends to its shareholders, are dividends that the Bank pays to its sole shareholder, the Company. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders. The Bank is precluded from paying dividends until it is cumulatively profitable.

The Bank is required by federal law to obtain prior approval of OCC for payments of dividends if the total of all dividends declared by our Board of Directors in any year will exceed (1) the total of the Bank's net profits for that year, plus (2) the Bank's retained net profits of the preceding two years, less any required transfers to surplus.

The payment of dividends by the Company and the Bank may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. If, in the opinion of the OCC, the Bank were engaged in or about to engage in an unsafe or unsound practice, the OCC could require, after notice and a hearing, that the Bank stop or refrain engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the FDICIA, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See "First Century Bank—Prompt Corrective Action" above.

Item 1A. Risk Factors.

Our business, financial condition, and results of operations could be harmed by any of the following risks, or other risks that have not been identified or which we believe are immaterial or unlikely. Shareholders should carefully consider the risks described below in conjunction with the other information in this Form 10-K, including our consolidated financial statements and related notes. The risks discussed below include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

We have only recently adopted our new business plan and may not be able to implement it effectively.

Our future performance will depend on our ability to implement our new business plan successfully. We established our online mortgage division, Century Point Mortgage, in the beginning of 2008 and expanded our mortgage division over the past two years to include a significant retail presence in the North Georgia market. The implementation of our new business plan, which more heavily focuses on mortgage operations, involves a variety of complex tasks, including implementation of new production, operational and reporting systems and recruiting and integrating qualified originators and support staff to adequately handle and manage these operations. We do not currently have a large presence in this business and we operate and plan to grow it in markets that include larger competitors. In addition, the current business and economic conditions have negatively impacted the demand for residential mortgages and, in the future, other conditions such as declines in household incomes or employment conditions or a rising interest rate environment could decrease the demand for residential mortgage loans. Any failure to grow our businesses as planned or our failure to increase our share of originations , whether due to regulatory delays or for other reasons, which may be beyond our control, is likely to impede, and could ultimately preclude, our successful implementation of our business plan and could materially adversely affect our business, financial condition, and level of non-interest income and other results of operations.

Our ability to raise additional capital could be limited and could affect our liquidity and could be dilutive to existing shareholders. We may be required to raise additional capital, including for strategic, regulatory or other reasons. Our ability to raise additional capital will depend in part on conditions in the capital markets at that time, which are outside our control, and our financial performance. Current conditions in the capital markets are

such that traditional sources of capital may not be available to us on reasonable terms if we needed to raise additional capital. Accordingly, we may be unable to raise additional capital, if and when needed, on terms acceptable to us, or at all, or otherwise on terms that are not dilutive to existing shareholders. If we cannot raise additional capital when needed, our ability to continue our current operations or further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

Our reported financial results depend on our accounting and reporting policies, the application of which requires significant assumptions, estimates and judgments.

Our accounting and reporting policies are fundamental to the methods by which we record and report our financial condition and results of operations. Our management must make significant assumptions and estimates and exercise significant judgment in selecting and applying many of these accounting and reporting policies so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select a policy from two or more alternatives, any of which may be reasonable under the circumstances, which may result in us reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results. They require management to make difficult, subjective and complex assumptions, estimates judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies relate to the allowance for loan losses; warranty reserves; fair value measurement, intangible assets and income taxes. Because of the uncertainty of assumptions and estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than the reserve provided; significantly decrease the carrying value of loans, foreclosed property or other assets or liabilities to reflect a reduction in their fair value; recognize significant impairment on intangible asset balances; or significantly increase our accrued taxes liability or decrease the value of our deferred tax assets.

Our ability to estimate our loan loss reserves accurately may have an adverse effect on our financial performance.

Lending money is our primary business. Our success depends to a significant extent upon the quality of our assets, particularly loans. In originating loans, there is a substantial likelihood that credit losses will be experienced. The risk of loss will vary with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the quality of the collateral for the loan.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. As a result, we may experience significant loan losses, which could have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. In determining the amount of the allowance, we consider several factors, including:

- an ongoing review of the quality, mix, and size of our overall loan portfolio;
- our historical loan loss experience;
- evaluation of economic conditions;
- regular reviews of loan delinquencies and loan portfolio quality; and
- the amount and quality of collateral, including guarantees, securing the loans.

However, there is no precise method of predicting credit losses, since any estimate of loan losses is necessarily subjective and the accuracy depends on the outcome of future events. Although we believe the allowance for loan losses is a reasonable estimate of known and inherent losses in our loan portfolio, we cannot fully predict such losses or that our loan loss allowance will be adequate in the future. At December 31, 2010, our allowance for probable loan losses represented 1.50% of our total loans, 24% of our total non-performing assets, and 32% of our total non-performing loans. If our loan losses exceed our allowance for probable loan losses, our business, financial condition and profitability will suffer.

Federal regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in the amount of our provision or loans charged-off as required by these regulatory agencies could have a negative effect on our results of operations.

We will face risks with respect to future expansion and acquisitions or mergers.

We may seek to acquire other financial institutions or parts of those institutions. Any combination or acquisition would require the approval of the federal and state regulatory authorities. In addition, the Bank may also opened new offices or expand into new lines of business or offer new products or services.

These activities would involve a number of risks, including:

- taking additional time and creating expense associated with identifying and evaluating potential acquisitions and merger partners;
- using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or assets;
- diluting our existing shareholders in an acquisition;
- taking additional time and creating expense associated with evaluating new markets for expansion, hiring experienced local management, and opening new offices, as there may be a substantial time lag between these activities before we generate sufficient assets and deposits to support the costs of the expansion;
- taking a significant amount of time negotiating a transaction or working on expansion plans, resulting in management's attention being diverted from the operation of our existing business;
- taking time and creating expense integrating the operations and personnel of the combined businesses;
- creating an adverse short-term effect on our results of operations; and
- losing key employees and customers as a result of an acquisition that is poorly received.

We have not acquired another institution and we lack experience in handling any of these risks. In addition, there is also a risk that any expansion effort will not be successful. Once opened, if these new branches are not able to increase or generate loan and deposit portfolios to a point where net interest income covers their start-up and operating costs, then our investment in these new markets will generate unsatisfactory or even negative returns and could materially adversely affect our business, financial condition, and results of operations.

Our success depends on our ability to identify and retain individuals with experience and relationships in the markets in which we compete.

Our success depends, in part, on our ability to identify and retain experienced key management members with local expertise and relationships in our markets. If any of the Bank's senior officers were to leave the employ of the Bank or become unable to perform their duties for any reason, we would have to replace them. There is significant competition for qualified management and there are a limited number of qualified persons with knowledge of and experience in the community banking industry in our markets. Even if we identify individuals that we believe could assist us in growing our presence in the market, we may be unable to recruit these individuals away from other banks. In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out our strategy is often lengthy. Our inability to identify, recruit, and retain talented personnel would limit our growth and could materially adversely affect our business, financial condition, and results of operations.

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by the OCC, the FDIC, and the Federal Reserve Board. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, making loans, charging interest rates, paying interest rates on deposits, and locations of branches. We must also meet regulatory capital requirements. If we fail to meet these capital and other regulatory requirements, our financial condition, liquidity, and results of operations would be materially and adversely affected. If our status changes to "adequately capitalized" rather than "well capitalized" and we fail to remain "well managed" for regulatory purposes, it could affect customer confidence, our ability to grow, our cost of funds and FDIC insurance, our ability to pay dividends on our capital stock, and our ability to make acquisitions.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. For example, new legislation or regulation could limit the manner in which we may conduct our business, including our ability to obtain financing, attract deposits, make loans and expand our business through opening new branch offices. Many of these regulations are intended to protect depositors, the public, and the FDIC, not shareholders. In addition, the burden imposed by these regulations may place us at a competitive disadvantage compared to competitors who are less regulated. The laws, regulations, interpretations, and enforcement policies that apply to us have been subject to significant change in recent years, sometimes retroactively applied, and may change significantly in the future. Our cost of compliance with these laws and regulations could adversely affect our ability to operate profitably. See "Supervision and Regulation."

In addition, as a regulated entity, we are subject to examination and supervision and can be requested by our regulators to implement changes to our operations. We have addressed areas of regulatory concern, including interest rate risk, through the adoption of board resolutions and improved policies and procedures.

Our industry and business have been adversely affected by conditions in the financial markets and economic conditions generally and recent efforts to address difficult market and economic conditions may not be effective.

Since mid-2007, the financial markets and economic conditions generally have been materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all residential construction, particularly in metro Atlanta and north and coastal Georgia, and residential mortgages as property

prices declined rapidly and affected nearly all asset classes. The effect of the market and economic downturn also spread to other areas of the credit markets and in the availability of liquidity. The magnitude of these declines led to a crisis of confidence in the financial sector as a result of concerns about the capital base and viability of certain financial institutions. These declines have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with other financial institutions and, in some cases, to fail. In addition, customer delinquencies, foreclosures and unemployment have also increased significantly. The current economic pressure on consumers and businesses and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations and may continue to result in credit losses and write-downs in the future. The failure of government programs and other efforts to help stabilize the banking system and financial markets and a continuation or worsening of current economic conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

Capital resources and liquidity are essential to our businesses and could be negatively impacted by disruptions in our ability to access other sources of funding.

Capital resources and liquidity are essential to our businesses. We depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include traditional and brokered deposits, inter-bank borrowings, Federal Funds purchased and Federal Home Loan Bank advances. We also raise funds from time to time in the form of either short-or long-term borrowings or equity issuances.

Our capital resources and liquidity could be negatively impacted by disruptions in our ability to access these sources of funding. With increased concerns about bank failures, traditional deposit customers are increasingly concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits from the Bank in an effort to ensure that the amount that they have on deposit is fully insured. In addition, the cost of brokered and other out-of-market deposits and potential future regulatory limits on the interest rate we pay for brokered deposits could make them unattractive sources of funding. Further, factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to access other sources of funds. Other financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy generally and, given recent downturns in the economy, there may not be a viable market for raising short or long-term debt or equity capital. In addition, our ability to raise funding could be impaired if lenders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could be developed if we are downgraded or put on (or remain on) negative watch by the rating agencies, we suffer a decline in the level of our business activity or regulatory authorities take significant action against us, among other reasons.

Among other things, if we fail to remain “well-capitalized” for bank regulatory purposes, because we do not qualify under the minimum capital standards or the FDIC otherwise downgrades our capital category, it could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common stock, and our ability to make acquisitions, and we would not be able to accept brokered deposits without prior FDIC approval. To be “well-capitalized,” a bank must generally maintain a leverage capital ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. In addition, our regulators require us to maintain higher capital levels. For example, regulators frequently require financial institutions with high levels of classified assets to maintain a leverage ratio of at least 8%. Our failure to remain “well-capitalized” or to maintain any higher capital requirements imposed on us could negatively affect our business, results of operations and financial condition, generally.

If we are unable to raise funding using the methods described above, we would likely need to finance or liquidate unencumbered assets to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations and financial condition.

Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which we are perceived in such markets, may adversely affect financial condition or results of operations.

In general, the amount, type and cost of our funding, including from other financial institutions, the capital markets and deposits, directly impacts our operating costs and our assets growth and therefore, can positively or negatively affect our financial condition or results of operations. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, our operating losses, our ability to remain “well capitalized,” events that adversely impact our reputation, enforcement actions, disruptions in the capital markets, events that adversely impact the financial services industry, changes affecting our assets, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments. Also, we compete for funding with other financial institutions, many of which are substantially larger, and have more capital and other resources than we do. In addition, as some of these competitors consolidate with other financial institutions, their competitive advantages may increase. Competition from these institutions may also increase the cost of funds.

The economic downturn, especially in Northern Georgia, has had an adverse effect on the quality of our loan portfolio and our financial performance.

The principal focus of the Bank and its lending officers has been, and continues to be, the financing of growth and management of the deposits of small businesses within the target market of the Bank. These businesses generally have fewer financial resources in terms of capital borrowing capacity than larger entities. The economic downturn has adversely affected these small businesses to a greater degree than more highly capitalized and larger corporations. The negative impact of the general economic conditions on these businesses in the markets in which we operate has adversely affected our business, financial condition, and results of operations.

Economic recession over a prolonged period or other economic problems in Hall, Oconee and Athens-Clarke Counties, Georgia or in our state or nation generally have had, and may continue to have, a material adverse impact on the quality of our loan portfolio and the demand for our products and services. For example, the downturn in the local economy has made it more difficult for borrowers to repay their loans and this could lead to loan losses, which could in turn reduce our net income and profitability.

The value and liquidity of real estate or other collateral that secures our loans in our market area has been, and may continue to be, adversely affected by the economic downturn. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies or markets. We often secure loans with real estate collateral. As of December 31, 2010, approximately 88%, of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during this period of reduced real estate values, our business, financial condition, and results of operations could be negatively affected.

The FDIC has imposed a special assessment on all FDIC-insured institutions, which decreased our earnings in 2009, and future special assessments could adversely affect our earnings in future periods.

In May 2009, the FDIC announced that it had voted to levy a special assessment on insured institutions in order to facilitate the rebuilding of the Deposit Insurance Fund. The assessment was equal to five basis points of our subsidiary bank's total assets minus Tier 1 capital as of June 30, 2009. The FDIC has indicated that future special assessments are possible, although it has not determined the magnitude or timing of any future assessments. Any such future assessments will decrease our earnings.

The Dodd-Frank Act and related regulations may adversely affect our business, financial condition, liquidity or results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was enacted on July 21, 2010. The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with the power to promulgate and enforce consumer protection laws. Smaller depository institutions, those with $10 billion or less in assets, will be subject to the Consumer Financial Protection Bureau's rule-writing authority, and existing depository institution regulatory agencies will retain examination and enforcement authority for such institutions. The Dodd-Frank Act also establishes a Financial Stability Oversight Council chaired by the Secretary of the Treasury with authority to identify institutions and practices that might pose a systemic risk, makes permanent the $250,000 limit for federal deposit insurance, provides unlimited federal deposit insurance until December 31, 2012 for non-interest bearing transaction accounts at all insured depository institutions and repeals the federal prohibitions on the payment of interest on demand deposits. Among other things, the Dodd-Frank Act includes provisions affecting (1) corporate governance and executive compensation of all companies whose securities are registered with the SEC, (2) FDIC insurance assessments, (3) interchange fees for debit cards, which would be set by the Federal Reserve under a restrictive "reasonable and proportional cost" per transaction standard, (4) minimum capital levels for bank holding companies, subject to a grandfather clause for financial institutions with less than $15 billion in assets, (5) derivative and proprietary trading by financial institutions, and (6) the resolution of large financial institutions.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations may adversely impact us. However, compliance with these new laws and regulations may increase our costs, limit our ability to pursue attractive business opportunities, cause us to modify our strategies and business operations and increase our capital requirements and constraints, any of which may have a material adverse impact on our business, financial condition, liquidity or results of operations.

Weakness in the real estate market, including the secondary residential mortgage loan markets, has adversely affected us and may continue to do so.

Significant ongoing disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of most mortgage loans other than conforming Fannie Mae and Freddie Mac loans. At December 31, 2010, we held 25 loans for approximately $2.6 million of loans that were not eligible for purchase by these agencies. These loans were purchased by the bank from the portfolio of another national bank as part of a community outreach program and not originated by the First Century Mortgage Division. Due to the characteristics of these loans it is doubtful that these loans will be eligible for purchase in the future, however they will continue to be held in our loan portfolio as performing loans. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans held for investment. Declining real estate values have caused higher delinquencies and losses on certain mortgage loans, particularly second lien mortgages and home equity lines of credit. These trends could continue. These conditions have resulted in losses, write downs and impairment charges in the mortgage business, which have continued through 2010. In response to this trend, we have curtailed various product offerings and limited our mortgage

originations generally to Fannie Mae and Freddie Mac eligible mortgages. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of job losses, interest rate resets on adjustable rate mortgage loans or other factors could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which would adversely affect our financial condition and results of operations. In the event the allowance for loan losses is insufficient to cover such losses, earnings, capital and parent company liquidity could be adversely affected.

We may be subject to losses due to fraudulent and negligent conduct of our loan customers, third party service providers and employees.

When we make mortgage and other loans to individuals or entities, we rely upon information supplied by borrowers and other third parties, including information contained in the applicant's loan application, property appraisal reports, title information and the borrower's net worth, liquidity and cash flow information. While we attempt to verify information provided through available sources, we cannot be certain all such information is correct or complete. Our reliance on incorrect or incomplete information could have a material adverse effect on our financial condition or results of operations.

Our business would suffer if we are unable to sell the residential mortgage loans that we originate.

We sell nearly all of the residential mortgage loans that we originate. Our ability to sell mortgage loans depends on the availability of an active secondary market for these loans. If institutional loan purchasers reduce their purchases of our loans or purchase them on less advantageous terms, this may adversely affect our operations. Our ability to sell mortgage loans also depends on our ability to remain eligible for the programs offered by Fannie Mae, Freddie Mac and other government-sponsored enterprises whose activities are governed by federal law and whose operations have recently been taken over by the U.S. government. If we lose our eligibility to participate in these programs for any reason, or the oversight or government operation of these entities causes a reduction in purchases, then our business would be harmed.

We may be required to repurchase residential mortgage loans we have sold or indemnify institutional loan purchasers, which could adversely impact our earnings.

When we sell our residential mortgage loans to an institutional loan purchaser or government-sponsored entity, we are required to make customary representations and warranties about us and the loans we originated. We are bound by these representations and warranties for the life of the loans. These representations and warranties relate to, among other things:

- compliance with laws;
- regulations and underwriting standards;
- the accuracy of information in the loan documents and loan file; and
- the characteristics and enforceability of the loan.

Our whole loan sale agreements typically require us to repurchase or substitute loans in the event that there is a first payment default or if the loan goes 90 days past due within the first 120 days after the settlement date of the sale or if we breach a representation or warranty we made to the institutional loan purchaser or government-sponsored entity in connection with the sale of the loan. In addition, we may be required to repurchase loans as a result of borrower or appraiser fraud or in the event of early payment default on a mortgage loan. Payment default rates may rise if, for example, loans are inadequately serviced and delinquencies are allowed to persist.

In the event we are required to repurchase loans, we may not have adequate funds to repurchase. Significant repurchase activity could have a material adverse affect on our business, results of operations and financial condition.

Changes in interest rates and our ability to successfully manage interest rate fluctuations may reduce our profitability.

Our results of operations depend in large part upon the level of our net interest income, which is the difference between interest income from interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of our assets and liabilities, a significant change in interest rates could have a material adverse effect on our profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While we intend to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of our assets and liabilities, our efforts may not be effective and our financial condition and results of operations could suffer.

Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Fluctuations in interest rates are not predictable or controllable and therefore, there can be no assurances of our ability to continue to maintain a consistent positive spread between the interest earned on our interest-earning assets and the interest paid on our interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our net interest income and, in turn, our profitability. In addition, loan volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations while lower interest rates are usually

associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates will generally decline and in falling interest rate environments, loan repayment rates will likely increase. Interest rates also affect how much money we can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect our net interest income, asset quality, and loan origination volume.

Industry competition may have an adverse effect on our profitability.

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with banks, credit unions, savings and loan associations, mortgage banking firms, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as community, super-regional, national and international financial institutions that operate offices in our market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. Many of our competitors are well-established, larger financial institutions that are able to operate profitably with a narrower net interest margin and have a more diverse revenue base. We may face a competitive disadvantage as a result of our smaller size, more limited geographic diversification and inability to spread costs across broader markets. Although we compete by concentrating marketing efforts in our primary markets with local advertisements, personal contacts and greater flexibility and responsiveness in working with local customers, customer loyalty can be easily influenced by a competitor's new products and our strategy may or may not continue to be successful.

Moreover, we may not be able to compete with our larger competitors for larger customers because our lending limits are lower than theirs. We are limited in the amount we can loan a single borrower by the amount of the Bank's capital. Our legal lending limit is 15% of the Bank's capital and surplus, or $1,018,000, at December 31, 2010. These limits are significantly less than the limits for most of our competitors, and as a result we will have difficulty in obtaining business from the larger customers in our market area.

Efforts to comply with Sarbanes-Oxley Act involve significant expenditures, and non-compliance with the Sarbanes-Oxley Act may adversely affect us.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the SEC have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. We have experienced, and we expect to continue to experience, greater compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act. We expect these rules and regulations to continue to increase our accounting, legal, and other costs, and to make some activities more difficult, time consuming, and costly. In the event that we are unable to maintain or achieve compliance with the Sarbanes-Oxley Act and related rules, we may be adversely affected.

Our directors and executive officers own a significant portion of our common stock and can influence shareholder decisions and may vote to take actions adverse to our interests.

Our directors and executive officers, as a group, beneficially owned approximately 61.7% of our outstanding common stock as of December 31, 2010. One of our directors, William R. Blanton, who is also our Chief Executive Officer, owns approximately 38.2% of our outstanding common stock as of December 31, 2010. The directors and executive officers, as a result of their ownership, have the ability, by voting their shares in concert, to influence the outcome of any matter submitted to our shareholders for approval, including the election of directors. The directors and executive officers may vote to cause the company to take actions with which shareholders do not agree or that are not beneficial to our shareholders.

One of our directors and major shareholders, William R. Blanton, holds an executive position, serves on the board of directors of two other banks and holds significant shares of banks within our target market and could vote to take actions adverse to our interests.

William R. Blanton, our Chief Executive Officer, Chairman, and a director of the Company and the Bank, who owns approximately 38.2% of our common stock, has 35 years of banking experience and holds interest in various banks across North Georgia. As a result of his interest in other banks, Mr. Blanton may vote to cause the Company to take actions with which the shareholders do not agree or that are not beneficial to its shareholders.

Mr. Blanton spends a portion of his time as the Chief Executive Officer, Vice-Chairman and as a director of First Covenant Bank, a bank with $153 million in assets as of December 31, 2010, headquartered in Commerce, Georgia. Mr. Blanton currently owns approximately 16.6% of the outstanding shares of First Covenant Bank. We currently have a data processing agreement and master services agreement with First Covenant Bank and we may enter into additional agreements with First Covenant Bank in the future. See "Transactions by Directors, Officers and Ten Percent Shareholders."

We are exposed to the possibility of technology failure.

We rely on our computer systems and the technology of outside service providers. Our daily operations depend on the operational effectiveness of their technology. We rely on our systems to accurately track and record our assets and liabilities. If our computer systems or outside technology sources become unreliable, fail, or experience a breach of security, our ability to maintain accurate financial records may be impaired, which could materially affect our business operations and financial condition.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Description of Property.

The Bank began operations in a modular temporary office of approximately 2,200 square feet on property located at the corner of Pearl Nix Extension and Dorsey Street in Gainesville, Georgia. In August 2004 the Company completed construction of its permanent main office at 807 Dorsey Street, Gainesville, Georgia. The main office provides approximately 12,000 square feet and also serves as the Company's headquarters. The main office facilities include a teller line, customer service area, offices for the Bank's lenders and officers, a vault with safe deposit boxes, drive-in teller lanes and a drive-up automated teller machine.

Item 3. Legal Proceedings.

There are no material legal proceedings to which the Company is a party or of which any of its properties are subject, nor are there material proceedings known to the Company to be contemplated by any governmental authority.

Item 4. (Removed and Reserved).

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

As of March 25, 2011, the Company had 8,120,623 shares of common stock outstanding and 944 shareholders of record. There is currently no market for our shares of common stock, and it is not likely that an active trading market will develop for the shares in the future. There are no present plans for the common stock to be traded on any stock exchange or over-the-counter-market. In 2010 and 2009 shares were sold in private placements at $0.67, and $1.50, respectively. With the exception of these private placements, there is only incomplete information about trades of our shares and the prices at which any shares have traded.

During 2010 and 2009, we issued 1,883,145, and 1,019,693 shares of our common stock, respectively, in consideration of proceeds of $1,261,707, and $1,529,541, respectively, before expenses to accredited investors in transactions exempt from registration under Section 4(2) of the Securities Act of 1933 (the "Securities Act") and Regulation D under the Securities Act relating to sales not involving any public offering. The shares were sold by our officers and directors with the assistance of our sales agents, Commerce Street Capital, LLC and FIG Partners, L.L.C. Our common stock was sold only to investors that we believed were accredited investors. Our directors and officers received no compensation in connection with the sale of shares.

We have not declared or paid any cash dividends on our common stock since our inception. For the foreseeable future, we do not intend to declare cash dividends on any of our common or preferred stock. If we decide to pay cash dividends in the future, it will be at the discretion of our Board of Directors and will be dependent upon any regulatory restrictions, our financial condition, results of operation, capital requirements, level of indebtedness and such other factors as our Board of Directors deems relevant. The principal source of our cash revenues is dividends from the Bank. However, certain restrictions exist regarding the ability of the Bank to transfer funds to us in the form of cash dividends. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank's net profits of the preceding two consecutive half-year periods (in the case of an annual dividend).

The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

See Item 11 for information with respect to our equity compensation plans.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis is intended to assist you in understanding our financial condition and results of operations. You should read this commentary in conjunction with the financial statements and the related notes and the other statistical information included elsewhere in this annual report, as well as with an understanding of our operating history.

Overview

The following discussion describes our results of operations and assesses our financial condition. Our discussion and analysis for the years ended December 31, 2010 and 2009 is based on our audited financial statements for such periods. Like most community banks, we derive a significant portion of our income from interest we receive on our loans and investments. Our primary sources of funds for making these loans and investments are our deposits and borrowings, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of these measures. For example, the "Average Balances" table shows the average balance during the years ended December 31, 2010 and 2009 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the "Rate/Volume Analysis" table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a "Sensitivity Analysis Table" to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, and our deposits.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We establish and maintain this allowance by charging a provision for loan losses against our operating earnings. In the "Provision and Allowance for Loan Losses" section we have included a detailed discussion of this process.

In addition to earning interest on our loans and investments, we earn income through fees and other expenses we charge to our customers. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

Our markets have been severely disrupted by the weak housing market which resulted in the buildup of surplus housing and finished lot inventory, which has put considerable stress on the residential construction portion of our loan portfolio. The weak economic conditions spread beyond the housing market, pushing unemployment to levels not seen in decades, which negatively impacted the rest of our loan portfolio. Our approach to managing through the challenging economic cycle has been to raise capital followed by a focus on lines of business and investments of our capital that provide the types of margins necessary for the Bank to remain profitable until such time that the Bank can refocus its efforts on organic banking growth.

Critical Accounting Policies

We have adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America, in the preparation of our consolidated financial statements. Our significant accounting policies are described in note 1 in the footnotes to the consolidated financial statements at December 31, 2010 included elsewhere in this annual report. Management has discussed these critical accounting policies with the audit committee.

Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgment and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of the judgment and assumptions we make, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of our assets and liabilities and our results of operations.

We believe that the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. Please refer to the portion of management's discussion and analysis of financial condition and results of operations that addresses the allowance for loan losses for a description of our processes and methodology for determining the allowance for loan losses.

Results of Operations

Net income for the year ended December 31, 2010 improved $623,000 over the same period in 2009. The Company earned $667,000 for the year ended December 31, 2010 as compared to a net income of $44,000 for the same period in 2009. Our operational results depend to a large degree on three factors: our net interest income, our provision for loan losses, and our non-interest income and expenses. Non-interest income, primarily composed of mortgage banking income, was approximately 62% of our total revenues (net interest income plus non-interest income) for the year ended December 31, 2010 as compared to 40% of our total revenues for the year ended December 31, 2009.

Net interest income is the difference between the interest income received on investments (such as loans, investment securities, and federal funds sold) and the interest expense on deposit liabilities and borrowings. Net interest income remained flat at $3,128,000, a nominal decrease of 1.74%, for the year ended December 31, 2010, compared to $3,184,000 for the year ended December 31, 2009.

The provision for loan losses was $750,000 for the year ended December 31, 2010, compared to $334,000 for the year ended December 31, 2009. The provision for loan losses was maintained at a level that management considers to be adequate to cover current period charge-offs, and sustain any estimated or potential losses based on the Bank's internal analysis and on external credit review examinations conducted by regulatory authorities and by third-party review services. The Bank continues to demonstrate the improvement in the credit quality of the Bank's loan portfolio and of management's efforts to identify and reduce criticized and classified loans.

Total non-interest income for the year ended December 31, 2010 was $5,884,000, compared to $2,227,000 for the year ended December 31, 2009. Non-interest income includes service charges on deposit accounts, customer service fees, mortgage origination fee income and investment security gains (losses). The increase in non-interest income for 2010 was primarily due to an increase in fees earned on mortgage originations due to the growth of our mortgage operations. Non-interest expenses in 2010 were $7,595,000, compared to $5,034,000 in 2009. The largest component of non-interest expenses is salaries and employee benefits, which totaled $4,404,000 for the year ended December 31, 2010, compared to $2,481,000 00 for the year ended December 31, 2009.

Net Interest Income

For the years ended December 31, 2010 and 2009, net interest income totaled $3,128,000 and $3,184,000, respectively. Interest income from loans, including fees, was $2,516,000 and $2,368,000 for 2010 and 2009, respectively, or an increase of $148,000. The yield on loans held for investment increased to 5.99% in 2010 from 5.81% in 2009. The yield on loans held for sale decreased to 4.43% in 2010 from 6.70% in 2009 due to declining mortgage interest rates in 2010. Interest income from investment securities was $1,704,000 and $2,529,000 for 2010 and 2009, respectively, which represented a lower yield of 8.87% in 2010, compared to the 9.15% yield earned in 2009. Management redirected cash resources to higher yielding investment securities in late 2008 and early 2009 taking advantage of market dislocations that occurred during that time period. These investments had an average life of approximately two years and are paying down as expected resulting in less interest income. Interest expense totaled $1,102,000 for the year ended December 31, 2010, compared to $1,715,000 in 2009. The rate on interest-bearing liabilities decreased 88 bps to 1.77% for the year ended December 31, 2010, compared to 2.65% for the year ended December 31, 2009. The net interest margin realized on earning assets and the interest rate spread were 4.63% and 4.49%, respectively, for the year ended December 31, 2010, as compared 4.61% and 4.45, respectively, for the year ended December 31, 2009.

The Bank's growth has been supported by the dual strategy of increasing lower cost wholesale funding in the short-term to allow time for a build up of low cost core funding to be developed over the longer-term. Since December 31, 2009, core deposits have grown approximately $4.9 million, or 21%. The Bank has been successful implementing this strategy lowering our cost of funds by 0.88% for the year ended December 31, 2010.

Average Balances and Interest Rates

The table below details the average balances outstanding for each category of interest earning assets and interest-bearing liabilities for 2010 and 2009 and the average rate of interest earned or paid thereon. Average balances have been derived from the daily balances throughout the period indicated.

	For the Year Ended December 31, 2010			For the Year Ended December 31, 2009		
	(Amounts presented in thousands)					
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:						
Interest earning assets:						

Loans (including LHFS and loan fees)	$ 44,791	$ 2,516	5.62 %	$ 40,096	$ 2,368	5.91 %
Investment securities and other investments	19,222	1,704	8.87 %	27,642	2,529	9.15 %
Interest bearing deposits	3,578	10	0.28 %	1,150	2	0.13 %
Federal funds sold	-	-	-	129	-	0.14 %
Total interest earning assets	67,591	4,230	6.26 %	69,017	4,899	7.10 %
Other non-interest earnings assets	3,849			4,025		
Total assets	$ 71,440			$ 73,042		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 6,546	$ 43	0.66 %	$ 1,356	$ 12	0.85 %
Savings and money market	14,257	253	1.78 %	9,130	188	2.06 %
Time	38,442	751	1.95 %	49,317	1,450	2.94 %
Federal funds purchased	43	-	- %	43	-	0.97 %
Borrowings	3,012	55	1.83 %	4,916	65	1.33 %
Total interest-bearing liabilities	62,257	1,102	1.77 %	64,762	1,715	2.65 %
Other non-interest bearing liabilities	3,826			4,036		
Stockholders' equity	5,357			4,244		
Total liabilities and stockholders' equity	$ 71,440			$ 73,042		
Excess of interest-earning assets over interest-bearing liabilities	$ 5,334			$ 4,255		
Ratio of interest-earning assets to interest-bearing liabilities	108,57 %			106.57 %		
Net interest income		$ 3,128			$ 3,184	
Net interest spread			4.49 %			4.45 %
Net interest margin			4.63 %			4.61 %

Non-accrual loans not included in average loan balances and totaled $747,000 and $637,000 for 2010 and 2009 respectively.

Volume/Rate Analysis

Net interest income can also be analyzed in terms of the impact of changing rates and changing volume. The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Changes attributed to both rate and volume have been allocated on a pro rata basis.

2010 Compared to 2009
(Dollars in thousands)
Increase (decrease) due to changes in

	Volume	Rate	Net
Change			
Interest income on:			
Loans (including LHFS and loan fees)	$ 268	$ (120)	$ 148
Investment securities	(750)	(75)	(825)
Interest bearing deposits	5	3	8
	(477)	(192)	669
Interest expense on:			
Deposits:			
Interest-bearing demand	35	(4)	31
Savings and money market	94	(29)	65
Time	(277)	(422)	(699)
Borrowings	(30)	20	(10)
	(178)	(435)	(613)
	$ (299)	$ 243	$ (56)

Interest Rate Sensitivity and Asset Liability Management

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management of a financial institution. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to control the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure and the expected interest rate environment so that adjustments in interest rate sensitivity can be timely made. Since the assets and liabilities of a bank are primarily monetary in nature (payable in fixed, determinable amounts), the performance of a bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in rates may not be the same.

Net interest income is the primary component of net income for financial institutions. Net interest income is affected by the timing and magnitude of repricing of as well as the mix of interest sensitive and non-interest sensitive assets and liabilities. “Gap” is a static measurement of the difference between the contractual maturities or repricing dates of interest sensitive assets and interest sensitive liabilities within the following twelve months. Gap is an attempt to predict the behavior of the Bank’s net interest income in general terms during periods of movement in interest rates. In general, if the Bank is liability sensitive, more of its interest sensitive liabilities are expected to reprice within twelve months than its interest sensitive assets over the same period. In a rising interest rate environment, liabilities repricing more quickly is expected to decrease net interest income. Alternatively, decreasing interest rates would be expected to have the opposite effect on net interest income since liabilities would theoretically be repricing at lower interest rates more quickly than interest sensitive assets. Although it can be used as a general predictor, Gap as a predictor of movements in net interest income has limitations due to the static nature of its definition and due to its inherent assumption that all assets will reprice immediately and fully at the contractually designated time. At December 31, 2010, the Bank, as measured by Gap, is in a liability sensitive position within one year. Management has several tools available to it to evaluate and affect interest rate risk, including deposit pricing policies and changes in the mix of various types of assets and liabilities.

We also measure the actual effects that repricing opportunities have on earnings through simulation modeling, referred to as earnings at risk. For short-term interest rate risk, the Bank’s model simulates the impact of balance sheet strategies on net interest income, pre-tax income, and net income. The model includes interest rate simulations to test the impact of rising and falling interest rates on projected earnings. The Bank determines the assumptions that are used in the model.

The following table summarizes the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2010, that are expected to mature, prepay, or reprice in each of the future time periods shown. Except as stated below, the amount of assets or liabilities that mature or reprice during a particular period was determined in accordance with the contractual terms of the asset or liability. Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid based on scheduled maturities. The Bank’s savings accounts and interest-bearing demand accounts, which are generally subject to immediate withdrawal, are included in the “Three Months or Less” category, although historical experience has proven these deposits to be more stable over the course of a year.

At December 31, 2010
Maturing or Repricing in
(dollars in thousands)

	Three Months or Less	Four Months to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Investment securities	$ -	$ 3,023	$ 11,707	$ 1,896	$ 16,626
Loans (including LHFS)	24,391	8,048	10,873	2,493	45,805
Total interest-bearing assets	24,391	11,071	22,580	4,389	62,431
Interest-bearing liabilities:					
Deposits:					
Savings and demand	24,432	-	-	-	24,432
Time deposits	4,971	16,442	12,912	-	34,325
Other Borrowings	-	-	2,000	-	2,000
Total interest-bearing liabilities	29,403	16,442	14,912	-	60,757
Interest sensitive difference per period	$ (5,012)	$ (10,383)	$ (2,715)	$ 1,674	$ 1,674
Cumulative interest sensitivity difference	$ (5,012)	$ (5,371)	$ 7,668	$ 4,389	
Cumulative difference to total interest earning assets	(8.03)%	(16.63)%	(4.35)%	2.68%	

At December 31, 2010, the difference between the Bank's liabilities and assets repricing within one year was $5,371,000, therefore the Bank's balance sheet was liability-sensitive. A liability-sensitive position means that, for cumulative gap measurement periods of one year or less, there are more liabilities than assets subject to immediate repricing as market rates change. Because rate-sensitive interest-bearing liabilities exceed rate sensitive assets, in a rising rate environment the Bank's earnings position is exposed to declining earnings. Included in interest-bearing liabilities subject to rate changes within 90 days is a portion of the interest-bearing demand, savings and money market deposits. These types of deposits historically have not repriced coincidentally with or in the same proportion as general market indicators.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although particular assets and liabilities may have similar maturities or periods of repricing, they may reflect changes in market interest rates differently. Additionally, some assets, such as adjustable-rate mortgages, have features that restrict changes in interest rates, both on a short-term basis and over the life of the asset. Other factors which may affect the assumptions made in the table include changes in interest rates, pre-payment rates, early withdrawal levels, and the ability of borrowers to service their debt.

Provision and Allowance for Loan Losses

The provision for loan losses is the charge to operations that management believes is necessary to maintain the allowance for loan losses at an adequate level. The provision charged to expense was $750,000 for the year ended December 31, 2010, as compared to the $334,000 that was charged against earnings in 2009. The loan portfolio decreased by approximately $4.7 million during the year ended December 31, 2010. The allowance for loan losses was $478,000, or 1.50%, of gross loans at December 31, 2010, compared to $415,000, or 1.13%, of gross loans at December 31, 2009.

In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. There are risks inherent in making all loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

The allowance for loan losses represents management's best estimate of the losses known and inherent in the loan portfolio that are both probable and reasonable to estimate, based on, among other factors, prior loss experience, volume and type of lending conducted, estimated value of any underlying collateral, economic conditions (particularly as such conditions relate to the Bank's market area), regulatory guidance, peer statistics, management's judgment, past due loans in the loan portfolio, loan charge off experience and concentrations of risk. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant estimates, assumptions, and judgments. The loan portfolio also represents the largest asset type on our consolidated balance sheets.

The evaluation of the adequacy of the allowance for loan losses is based upon loan categories except for impaired loans for which management

has knowledge about possible credit problems of the borrower or knowledge of problems with loan collateral, which are evaluated separately and assigned loss amounts based upon the evaluation. Estimated losses for non-impaired loans are determined by applying risk ratings, and historical loss experience to each category of loans.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for loan losses, including the valuation of collateral and the financial condition of the borrower, and in establishing loss ratios and risk ratings. The establishment of allowance factors is a continuing exercise and allowance factors may change over time, resulting in an increase or decrease in the amount of the provision or allowance based upon the volume and classification of loans.

Changes in allowance factors or in management's interpretation of those factors will have a direct impact on the amount of the provision, and a corresponding effect on income and assets. Also, errors in management's perception and assessment of the allowance factors could result in the allowance not being adequate to cover losses in the portfolio and may result in additional provisions or charge-offs, which would adversely affect income and capital. For additional information regarding the allowance for loan losses, see the "Provision and Allowance for Loan Losses" section below.

The allocation of the allowance for loan losses by loan category at the date indicated is presented below (dollar amounts are presented in thousands):

	December 31,			
	2010		2009	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$ 45	10%	$ 84	20%
Real estate - mortgage	214	45%	199	48%
Real estate - construction	192	40%	85	21%
Consumer	27	5%	47	11%
	$ 478	100%	$ 415	100%

The following table presents a summary of changes in the allowance for loan losses for the past two years (dollar amounts are presented in thousands):

	For the years ended December 31,	
	2010	2009
Balance at the beginning of period	$ 415	$ 838
Charge-offs:		
Commercial, financial and agricultural	-	176
Real estate - mortgage	285	236
Real estate - construction	373	275
Consumer	35	93
Total Charged-off	693	780
Recoveries:		
Consumer	6	23
Total Recoveries	6	23
Net Charge-offs	687	757
Provision for Loan Loss	750	334
Balance at end of period	$ 478	$ 415
Total loans at end of period	$ 31,896	$ 36,631

Average loans outstanding (excluding LHFS)	$ 34,956	$ 37,388
As a percentage of average loans:		
Net loans charged-off	1.97%	2.02%
Provision for loan losses	2.15%	0.89%
Allowance for loan losses as a percentage of:		
Year end loans	1.50%	1.13%

Non-Performing Assets

A loan is placed on non-accrual status when, in management's judgment, the collection of interest appears doubtful. As a result of management's ongoing review of the loan portfolio, loans are classified as non-accrual when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Generally, loans are placed on non-accrual status when principal and/or interest payments are past due for more than 90 days. Exceptions are allowed for loans past due greater than 90 days when such loans are well secured and in process of collection.

At December 31, 2010, there were $1,502,000 in loans outstanding, which were accounted for as non-accrual loans compared to $122,000 in outstanding loans accounted for as non-accrual loans at December 31, 2009, an increase of $1,380,000. Total non-performing assets were $2,024,000 at December 31, 2010, compared to $779,000 at December 31, 2009, an increase of $1,245,000. Interest income that would have been reported on the non-accrual loans in 2010 and 2009 was approximately $40,862 and $70,000 respectively. Impaired loans approximated $1,493,000 and $960,000 as of December 31, 2010 and 2009, respectively. The allowance for loan loss included a specific allowance of $0 and $24,000 for impaired loans as of December 31, 2010 and 2009, respectively. In 2009, $450,000 was partially or fully charged off on three impaired loans that held specific reserves at December 31, 2008.

At December 31, 2010, the allowance for loan losses represented 32% of the amount of non-performing loans, compared to 329% at December 31, 2009. All of the nonperforming loans at December 31, 2010 are secured by real estate with the exception $46,000 which is a unsecured consumer loan. We have evaluated the underlying collateral on these loans and believe that such collateral is sufficient to minimize future losses. In addition, $310,000 losses have been recorded as charge-offs on these loans as of December 31, 2010. The downturn in the real estate market has resulted in increased loan delinquencies, defaults and foreclosures, and we believe that these trends are likely to continue. In some cases, this downturn has resulted in a significant impairment to the value of the collateral used to secure these loans and the ability to sell the collateral upon foreclosure. These conditions have adversely affected our loan portfolio. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values continue to decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the property collateralizing a loan to satisfy the debt or to increase the allowance for loan losses, this could materially reduce our profitability and adversely affect our financial condition.

The following table summarizes non-performing assets as of December 31, 2010 and 2009 (amounts are presented in thousands):

	December 31,	
	2010	2009
Other real estate and repossessions	$ 522	$ 654
Non-accrual loans	1,502	122
Accruing loans 90 days or more past due	-	3
Total non-performing assets	$ 2,024	$ 779
As a percentage of total assets:	2.81%	1.02%

Non-interest Income and Expense

First Century Bank looks for business opportunities which will enable it to grow and increase its value for all its stakeholders. Due to regulatory changes in the mortgage industry, the Bank expanded its mortgage operations to take advantage of the new opportunities that now exist when partnering a bank with a mortgage operation. During the second quarter 2010, the Bank added a new mortgage call center in Norcross, Georgia. Our mortgage division was previously comprised of the Gainesville mortgage location, a retail production/operations hub located in Roswell, Georgia, and an online mortgage business, Century Point Mortgage. Retail sales personnel have been added in the Gainesville and Roswell locations to expand presence. Century Point Mortgage has been streamlined to enhance profitability and to allow for sustained growth. We anticipate that the partnership of the banking and mortgage worlds will drive higher earnings and greater shareholder value for the Bank in the upcoming year. Revenues from the mortgage division are primarily non-interest income of fees, and gains on sales of the loans. Interest income is earned on the loans from the time they are closed to the time

they are sold, which is typically two weeks. Expenses are primarily salaries and commissions, occupancy, and loan origination expenses such as appraisals.

Non-interest income includes service charges on deposit accounts, customer service fees, mortgage banking income and investment security gains (losses). Because fees from the origination of loans, which make up a majority of our non-interest income, often reflect market conditions, our non-interest income may tend to have more fluctuations on a period to period basis than does net interest income.

For the year ended December 31, 2010, non-interest income grew to $5,884,000 compared to $2,227,000 for the year ended December 31, 2009, an increase of $3,657,000, or 164%. The increase in non-interest income was primarily due to an increase in mortgage banking income, due to the growth in the mortgage divisions. The fees earned are related to the origination of mortgage loans that are sold within 30 days, which investors have committed to purchase before they are funded. The Bank funded $211.8 million in mortgage loans during 2010, an increase of $81.5 million, or 60%, from the same period a year ago. Net gains on sales of securities were $145,602 and $24,984 for the years ended December 31, 2010 and 2009, respectively. In 2009, we recorded an other-than-temporary impairment charge of $62,420 with respect to a restricted security, reducing the carrying value of our investment to $0.

With increased resources being directed towards the business areas providing the highest return on investment, the management reviewed all the other areas of resource allocation. As a part of this process, management decided to close the loan production offices in Oakwood and Athens. This took place in first quarter of 2010. The office closures have also resulted in the reduction of several lending and administrative or support personnel in the fourth quarter of 2009 and first quarter of 2010. The Bank continues to service its customers out of the Gainesville headquarters and will continue to utilize technology to enable its customers to access many of the bank services remotely.

Total non-interest expense for the year ended December 31, 2010 was $7,595,000 compared $5,034,000 for the year ended December 31, 2009, an increase of $2,561,000, or 51%.

Salaries and benefits, the largest component of non-interest expense, were $4,404,000 for the year ended December 31, 2010, as compared to $2,481,000 for the year ended December 31, 2009, an increase of $1,923,000, or 78%. While salaries and benefits attributable to the growth initiatives in the mortgage division increased expenses by $2,020,000 for the year, the Bank has concurrently reduced expenses by $97,000 as a result of the loan production office closures. Mortgage division salaries are primarily variable, including commissions and incentives that are based on production volume which has grown approximately $81 million in 2010.

Total occupancy and equipment expenses for the year ended December 31, 2010, were $445,000 as compared to $437,000 for the year ended December 31, 2009, an increase of $8,000, or 2%. While occupancy expense attributable to the growth initiatives in the mortgage division increased expenses by $124,000 for the year, the Bank has concurrently reduced expenses by $116,000 as a result of the loan production office closures.

Professional fees for the year ended December 31, 2010, were $399,000 compared to $286,000 for the year ended December 31, 2009, an increase of $113,000, or 40%. There was an increase in audit and compliance fees of $56,000 which is primarily attributable to additional audit and compliance requirements for the mortgage division, and increased compliance reviews for the Bank. Legal fees increased $49,000 due primarily to loan collections.

Marketing expenses for the year ended December 31, 2010, were $245,000 compared to $260,000 for the year ended December 31, 2009, a decrease of $15,000, or 6%. A multimedia marketing campaign that included billboards and various other media advertisements targeted at the Gainesville, Oakwood and Athens, Georgia markets was discontinued in 2009 resulting in a decrease in expense for the Bank. In addition, the Century Point Mortgage division had heavily invested in internet advertising during its startup phase in 2009 and subsequently decreased marketing expense in 2010 by approximately $54,000. As a national, internet-based lender, the Century Point Mortgage division's business model depends on lead generation to drive a high volume of leads with a lower cost of customer acquisition than traditional mortgage lenders. Key elements of Century Point's web-based demand generation program are advertising on mortgage rate websites, paid search advertising, search engines optimizations and social media tools. In 2010, marketing expenses of $56,000 were redirected to the Mortage Call Center in the form of direct mail. As the mortgage divisions are evolving and maturing, the marketing budget is being analyzed and directed to the most successful techniques.

The Bank has entered into a master service agreement and data processing agreement with First Covenant Bank, an entity in which William R. Blanton, a director and Chief Executive Officer of the Company, is a principal owner. For the year ended December 31, 2010 and 2009 the total billed for data processing services was $262,000 and $186,000, respectively, and increase of 76,000, or 41%. For the year ended December 31, 2010 and 2009 the total billed under the master services agreement was $392,000 and $228,000, respectively, and increase of $164,000, or 72%. The primary driver for the increases are increased volume of transactional costs and additional services for the mortgage division.

Insurance, taxes, and regulatory assessment expenses totaled $322,000 for the year ended December 31, 2010, compared to $253,000 for the year ended December 31, 2009, an increase of $69,000, or 27%. During the year ended December 31, 2010, the Bank's FDIC expense increased $12,000, OCC assessments costs increased $21,000 , directors' and officers' liability insurance premiums increased $19,000, and business occupation tax increased $12.000 over the same period in 2009.

Lending related expenses were $671,000 for the year ended December 31, 2010 compared to $426,000 for the year ended December 31, 2009, an increase of $245,000, or 58%. The increase is primarily related to appraisal expenses generated by the mortgage division.

Other non-interest expenses were $319,000 for the year ended December 31, 2010, compared to $330,000 for the year ended December 31, 2009, a decrease of $12,000, or 4%.

Income Taxes

At December 31, 2010, the Company had federal and state net operating loss carryforwards for tax purposes of approximately $10,566,000 and $11,192,000, respectively, which will expire beginning in 2022 if not previously utilized. The utilization of the net operating loss carry forward has been limited as to its use pursuant to the Internal Revenue Code Section 382 due to the recent change in ownership of the Company.

Financial Condition

Total assets decreased $4,515,000, or 6%, from $76,566,000 at December 31, 2009 to $72,051,000 at December 31, 2010. The primary changes in the assets mix was in investment securities, which decreased by $8,383,725, or 34%, loans which decreased $4,735,000, or 13%, and loans held for sale which increased by $4,271,000, or 44%. Total deposits decreased by $6,904,000, or 10%, from December 31, 2009 to December 31, 2010 with a $4,868,000, or 21%, increase in core deposits. Total shareholders' equity increased $2,246,000 from $4,399,000 at December 31, 2009 to $6,645,000 at December 31, 2010. During 2010, we received proceeds of $1,261,707 less stock issuance costs of $18,877 from the sale of 1,883,145 shares in a private placement stock offering.

Loans

Gross loans totaled $31,896,000 at December 31, 2010, a decrease of $4,735,000, or 12.9%, since December 31, 2009. Management is continuously investigating opportunities to generate loan growth and diversify its loan portfolio. Balances within the major loans receivable categories as of December 31, 2010 and December 31, 2009 are as follows (amounts are presented in thousands):

	2010		**2009**	
Commercial, financial and agricultural	**$ 2,947**	**9%**	$ 3,699	10%
Real estate – mortgage	**22,926**	**72%**	26,565	73%
Real estate – construction	**5,161**	**16%**	4,744	13%
Consumer	**838**	**3%**	1,526	4%
Unamortized Loan Costs	24	-	97	-
Total	**$ 31,896**	**100**%	$ 36,631	100%

As of December 31, 2010, maturities of loans in the indicated classifications were as follows (amounts are presented in thousands):

	Commercial	Real Estate Mortgage	Real Estate Construction	Consumer	Total
Within 1 year	$ 1,235	$ 10,474	$ 1,911	$ 323	$ 13,943
1 to 5 years	896	9,086	3,252	516	13,750
Over 5 years	819	3,384	-	-	4,203
Totals	$ 2,950	$ 22,944	$ 5,163	$ 839	$ 31,896

As of December 31, 2010, the interest terms of loans in the indicated classification for the indicated maturity ranges are as follows (amounts are presented in thousands):

	Fixed Interest Rates	Variable Interest Rates	Total
Commercial, financial and agricultural			
Within 1 year	$ 767	$ 468	$ 1,235
1 to 5 years	764	132	896
Over 5 years	819	-	819
Real estate – Mortgage			
Within 1 year	$ 8 545	$ 1,929	$ 10,474

1 to 5 years	8,206	880	9,086
Over 5 years	1,674	1,710	3,384
Real estate – Construction			
Within 1 year	$ 1,732	$ 179	$ 1,911
1 to 5 years	1,387	1,865	3,252
Over 5 years	-	-	-
Consumer			
Within 1 year	$ 314	9	$ 323
1 to 5 years	516	-	516
Over 5 years	-	-	-

Investment Securities

Investment securities as of December 31, 2010 and 2009 are summarized as follows.

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Obligations of U.S. Government Agencies	$ 2,000,000	$ -	$ (82,562)	$ 1,917,438
Obligations of States and Political Subdivisions	332,455	-	(6,955)	325,500
Mortgage Backed Securities-GNMA	365,670	16,221	-	381,891
Mortgage Backed Securities-FNMA and FHLMC	457,571	6,312	(3,493)	460,390
Private Label Residential Mortgage Backed Securities	1,337,633	141,334	(12,879)	1,466,088
Private Label Commercial Mortgage Backed Securities	652,752	535	-	653,287
	$ 5,146,081	$ 164,402	$ (105,889)	$ 5,204,594
Securities Held to Maturity				
Private Label Residential Mortgage Backed Securities	$ 766,732	$ 87,519	$ -	$ 854,251
Private Label Commercial Mortgage Backed Securities	10,033,737	692,605	(230)	10,726,112
	$ 10,800,469	$ 780,124	$ (230)	$ 11,580,363

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Obligations of U.S. Government Agencies	$ 983,146	$ 28,888	$ -	$ 1,012,034
Obligations of States and Political Subdivisions	326,855	-	(87,693)	239,162
Mortgage Backed Securities-GNMA	1,435,829	71,850	-	1,507,679
Mortgage Backed Securities-FNMA and FHLMC	794,697	9,750	(1,928)	802,519
Private Label Residential Mortgage Backed Securities	2,720,521	4,331	(288,440)	2,436,412
Private Label Commercial Mortgage Backed Securities	726,226	12,223	-	738,449
Corporate Debt Securities	575,000	6,700	(9,490)	572,210
Equity Securities	298,680	-	(12,720)	285,960
	$ 7,860,954	$ 133,742	$ (400,271)	$ 7,594,425
Securities Held to Maturity				
Private Label Residential Mortgage Backed Securities	$ 1,963,140	$ 255,583	$ -	$ 2,218,723
Private Label Commercial Mortgage Backed Securities	14,831,223	1,056,040	(57,627)	15,829,636
	$ 16,764,363	$ 1,311,623	$ (57,627)	$ 18,048,359

The amortized cost, estimated fair value, and weighted average yield of investment securities at December 31, 2010, by contractual maturity, are

shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale			Held to Maturity		
	Amortized Cost	**Fair Value**	**Weighted Average Yield**	**Amortized Cost**	**Fair Value**	**Weighted Average Yield**
Obligations of U.S. Government Agencies						
Less than 1 Year	$ 2,000,000	$ 1,917,438	2.06%	$ -	$ -	-
Obligations of States and Political Subdivisions						
1 to 5 Years	332,455	325,500	8.71%	-	-	-
Mortgage Backed Securities						
Less than 1 Year	266,100	262,607	5.25%	222,501	229,384	10.35%
1 to 5 Years	1,053,933	1,047,900	8.57%	10,333,184	11,054,683	10.04%
5 to 10 Years	1,127,923	1,269,258	7.36%	244,784	296,296	9.58%
Over 10 Years	365,670	381,891	2.18%	-	-	-
	$ 5,146,081	$ 5,204,594	5.16%	$ 10,800,469	11,580,363	10.05%

Deposits

At December 31, 2010, total deposits were $62,662,000, a decrease of $6,904,000, or 10%, from December 31, 2009. Demand deposits (interest bearing and non-interest bearing) totaled $12,411,000, an increase of $1,191,000, or 11%, during 2010. Money Market Deposit Accounts and savings deposits increased $3,976,000, or 33%, and time deposits decreased $12,071,000, or 26%, during the same time period. Our success in raising core deposits has enabled us to reduce brokered deposits, which are considered less desirable by regulators due to their volatile nature, to $0 at December 31, 2010 from $1,357,000 At December 31, 2010.

Balances within the major deposit categories as of December 31, 2010 and December 31, 2009 are as follows (amounts are presented in thousands):

	2010		2009	
	Amount	Rate	Amount	Rate
Non-interest-bearing demand deposits	$ 3,905	N/A	$ 3,076	N/A
Interest-bearing demand deposits	8,506	0.65%	8,443	0.85%
MMDA and Savings deposits	15,926	1.78%	11,950	2.06%
Time deposits less than $100,000	15,459	2.44%	28,072	2.81%
Time deposits over $100,000	18,866	1.29%	18,026	3.27%
	$ 62,662		$ 69,567	

Maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2010 are summarized as follows (amounts are presented in thousands):

Within 3 months	$ 2,485
After 3 through 6 months	558
After 6 through 12 months	8,496
After 12 months	7,327
Total	$ 18,866

Capital Resources

Total shareholders' equity increased from $4,399,000 at December 31, 2009, to $6,645,000 at December 31, 2010.

At December 31, 2009 the Company had outstanding 75,000 shares of Series B Preferred Stock, no par value (the "Series B Preferred Stock"), issued at $10.00 per share. The Series B Preferred Stock was cumulative perpetual preferred stock and was treated as Tier 1 capital under existing Federal Reserve regulations. The Series B Preferred Stock was nonvoting and could not be converted into common stock of the Company without Board

of Director approval. The Company had the right, subject to Federal Reserve approval, to redeem the shares for their purchase price plus accrued dividends. Dividends accrued on the Series B Preferred Stock at a rate per annum initially equal to the prime rate in effect on the date of issuance, adjusted semi-annually on the first date of January and the first day of July each year to be equal to the prime rate in effect on such date. The preferred stock investors also received a warrant to acquire one share of common stock for each share of Series B Preferred Stock purchased in the offering at an exercise price of $1.50 per share, which was the fair market value of the common stock on the date of the issuance of the warrants. The warrants have no expiration date. Cumulative dividends in arrears at December 31, 2010 and 2009 were $0 and $70,266, respectively.

In June 2010, with Board approval, the holders of Series B Preferred Stock exchanged their shares of preferred stock for shares of common stock at an exchange rate of $0.67 per share. The Company redeemed 75,000 shares of Series B Preferred Stock and issued an aggregate of 1,239,328 shares of common stock, which included additional shares issued in lieu of the payment of $80,349 of accrued dividends, to accredited investors in transactions exempt from registration under Section 4(2) of the Securities Act.

In June 2010, the Company commenced a private offering of up to 2,000,000 shares of its common stock at of price of $0.67 per share to a limited number of accredited investors. The private offering closed August 13, 2010. Total net proceeds raised in the offering were $1,242,830 from the sale of 1,883,145 shares. For each share issued, a warrant to purchase one share of common stock at a price of $0.67 was also granted, resulting in the issuance of 1,883,145 warrants. The Company is using the net proceeds from the private offering for working capital purposes. The common stock sold in the offering has not been registered under the Securities Act.

Bank holding companies and their banking subsidiaries are required by banking regulators to meet specific minimum levels of capital adequacy, which are expressed in the form of ratios. Capital is separated into Tier 1 capital (essentially common stockholders' equity less intangible assets) and Tier 2 capital (essentially the allowance for loan losses limited to 1.25% of risk-weighted assets). The first two ratios, which are based on the degree of credit risk in our assets, provide for the weighting of assets based on assigned risk factors and include off-balance sheet items such as loan commitments and stand-by letters of credit. The ratio of Tier 1 capital to risk-weighted assets must be at least 4.0% and the ratio of Total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets must be at least 8.0%.

Banks and bank holding companies are also required to maintain a minimum ratio of Tier 1 capital to adjusted quarterly average total assets of 4.0%. The Bank was considered "well capitalized" at December 31, 2010.

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(In Thousands)					
December 31, 2010						
Total Capital to Risk-Weighted Assets	**$ 6,789**	**15.99%**	**$ 3,397**	8.00%	**$ 4,247**	10.00%
Tier I Capital to Risk-Weighted Assets	**6,311**	**14.86**	**1,699**	4.00	**2,548**	6.00
Tier I Capital to Average Assets	**6,311**	**8.50**	**2,968**	4.00	**3,710**	5.00
December 31, 2009						
Total Capital to Risk-Weighted Assets	$ 5,062	10.82%	$ 3,748	8.00%	$ 4,685	10.00%
Tier I Capital to Risk-Weighted Assets	4,647	9.94	1,874	4.00	2,811	6.00
Tier I Capital to Average Assets	4,647	6.22	2,991	4.00	3,739	5.00

Liquidity

The Bank must maintain, on a daily basis, sufficient funds to cover the withdrawals from depositors' accounts and to supply new borrowers with funds. To meet these obligations, the Bank keeps cash on hand, maintains account balances with its correspondent banks, and purchases and sells federal funds and other short-term investments. Asset and liability maturities are monitored in an attempt to match the maturities to meet liquidity needs. It is the policy of the Bank to monitor its liquidity to meet regulatory requirements and our local funding requirements.

Although the Bank's loan portfolio is diversified, a substantial portion of its borrowers' ability to honor the terms of their loans depends on the economic conditions in the Bank's market areas.

The Bank maintains relationships with correspondent banks that can provide funds to it on short notice, if needed. The Bank has a line of credit totaling $14,840,000, representing 20.6% of the Bank's total assets at December 31, 2010. At December 31, 2010, and 2009, the Bank has one advance from the Federal Home Loan Bank of Atlanta (FHLB) in the amount of $2,000,000. The advance bears interest at a fixed interest rate of 2.497% and matures on May 1, 2013. The Bank has pledged as collateral investment securities and loans with a carrying amount of $3,300,804, and eligible residential and commercial real estate loans with a carrying amount of $9,561,455 at December 31, 2010.

The Bank has a $1,000,000 unsecured federal fund line of credit available with Centerstate Bank of Florida As of December 31, 2010 there were no balances were outstanding.

The Bank is approved to borrow from the Federal Reserve Bank discount window program. As of December 31, 2010 the Bank's primary borrowing capacity was $15,922,752, based on pledged investment securities with a carrying amount of $11,012,222, and eligible commercial real estate loans with a carrying amount of $8,207,806 at December 31, 2009. There were $0 advances outstanding at December 31, 2010 and 2009.

As disclosed in the Company's consolidated statement of cash flows, net cash used by operating activities totaled $3,376,000 in 2010. The major use of cash from operating activities was the origination of $4,271,000 loans held for sale. Net cash provided by investing activities totaled $12,469,000 in 2010, consisting primarily of purchases of investment securities available-for-sale of $3,000,000, purchases of premises and equipment of $1,019,000, offset by principal paydowns, maturities, calls, and sales of investment securities available-for-sale of $5,767,000, and investment securities held-to-maturity of $6,811,000. and net decrease in loans of $4,015,000. Net cash outflows from financing activities totaled $5,661,000, which were mainly attributable to net decrease in deposits of $6,904,000, offset by inflow from the issuance of common stock issuance cash proceeds of $1,243,000.

The following table outlines our various sources of borrowed funds during the years ended December 31, 2010 and 2009, the amounts outstanding at the end of each period and the weighted-average interest rates paid for each borrowing source.

(Dollars in thousands)	Ending Balance	Period-End Rate	Average Balance	Weighted-Average Rate for Year	Maximum Outstanding at any Month End
December 31, 2010					
Federal Home Loan Bank daily rate advances	$ —	—%	$ 1,003	0.48%	$ 4,015
Federal Home Loan Bank fixed rate advances	2,000	2.50%	2,000	2.50%	2,000
Federal reserve discount window	—	—%	10	0.61%	-
December 31, 2009					
Federal Home Loan Bank daily rate advances	$ —	—%	$ 25	0.58%	$ —
Federal Home Loan Bank fixed rate advances	2,000	2.50%	2,000	2.50%	2,000
Federal funds purchased	—	—%	43	0.95%	—
Federal reserve discount window	—	—%	2,891	0.50%	8,000

Off Balance Sheet Arrangements

We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are written conditional commitments issued by the bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most letters of credit extend for less than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. Our exposure to credit loss in the event of non-performance by the other party to the instrument is represented by the contractual notional amount of the instrument.

Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit policies in making commitments to extend credit as we do for on-balance-sheet instruments. Collateral held for commitments to extend credit varies but may include unimproved and improved real estate, certificates of deposit or personal property.

The following table summarizes our off-balance-sheet financial instruments whose contract amounts represent credit risk as of December 31, 2010:

Commitments to extend credit	$	1,222,000
Standby letters of credit	$	550,000

Inflation

Inflation has an important effect on the growth in total assets in the banking industry and causes a need to increase equity capital at higher than normal rates to meet capital adequacy requirements. We deal with the effects of inflation through the management of interest rate sensitivit position, by periodically reviewing and adjusting our pricing of services to consider current costs and through managing our level of net income relative to our dividend payout policy.

Selected Ratios

The following table sets out specified ratios of the Company for the years indicated.

	2010	2009
Net income to:		
Average shareholders' equity	12.45%	1.01%
Average assets	0.93%	0.06%
Dividends to net income	-	-
Average equity to average assets	7.50%	5.58%

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements.

The following financial statements are included as Exhibit 99.1, and are incorporated herein by reference:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets;
- Consolidated Statements of Income;
- Consolidated Statements of Comprehensive Income (Loss);
- Consolidated Statements of Changes in Stockholders' Equity;
- Consolidated Statements of Cash Flows; and
- Notes to Consolidated Financial Statements.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective as of December 31, 2010. There have been no significant changes in our internal controls over financial reporting during the fourth fiscal quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Management's Annual Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the

Exchange Act Rules 13a-15(f). A system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, the Company's management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2009 based on the criteria established in a report entitled "Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and the interpretive guidance issued by the Commission in Release No. 34-55929. Based on this evaluation, the Company's management has evaluated and concluded that the Company's internal control over financial reporting was effective as of December 31, 2010.

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in modifications to its processes throughout the Company. However, there has been no change in its internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

The Company's Board of Directors currently consists of seven members. Each director serves a one-year term, expiring at the annual meeting of shareholders, upon the election and qualification of the director's successor. The following table shows for each director: (a) his or her name; (b) his or her age at December 31, 2009; (c) how long he or she has been a director of the Company; and (d) his or her position with the Company and the Bank.

Name (Age)	Director Since	Position with the Company
William A. Bagwell, Jr. (39)	2007	Director of the Company and Bank
William R. Blanton (63)	2007	Chairman, President, Chief Executive Officer, and Director of the Company and Bank
Lanny W. Dunagan (59)	2002	Director of the Company and Bank
William M. Evans, Jr. (59)	2007	Director of the Company and Bank
J. Allen Nivens, Jr. (35) (1)	2007	Director of the Company and Bank
Dr. Wendell A. Turner (53)	2001	Director of the Company and Bank
R.K. Whitehead III (45)	2007	Director of the Company and Bank

(1) Mr. Nivens resigned in February 2011

Background of Directors

Each individual director has qualifications and skills that together as a whole create a strong and well-balanced board. The experiences and qualifications of our directors include the following:

William A. Bagwell, Jr. Mr. Bagwell is the manager of Homestead Investments, LLC, a real estate investment company, since 2005. Mr. Bagwell served from 1999 to 2005 as the Vice President of the Greater Hall Chamber of Commerce. Mr. Bagwell holds a bachelor of science degree in political science from Presbyterian College. His extensive personal understanding of the markets that we serve and his professional experience in various real estate development projects are valuable assets to the board.

William R. Blanton. Mr. Blanton has over 40 years of banking experience and serves as the Chairman of our Board of Directors and our Chief Executive Officer. Mr. Blanton currently serves as the Vice Chairman of the Board of Directors and Chief Executive Officer of First Covenant Bank. Mr. Blanton is also President of CINC Systems, LLC, a software company specializing in software for the banking and non-profit industries, and Accounting Integrators', LLC a software company specializing in integrating non-profit organizations depository accounts with banks. In addition, he is the managing member of Terrazza Realty Advisors, LLC and Terrazza Realty Investments, LLC, real estate investment companies. Prior to his current positions, Mr. Blanton held several positions at First Capital Bank including President and Chief Financial Officer from August 1989 through November 2005. Mr. Blanton has also held executive positions with Investors Bank & Trust in Duluth, Georgia and several other community banks. In addition, Mr. Blanton previously served as President of Bank Analysts, a bank consulting firm, as an examiner for the Georgia Department of Banking and Finance, as a member of the National Advisory Committee for the Small Business Administration, and as a Director of the Federal Home Loan Bank of Atlanta. Mr. Blanton holds a degree in accounting from Georgia State University. Mr. Blanton has extensive banking experience. The breadth of experience and institutional knowledge of the Company is critical to lead the board through the current challenging economic climate.

Lanny W. Dunagan. Mr. Dunagan is a Hall County native and is the sole owner of Lanny Dunagan's Welding Service, a company he founded in 1984. He is a member and trustee of Hopewell Baptist Church in Gainesville, Georgia. As a native of Hall County, he has personal contacts and an awareness of the market in which the Company operates. His business experience also provides the board with insight into the challenges facing small business owners in our market.

William M. Evans, Jr. Mr. Evans is the President of Fox Creek Properties, Inc., a land development business, a position he has held since 1993. He is also a Vice-President with Piedmont Investments. Mr. Evans has been a founding member of three banks: Heritage Bank, Premier Bankshares and Piedmont Bank. He most recently served as chairman of Piedmont Bank from 2001 until its sale in 2006 to PrivateBancorp, Inc., which is publicly traded under the symbol PVTB. Mr. Evans holds a degree in accounting and finance from West Georgia College and an M.B.A. from the University of Georgia. Mr. Evans' banking experience is to the board as it manages the Company's affairs in this difficult economic environment. He also has extensive experience in various land development projects, which provides unique knowledge of the market in which we operate.

J. Allen Nivens, Jr. Mr. Nivens, who left the board in February 2011, is Director of Corporate Sales for Indigo Energy, a wholesale fuel distributor. Prior to Indigo, he was a commercial real estate broker with The Norton Agency in Gainesville for four years. Prior to Norton, he was VP of Commercial Lending with Hamilton State Bank and Regions Bank for eight years. In the community, Mr. Nivens is Chairman of the John Jarrard Foundation, on the Gainesville State College Foundation Executive Board, on the Greater Hall Chamber of Commerce Executive Board, on the board of Riverside Military Academy and the 2006 Hall County Young Man of the Year. Mr. Nivens holds a degree in management from the Georgia Institute of Technology. Mr. Nivens' significant banking experience and ties to the community provide him with an awareness of both the business and social environment within which the Company operates. His professional experience in commercial acreage sales also is a valuable asset to the board.

Dr. Wendell A. Turner. Dr. Turner is a medical doctor and has been practicing with Gainesville Gynecology, LLC since 2007. Prior to opening Gainesville Gynecology, LLC, he practiced with Lanier OB/GYN Associates LLC from 1986 until 2007. Dr. Turner holds an associates degree in art from Clayton State College and a bachelor of science degree in chemistry from the Georgia Institute of Technology. He received his M.D. degree from the Medical College of Georgia in 1982. Dr. Turner's ties to the local community and analytical skills are useful assets to the board.

R.K. Whitehead III. Mr. Whitehead has served as the President of Whitehead Die Casting Co., an aluminum and zinc die casting manufacturer, since 1990. Mr. Whitehead is also the President of WDI Company, a real estate business located in Gainesville, Georgia. In addition, he holds several committee positions with the Northeast Georgia Health System: Finance Committee (Chairman), Treasury Sub-Committee, Executive Committee, Compensation Committee, Real Estate Committee, and Strategic Planning Committee. In addition, he is the past Chairman of Elachee Nature Science Center and serves as Treasurer of North House. He is a past Chairman of the Greater Hall Chamber of Commerce. Mr. Whitehead holds a bachelor of mechanical engineering from the Georgia Institute of Technology. Mr. Whiteheads's professional experience as a successful local business executive provides the board with business insight and a unique knowledge of the markets we serve.

Executive Officers

The table below shows the following information for the Company's and the Bank's executive officers as of March 30, 2011: (a) his or her name; (b) his or her age at December 31, 2010; (c) how long he or she has been an executive officer of the Company; and (d) his or her positions with the

Company and the Bank:

Name (Age)	Executive Officer Since	Position with the Company and Business Experience
William R. Blanton (63)	2008	Chairman, President and Chief Executive Officer of the Company and the Bank
Denise Smyth (47)	2008	Chief Financial Officer of the Company and the Bank

Background of Executive Officers of the Company

The background information for William R. Blanton is provided above under the heading "Background of Directors."

Denise Smyth. Ms. Smyth was appointed the Chief Financial Officer of the Company in October 2008. Ms. Smyth has over 20 years of banking industry, accounting and financial reporting experience working for both regional and community banks. Ms. Smyth also serves as Chief Financial Officer for First Covenant Bank, a position she has held since July 2006. Ms. Smyth served as the Regulatory Reporting Manager at Flag Bank in Atlanta from November 2005 until July 2006. Prior to Flag Bank, Ms. Smyth was the Assistant Controller at First Capital Bank from October 2003 until October 2005. From 1984 through 1999 she held Accounting Management positions at First Union National Bank, First Fidelity Bank, NA, Village Bank and Union State Bank. She holds a bachelor of science degree in accounting from St. Thomas Aquinas College and is a certified public accountant.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, its executive officer, and persons who own beneficially more than 10% of the Company's outstanding common stock to file with the SEC initial reports of ownership and reports of changes in their ownership of the Company's common stock. The directors, its executive officer, and greater than 10% shareholders are required to furnish the Company with copies of the forms they file.

Based on a review of Section 16(a) reports and written representations from our directors and executive officers, we believe that all applicable Section 16(a) reports were filed by our directors, officers and 10% shareholders during the fiscal year ended December 31, 2009 except that 10% shareholders McCart, Strickland, and Silver Hill Enterprises, LP and Directors Dunagan, Evans, Nivens, and Turner did not file timely reports for one transaction in 2010; Director Whitehead did not file a timely report for two transactions in 2010; and Directors Bagwell and Blanton did not file timely reports for three transactions in 2010..

Code of Ethics

The Company has adopted a Code of Ethics that applies to the Company's Chief Executive Officer and Chief Financial and Accounting Officer. The Company will provide a copy of the Code of Ethics free of charge to any person, without charge, upon written request to the Company. Any such request should be addressed to our principal executive office at 807 Dorsey Street, Gainesville, Georgia 30501.

Audit Committee

The Boards of Directors of the Company and the Bank have established a joint Audit Committee for the purpose of reviewing the Company's annual report and internal audit report of independent public accountants. The Audit Committee members for 2010 were Chairman; William M. Evans, Jr., Lanny W. Dunagan; William A. Bagwell, Jr., and J. Allen Nivens. Each of these members meets the requirement for independence set forth in the NASDAQ Global Market listing standards. Our Board of Directors has determined that Mr. Evans qualifies as audit committee financial experts under the SEC rules.

Item 11. Executive Compensation.

The following table sets forth the annual and other compensation paid or accrued in 2010 for our principal executive officer, William R. Blanton. No other executive officers of the Company are required to be included in table and/or were paid $100,000 or more in total compensation during 2010. Mr. Blanton did not receive any compensation in 2009.

Name and Principal Position During 2010	Annual Compensation				
	Year	Salary	Bonus	All Other Compensation	Total
				(1)	

William Blanton President and CEO of the Company and the Bank	2010	$ 30,000	$ 90,000	$ -	$ 120,000

(1) Amounts shown include stock purchase plan contributions, 401(k) match, ESOP contributions, group term life insurance, and bank owned life insurance benefits.

Outstanding Equity Awards at December 31, 2010

	Option Awards			
Name	Number of Securities Underlying Unexercised Warrants (#) Exercisable	Number of Securities Underlying Unexercised Warrants (#) Unexercisable	Warrant Exercise Price ($)	Warrant Expiration Date
William R. Blanton	1,909,151	-	$0.67	No expiration
William R. Blanton	375,000	-	$0.67	June 20, 2020

Director Compensation

The directors of the Company were not compensated for their services as directors for fiscal year 2010.

Equity Compensation Plan Information

The following table sets forth the equity compensation plans information at December 31, 2010 for the following equity compensation plans or agreements:

- First Century Bancorp. 2003 Stock Incentive Plan;
- First Century Bancorp. Non-Qualified Stock Option Agreement with R. Allen Smith; and
- First Century Bancorp. Warrant Agreements with certain directors of the Company.

The Stock Incentive Plan was approved by shareholders on May 29, 2003. At the 2008 Annual Meeting of shareholders, the shareholders approved an amendment to increase the number of shares of our common stock authorized to be reserved for issuance under the Stock Incentive Plan from 125,000 to 750,000. None of the other equity compensation plans or agreements listed above have been approved by the Company's shareholders. Each of those plans or agreements is described below.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under the equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	139,834	$ 2.32	610,166
Equity compensation plans not approved by security holders	253,393	$ 8.03	-
Total	393.227	$ 6.00	610,166

Non-Qualified Stock Option Agreement with R. Allen Smith. On September 20, 2005 the Company entered a consulting agreement with Mr. Smith, pursuant to which the Company granted Mr. Smith an option to purchase 100,000 shares of the Company's common stock at an exercise price of $5.00 per share. One-third of the option was vested and exercisable upon grant, with the remaining thirds vesting on an annual basis.

Warrant Agreements with Certain of the Company's Directors. On March 25, 2002, the Company issued warrants to its directors to purchase an aggregate of 199,736 shares of the Company's common stock at an exercise price of $10.00 per share. The warrants become exercisable in one-third annual increments beginning on the first anniversary of the issuance date, provided that throughout the period beginning on the date of the initial issuance

of the warrants and ending on the particular anniversary, the warrant holder has served continuously as a director of the Company and the Bank and has attended at least 75% of the meetings of the relevant boards of directors. Warrants which fail to vest as provided in the previous sentence will expire and no longer be exercisable. Exercisable warrants will generally remain exercisable for the 10-year period following the date of issuance. The exercise price of each warrant is subject to adjustment for stock splits, recapitalizations or other similar events. As of December 31, 2010, 153,393 warrants remained outstanding of which 153,393 are exercisable.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth the number of shares of the Company's common stock beneficially owned as of March 25, 2011 by (a) each director and the executive officers named in the Summary Compensation Table; (b) the executive officers and all directors, as a group; and (c) owners of more than 5% of our outstanding common stock,. The information shown below is based upon information furnished to the Company by the named persons. Other than the directors, executive officers, and shareholders listed below, we are unaware of any holder of more than 5% of the Company's common stock.

Information relating to beneficial ownership of the Company is based upon "beneficial ownership" concepts set forth in the rules promulgated under the Exchange Act. Under these rules a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of a security, or "investment power," which includes the power to dispose or to direct the disposition of a security. Under the rules, more than one person may be deemed to be a beneficial owner of the same securities. A person is also deemed to be a beneficial owner of any security as to which that person has the right to acquire beneficial ownership within 60 days of March 25, 2011.

Name	Number of Shares	Exercisable Warrants & Options(1)	Total Beneficial Ownership	% of Class (2)	Nature of Beneficial Ownership
Directors:					
William A. Bagwell, Jr.	546,350	752,979	1,299,329	14.6%	Includes 496,507 shares and warrants to purchase 678,354 shares held by Homestead Investment, LLC; and 9,336 shares and warrants to purchase 37,312 shares held by Hanging Rock, LLC
William R. Blanton	1,698,804	2,321,465	4,020,269	38.5%	
William M. Evans, Jr.	956,815	858,396	1,815,211	20.2%	Includes 424,385 shares and warrants to purchase 634,517 shares held by Silver Hill Enterprises LP ; and 529,236 shares and warrants to purchase 223,879 shares held by Mr. Evan's spouse
Lanny Dunagan	62,042	33,334	95,376	1.2%	Includes 500 shares held jointly with Mr. Dunagan's son
Dr. Wendell Turner	177,178	56,918	234,096	2.9%	
R. K. Whitehead, III	125,392	229,559	354,951	4.3%	
All Directors and Executive Officers as a Group (6 persons):					
	3,566,581	4,252,651	7,819,232	81.6%	
5 Percent Shareholders:					
Golden Isles Reinsurance Co. Ltd. (3)	666,668	0	666,668	8.2%	
Joe E. McCart (4)	725,000	225,000	950,000	11.4%	
Neil Strickland (5)	225,000	225,000	450,000	5.4%	
Richard T. Smith (6)	557,217	223,880	781,094	9.4%	

(1) Certain directors hold warrants which contain provisions for automatic adjustments of the exercise price for shares and the number of shares purchasable under the warrants if subsequent shares or warrants are issued at a price less than the current exercise price. The numbers included in the

table include the automatic adjustments to such warrants as a result of the warrants issued in connection with the 2010 private placement.

(2) Based on 8,120,623 shares of common stock of the company outstanding as of December 31, 2010, plus the number of shares which the named person exercising all options or warrants has the right to acquire within 60 days, but that no other persons exercise any options or warrants.

(3) Golden Isles Reinsurance Co. address is 4800 River Green Parkway, Duluth, GA 30096.

(4) Joe E. McCart's address is 5719 Legends Club Circle, Braselton, GA 30517.

(5) Neil Strickland's address is 2031 Cowart Road, Dawsonville, GA 30534.

(6) Richard T. Smith's address is 1850 Brandson Hall Drive, Atlanta GA 30530.

The information with respect to our equity compensation plans is included in Item 11.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Company's directors and officers, and the businesses and other organizations with which they are associated, from time to time may have banking transactions in the ordinary course of business with the Bank. The Bank's policy is that any loans or other commitments to those persons or entities be made in accordance with applicable law and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons or entities of similar standing. All transactions with affiliates must be on terms no less favorable than could be obtained from an unaffiliated third party and must be approved by a majority of directors including a majority of disinterested directors.

In addition, each loan by the Bank to any officer, director or controlling person of the Bank or any of its affiliates may be made only in compliance with the following conditions:

The loan:

- must be evidenced by a promissory note naming the Bank as payee and must contain an annual percentage rate which is reasonably comparable to that normally charged to non-affiliates by other commercial lenders for similar loans made in the Bank's locale;
- must be repaid according to appropriate amortization schedules and contain default provisions comparable to those normally used by other commercial lenders for similar loans made to non-affiliates in the Bank's locale;
- must be made only if credit reports and financial statements, or other reasonable investigation appropriate in light of the nature and terms of the loan and which meet the loan policies normally used by other commercial lenders for similar loans made to non-affiliates in the Bank's locale, show the loan to be collectible and the borrower a satisfactory credit risk; and
- the purpose of the loan and the disbursement of proceeds are reviewed and monitored in a manner comparable to that normally used by other commercial lenders for similar loans made in the Bank's locale.

The following summary reflects activities for related party loans for the years ended December 31:

	2010	2009
Balance, Beginning	**$ 118,501**	$ 321,340
New Loans	**417,624**	110,006
Principal Repayments	**(423,203)**	(312,845)
Balance, Ending	**$ 112,922**	$ 118,501

As of December 31, 2010 and 2009, deposit accounts for related parties totaled approximately $1,156,000 and $1,937,000, respectively.

The Bank has entered into a master service agreement and data processing agreement with First Covenant Bank, an entity in which William R.

Blanton, a director and Chief Executive Officer of the Company, is a principal owner. For the year ended December 31, 2010 and 2009 the total billed for data processing services was $262,289 and $186,145, respectively. For the year ended December 31, 2010 and 2009 the total billed under the master services agreement was $392,196 and $228,150, respectively.

The Bank is affiliated with CINC Systems ("CINC"), a software services company. The Bank and CINC are affiliated through common management. The Bank has contracted with CINC to provide them with web and server hosting facilities. For the years ended December 31, 2010 and 2009 the total expense incurred for these services was $19,522 and $19,200, respectively.

The Bank has certain loans with a carrying amount of $1,865,093 and $842,072 as of December 31, 2010 and 2009, respectively, which were purchased from First Covenant Bank, an entity in which William R. Blanton is a principal owner.

The Bank sold certain loans with a carrying amount of $3,814,555 and $7,324,121 as of December 31, 2010 and 2009, respectively, to First Covenant Bank, an entity in which William R. Blanton is a principal owner.

Director Independence

The Board of Directors determines the independence of each director in accordance with guidelines it has adopted, which include all elements of independence set forth in the NASDAQ Global Market listing standards. The Board of Directors determined that each of the following non-employee directors is independent and has no material relationship with the Company, except as a director and shareholder of the Company: William Bagwell, Jr., William Evans, Jr., Lanny W. Dunagan, J. Allen Nivens, Jr., Dr. Wendell A. Turner and R.K. Whitehead, III. In addition, based on such standards, William R. Blanton is not independent because he serves as our Chief Executive Officer. All of the members of our audit, nominating and compensation committees are independent with the exception of William R. Blanton, who serves on our nominating committee.

Item 14. Principal Accounting Fees and Services

The following table sets forth the fees billed and, as to audit and audit-related fees, expected to be billed to the Company for the fiscal years ended December 31, 2010 and 2009 by Mauldin and Jenkins, Certified Public Accountants, LLC.

		2010		2009
Audit Fees [1]	$	75,500	$	64,698
Tax Fees [2]		4,500		6,100
Total Fees	$	80,000	$	70,798

[1] Represents fees related to the audit and quarterly reviews of consolidated financial statements of the Company and review of regulatory filings.
[2] Represents fees related to tax compliance, tax advice and tax planning service.

All of the services provided by the independent accountants were pre-approved by the Audit Committee. The Audit Committee pre-approves all audit and non-audit services provided by the Company's independent accountants and may not engage them to perform any prohibited non-audit services. The Audit Committee has determined that the rendering of non-audit professional services, as identified above, is compatible with maintaining the independence of the Company's auditors.

PART IV

Item 15. Exhibits List.

Exhibit Number	Description
3.1	Articles of Incorporation of First Century Bancorp. (formerly known as NBOG Bancorporation, Inc.) incorporated by reference to Exhibit 3(i) of the Registration Statement on Form SB-2, File No. 333-47280, filed on October 4, 2000.
3.2	Amendment to Articles of Incorporation of First Century Bancorp. (formerly known as NBOG Bancorporation, Inc.) incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 5, 2006.
3.3	Second Amendment to the Articles of Incorporation of First Century Bancorp. (formerly known as NBOG Bancorporation, Inc.) incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 2, 2007.
3.4	Third Amendment to the Articles of Incorporation of First Century Bancorp. Incorporated by reference to Exhibit 3.4 of the Form 10-K filed on March 31, 2009.

3.5	Amended and Restated Bylaws of First Century Bancorp. Incorporated by reference to Exhibit 3.5 of the Form 10-K filed on March 31, 2009.
4.1	See Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 for provisions of the Articles of Incorporation and Bylaws defining the rights of shareholders.
4.2	Form of common stock certificate of First Century Bancorp. Incorporated by reference to Exhibit 4(ii) of the Registration Statement on Form SB-2, File No. 333-47280, filed on October 4, 2000.
10.1*	First Century Bancorp. Amended and Restated 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 of the Form 10-K filed on March 31, 2009.
10.2*	Form of Incentive Stock Option Award. Incorporated by reference to Exhibit 10.3 of the Registration Statement on Form SB-2, File No. 333-122567, filed on February 4, 2005.
10.3*	Form of Nonqualified Stock Option Award. Incorporated by reference to Exhibit 10.4 of the Registration Statement on Form SB-2, File No. 333-122567, filed on February 4, 2005.
10.4*	Form of First Century Bancorp. Organizer's Warrant Agreement. Incorporated by reference to Exhibit 10(iv) of the Registration Statement on Form SB-2, File No. 333-47280, filed on October 4, 2000.
10.5	Master Services Agreement between First Covenant Bank and First Century Bank dated September 12, 2008. Incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K for the year ended December 31, 2009.
21	Subsidiaries of First Century Bancorp.
24	Power of Attorney (contained in Signature Page).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 200232.1.
99.1	Audited Financial Statements.

____

*Indicates management contract or compensatory plan or arrangement.

*Copies of exhibits are available upon written request to Corporate Secretary, First Century Bancorp., 807 Dorsey Street, Gainesville, Georgia 30501.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST CENTURY BANCORP.

By: /s/ William R. Blanton
William R. Blanton,
Chief Executive Officer

Date: March 31, 2011

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William R. Blanton, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report of Form 10-K, and to file the same, with all exhibits hereto, and other documents in connection herewith with the Securities and Exchange Commission, granting unto the attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as they might or could do in person, hereby ratifying and confirming all that these attorneys-in-fact and agents or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William R. Blanton William R. Blanton	Chairman and Principal Executive Officer	March 31, 2011
/s/ Denise Smyth Denise Smyth	Principal Financial and Accounting Officer	March 31, 2011
/s/ William M. Evans, Jr. William M. Evans, Jr.	Director	March 31, 2011
/s/ Lanny W. Dunagan Lanny W. Dunagan	Director	March 31, 2011
/s/ Dr. Wendell A. Turner Dr. Wendell A. Turner	Director	March 31, 2011
/s/ R. K. Whitehead, III R. K. Whitehead, III	Director	March 31, 2011

EXHIBIT INDEX

Exhibit Number	Description
21	Subsidiaries of First Century Bancorp.
24	Power of Attorney (contained in Signature Page).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 200232.1.
99.1	Audited Financial Statements.

EX-21 2 ex-21.htm SUBSIDIARIES OF FIRST CENTURY BANCORP.

First Century Bancorp. 10-K

EXHIBIT 21

First Century Bank

EX-24 3 ex-24.htm POWER OF ATTORNEY

First Century Bancorp. 10-K

EXHIBIT 24

EXHIBIT 31.1

CERTIFICATION

I, William R. Blanton, chief executive officer, certify that:

1. I have reviewed this annual report on Form 10-K of First Century Bancorp.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date March 31, 2011

/s/ William R. Blanton
William R. Blanton, Chief Executive Officer
(Principal Executive Officer)

EX-31.2 5 ex-31_2.htm SECTION 302 CERTIFICATION OF CFO

First Century Bancorp. 10-K

EXHIBIT 31.2

CERTIFICATION

I, Denise Smyth, principal financial and accounting officer, certify that:

1. I have reviewed this annual report on Form 10-K of First Century Bancorp.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date March 31, 2011

/s/ Denise Smyth

Denise Smyth, Principal Financial and Accounting Officer
(Principal Financial Officer)

EXHIBIT 32

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003**

The undersigned, the Chief Executive Officer and the Principal Financial and Accounting Officer of First Century Bancorp. (the "company"), each certify that, to his or her knowledge on the date of this certification:

1. The annual report of the company for the period ended December 31, 2010 as filed with the Securities and Exchange Commission on this date (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the company.

This 31st day of March, 2011.

/s/ William R. Blanton
William R. Blanton
Chief Executive Officer

/s/ Denise Smyth
Denise Smyth
Principal Financial and Accounting Officer

EXHIBIT 99.1

FIRST CENTURY BANCORP. AND SUBSIDIARY
GAINESVILLE, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2010 AND 2009 AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FIRST CENTURY BANCORP. AND SUBSIDIARY

CONTENTS

Report of Independent Registered Public Accounting Firm	1
Consolidated Balance Sheets	2
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income (Loss)	5
Consolidated Statements of Changes in Stockholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-40

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
First Century Bancorp and Subsidiary
Gainesville, Georgia

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

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

/s/ MAULDIN & JENKINS, LLC

Atlanta, Georgia
March 30, 2011

FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
Cash and Cash Equivalents	**5,961,826**	2,531,126
Investment Securities		
Available for Sale, at Fair Value	**5,204,594**	7,594,425
Held to Maturity, at Cost (Fair Value of $11,580,363, and $18,048,359 as of December 31, 2010 and 2009, Respectively)	**10,800,469**	16,794,363
Total Investments Securities	**16,005,063**	24,388,788
Other Investments	**620,100**	400,800
Loans Held for Sale	**13,908,172**	9,637,123
Loans	**31,895,912**	36,630,587
Allowance for Loan Losses	**(478,039)**	(414,670)
Net Loans	**31,417,873**	36,215,917
Premises and Equipment	**3,076,825**	2,276,681
Other Real Estate Owned	**522,061**	653,501
Other Assets	**539,480**	462,021
Total Assets	**$ 72,051,400**	$ 76,565,957

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

FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
Deposits		
Noninterest-Bearing	**$ 3,905,003**	$ 3,076,222
Interest-Bearing	**58,757,378**	66,490,456
	62,662,381	69,566,678
Borrowings	**2,000,000**	2,000,000
Other Liabilities	**744,224**	600,370
Commitments and Contingencies	**-**	-
Stockholders' Equity		
Preferred Stock, Non-voting; Non-participating; Variable Rate Cumulative; No Par Value; 10,000,000 Shares Authorized; 75,000 Shares Issued and Outstanding at December 31, 2009; Liquidation Preference of $10 Per Share Plus Accumulated Undeclared Dividends;	**-**	750,000
Common Stock, No Par Value; 300,000,000 Shares Authorized; 8,121,293 and 4,998,820 Shares Issued and Outstanding at December 31, 2010 and 2009, Respectively	**17,030,466**	14,948,028
Accumulated Deficit	**(10,445,022)**	(11,031,585)
Treasury Stock, 670 shares, at cost	**(1,005)**	(1,005)
Accumulated Other Comprehensive Income (Loss)	**60,356**	(266,529)
	6,644,795	4,398,909
Total Liabilities and Stockholders' Equity	**$ 72,051,400**	$ 76,565,957

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

FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Interest Income		
Loans, Including Fees	**$ 2,515,885**	$ 2,367,833
Investments	**1,704,441**	2,529,228
Federal Funds Sold	**-**	176
Interest Bearing Deposits	**9,933**	1,475
Total Interest Income	**4,230,259**	4,898,712
Interest Expense		
Deposits	**1,046,314**	1,649,373
Borrowings	**55,478**	65,591

	2010	2009
Total Interest Expense	**1,101,792**	1,714,964
Net Interest Income	**3,128,467**	3,183,748
Provision for Loan Losses	**750,390**	333,673
Net Interest Income After Provision for Loan Losses	**2,378,077**	2,850,075
Noninterest Income		
Service Charges on Deposits	**49,420**	44,707
Mortgage Origination and Processing Fees	**5,613,400**	2,175,625
Securities Gains	**145,602**	24,984
Impairment loss on other investments	**-**	(62,420)
Other	**75,797**	44,385
	5,884,219	2,227,281
Noninterest Expense		
Salaries and Employee Benefits	**4,403,509**	2,480,962
Occupancy and Equipment	**444,912**	436,669
Professional Fees	**398,568**	285,627
Advertising and Marketing	**244,652**	259,696
Data Processing	**791,468**	560,775
Insurance, Tax, and Regulatory Assessments	**322,274**	253,229
Lending Related Expense	**671,388**	426,456
Other Noninterest Expense	**318,613**	330,382
Total Noninterest Expense	**7,595,384**	5,033,796
Income Before Income Taxes	**666,912**	43,560
Provision for Income Taxes	**-**	-
Net Income	**$ 666,912**	$ 43,560
Earnings Per Share		
Basic	**$ .10**	$ .00
Diluted	**$ .10**	$ .00
Weighted Average Shares Outstanding	**6,615,252**	4,744,478

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

FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
DECEMBER 31, 2010 AND 2009

	2010	2009
Net Income	**$ 666,912**	$ 43,560
Other Comprehensive Income (Loss)		

Unrealized Gains (Losses) on Securities Arising During the Year	**472,487**	(158,440)
Reclassification Adjustment	**(145,602)**	(24,984)
Net Change in Unrealized Gains (Losses) on Securities	**326,885**	(183,424)
Comprehensive Income (Loss)	**$ 993,797**	$ (139,864)

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

FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Preferred Stock		Common Stock				Accumulated	
	Shares	Amount	Shares	Amount	Accumulated Deficit	Treasury Stock	Comprehensive Income (Loss)	Total
Balance, December 31, 2008	75,000	$ 750,000	3,979,127	$13,572,151	$ (11,075,145)	$ -	$ (83,105)	$ 3,163,901
Issuance of Common Stock	-	-	1,019,693	1,529,541	-		-	1,529,541
Common Stock Issuance Costs	-	-	-	(206,211)	-		-	(206,211)
Stock Compensation Costs	-	-	-	52,547	-		-	52,547
Purchase of Treasury Stock						(1,005)		(1,005)
Net Change in Unrealized Losses on Securities Available for Sale	-	-	-	-	-		(183,424)	(183,424)
Net Income	-	-	-	-	43,560		-	43,560
Balance, December 31, 2009	75,000	$ 750,000	4,998,820	$14,948,028	$ (11,031,585)	$ (1,005)	$ (266,529)	$ 4,398,909
Issuance of Common Stock	-	-	1,883,145	1,261,707	-	-	-	1,261,707
Common Stock Issuance Costs	-	-	-	(18,877)	-	-	-	(18.877)
Exchange of Preferred Stock plus accrued dividends for Common Stock	(75,000)	(750,000)	1,239,328	830,349	(80,349)	-	-	-
Stock Compensation Costs	-	-	-	9,259	-		-	9.259
Net Change in Unrealized Gain on Securities Available for Sale	-	-	-	-	-		326,885	326.885
Net Income	-	-	-	-	666,912		-	666.912
Balance, December 31, 2010	-	$ -	8,121,293	$17,030,466	$ (10,445,022)	$ (1,005)	$ 60,356	$ 6,644,795

The accompanying notes are an integral part of these consolidated statements

FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Net Income	$ 666,912	$ 43,560
Adjustments to Reconcile Net Income to		
Net Cash Used by Operating Activities		
Provision for Loan Losses	750,390	333,673
Depreciation	187,840	201,255
Amortization and Accretion	(722,633)	(968,310)
Loss on Sale of Other Assets	10,543	11,665
Loss on Sale of Other Real Estate Owned	34,644	-
Writedown of Other Real Estate Owned	67,512	-
Impairment Loss on Other Investments	-	62,420
Gains on Sales of Securities	(145,602)	(24,984)
Stock Compensation Expense	9,259	52,547
Change In		
Loans Held for Sale	(4,271,049)	(7,773,373)
Other Assets	(108,148)	(131,988)
Other Liabilities	143,854	6,615
	(3,376,478)	(8,186,920)
Cash Flows from Investing Activities		
Purchases of Investment Securities Available for Sale	(3,000,000)	(9,691,104)
Proceeds from Maturities, Calls and Paydowns of Investment Securities Available for Sale	2,242,552	6,577,621
Proceeds from the Sale of Investment Securities Available for Sale	3,524,842	6,642,492
Purchases of Investment Securities Held to Maturity	-	(11,599,251)
Proceeds from Maturities, Calls and Paydowns of Investment Securities Held to Maturity	4,797,322	2,769,432
Proceeds from the Sale of Investment Securities Held to Maturity	2,014,129	-
Purchases of Other Investments	(221,700)	(73,750)
Proceeds from the Sale of Other Investments	2,400	37,700
Net Change in Loans	4,014,583	59,744
Proceeds from the Sale of Other Real Estate Owned	62,356	54,353
Proceeds from the Sale of Other Assets	24,107	-
Purchases of Premises and Equipment	(1,018,600)	(52,368)
Proceeds from Sale of Premises and Equipment	26,655	-
	12,468,646	(5,275,131)
Cash Flows from Financing Activities		
Net Change in Deposits	(6,904,298)	12,445,824
Purchase of Treasury Stock	-	(1,005)
Payment of Stock Issuance Costs	(18,877)	(206,211)
Proceeds from the Issuance of Common Stock	1,261,707	1,529,541
	(5,661,468)	13,768,150
Net Increase in Cash and Cash Equivalents	3,430,700	306,099

Cash and Cash Equivalents, Beginning	**2,531,126**	2,225,027
Cash and Cash Equivalents, Ending	**$ 5,961,826**	$ 2,531,126

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

FIRST CENTURY BANCORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

The Bank provides a variety of retail and commercial banking services for consumers and businesses located in the northern Georgia market, with its main branch office located in Gainesville, Georgia. Lending and investing activities are funded primarily by deposits gathered through its banking offices.

In 2010, the Bank closed the Oakwood loan and deposit production (LP/DP) office in south Hall County, Georgia, and an Athens LP/DP office in Athens-Clarke County, Georgia, that had been opened in 2008. This was done in order to focus resources on expanding the mortgage division.

The Bank expanded its mortgage operations to take advantage of the new opportunities that now exist when partnering a bank with a mortgage operation. During the second quarter 2010, the Bank added a new retail mortgage call center in Norcross, Georgia. Our mortgage division was previously comprised of the Gainesville mortgage location, a retail production/operations hub located in Roswell, Georgia, and an online mortgage division, Century Point Mortgage. Retail sales personnel have been added in the Gainesville and Roswell locations to expand presence. Century Point Mortgage has been streamlined to enhance profitability and to allow for sustained growth.

We anticipate that the partnership of the banking and mortgage worlds will drive higher earnings and greater shareholder value for the Bank in the upcoming year. Revenues from the mortgage division are primarily non-interest income of fees, and gains on sales of the loans. Interest income is earned on the loans from the time they are closed to the time they are sold, which is typically two weeks. Expenses are primarily salaries and commissions, occupancy, and loan origination expenses such as appraisals.

Principles of Consolidation

The consolidated financial statements include the accounts of First Century Bancorp. (the Company) and its wholly-owned subsidiary, First Century Bank, National Association (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate owned, the determination of fair value of securities, the determination of fair value of financial instruments, and the valuation of deferred tax assets.

Concentrations of Credit Risk

Lending is concentrated in mortgage, commercial and consumer loans to borrowers in our market area. In management's opinion, although the Bank has a high concentration of real estate loans, these loans are adequately collateralized, or adjusted to fair value if impaired, and do not pose an adverse credit risk.

The success of the Bank is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. No assurance can be given that the current economic conditions will not continue. Adverse changes in the economic conditions in these geographic markets would likely have a detrimental effect on the Bank's results of operations and financial condition. The operating results of the Bank depend primarily on its net interest income and mortgage origination income. Accordingly, operations are subject to risks and uncertainties surrounding the exposure to changes in the interest rate environment.

At times, the Bank may have cash and cash equivalents at financial institutions in excess of insured limits. The Bank places its cash and cash equivalents with high credit quality financial institutions whose credit rating is monitored by management to minimize credit risk.

Investment Securities

Investment securities are recorded as available for sale or held to maturity. Securities held to maturity are those which the Bank has the ability and intent to hold until maturity. All other securities not classified as held to maturity are considered available for sale.

Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported in accumulated other comprehensive income (loss), a component of stockholders' equity. Gains and losses from sales of securities are computed using the specific identification method and recorded on the trade date. Securities available for sale may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements or unforeseen changes in market conditions. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

During 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment (FASB ASC 320-10). The guidance replaced the "intent and ability" indication by specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Other Investments

Other investments include equity securities and restricted equity securities with no readily determinable fair value. These investments are carried at cost. Dividends are recorded when earned. Management reviews for impairment based on the ultimate recoverability of the cost basis in these instruments.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are reported at the lower of cost or market value. Net unrealized losses, if any, are recognized in a valuation allowance through charges to earnings. Gains and losses on the sale of loans held for sale are determined using the specific identification method. The estimated fair value of loans held for sale is based on independent third party quoted prices.

Loans

Loans that the Bank has the ability and intent to hold for the foreseeable future or until maturity are recorded at their principal amount outstanding, net of any deferred loan fees and costs and allowance for loan losses. Interest income on loans is accrued on the outstanding principal balance using the effective interest method. Loan origination fees, net of certain direct origination costs of consumer and installment loans are recognized at the time the loan is placed on the books. Loan origination fees for all other loans are deferred and recognized as an adjustment of the yield over the life of the loan using the straight-line method.

A loan is considered to be delinquent when payments have not been made according to contractual terms. -

The accrual of interest is discontinued when a loan becomes 90 days past due and management believes there is sufficient doubt that the principal or interest will not be collectible in the normal course of business. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged against interest income on loans. Interest payments received on nonaccrual loans are either applied against principal or reported as income on the cash basis, according to management's judgment as to the collectibility of principal. Loans are returned to an accrual status when factors indicating doubtful collectibility on a timely basis no longer exist and the loan is brought current.

Allowance for Loan Losses

The allowance for loan losses is established 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 are credited to the allowance.

In determining an adequate allowance for loan losses, management makes numerous assumptions, estimates, and assessments which are inherently subjective and subject to change. The use of different estimates or assumptions could produce different provisions for losses on loans.

The allowance consists of general and specific reserves. The general reserve applies to groups of loans with similar risk characteristics and is based on historical loss experience, adjusted for environmental and qualitative factors. The specific reserves relate to individual loans that are identified as impaired. 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. The need for specific reserves is evaluated on impaired loans greater than $100,000. The specific reserves are determined on an individual loan basis based on management's evaluation of the circumstances and the value of any underlying collateral. All impaired loans less than $100,000 are evaluated for specific impairment in aggregate. Impaired loans are measured based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Loans that have been identified as impaired are excluded from the calculation of general reserves. Specific reserves are charged off when losses are confirmed.

Management believes the allowance for loan losses is adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions or charge-offs to the allowance based on their judgment and information available to them at the time of their examination.

Loans are assigned a risk rating on a nine point scale. For loans that are not considered impaired, the allocated allowance for loan losses is determined based upon the expected loss percentage factors that correspond to each risk rating.

The risk ratings are based on the borrowers' credit risk profile considering factors such as debt service history and capacity, inherent risk in the credit (e.g., based on industry type and source of repayment), and collateral position. Ratings 5 through 8 are modeled after the bank regulatory classifications of special mention, substandard, doubtful, and loss, and rating 9 indicates a classification of impaired substandard loan subject to specific reserve analysis. Each loan is assigned a risk rating during the approval process. This process begins with a rating recommendation from the loan officer responsible for originating the loan. The rating recommendation is subject to approvals from loan committees depending on the size and type of credit. Ratings are revaluated in connection with the credit review process. For larger credits, ratings are re-evaluated no less frequently than annually and more frequently when there is an indication of potential deterioration of a specific credit relationship. Additionally, an independent loan review function evaluates the bank's risk rating process on an on-going basis. Expected loss percentage factors are based on the probable loss including qualitative factors. The probable loss considers certain qualitative factors as determined by loan type and risk rating.

The qualitative factors consider, among others, credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the expected loss factors. Accordingly, these expected loss factors are reviewed periodically and updated as necessary

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. Depreciation of premises and equipment is provided over the estimated useful lives of the respective assets utilizing the straight-line method. Expenditures for major renewals and betterments are capitalized and those for maintenance and repairs are charged to income as incurred. When premises and equipment are retired or sold, the cost and accumulated depreciation are removed from their respective accounts and any gain or loss is reflected in other income or expense. The range of estimated useful lives for premises and equipment are generally as follows:

Buildings and improvements	5 - 40 years
Furniture and equipment	3 - 10 years

Other Real Estate Owned

Other real estate owned represents property acquired through or in lieu of foreclosure. Other real estate owned is carried at the lower of cost or fair value less selling costs. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as charges to the allowance for loan losses. Subsequent declines in value, routine holding costs and gains or losses upon disposition are included in other expense.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the asset has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership), (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity, or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

Income tax accounting consists of two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period and are not reported in the consolidated statements of income but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income and are presented in the Consolidated Statements of Comprehensive Income (Loss).

Earnings Per Share

Net income per common share is based on the weighted average number of common shares outstanding during the year. The effects of potential common shares outstanding are included in diluted earnings per share. Dividends accumulated on cumulative preferred stock, which totaled $10,089 and $24,375 for the years ended December 31, 2010 and 2009, respectively, reduced the earnings available to common stockholders in the computation.

Stock Compensation Plans

The Company uses the fair value method of recognizing expense for stock based compensation based on the fair value of options at the date of grant.

That expense is measured based on the grant date fair value of the equity instruments issued. The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. A Black-Scholes model is used to estimate the fair value of stock awards.

Statements of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from deposits, loans, and loans held for sale are reported net.

Supplementary Cash Flow Information:

	2010	2009
Cash Paid During the Year for:		
Interest	**$ 1,180,121**	$ 1,649,150
Income Taxes	**$ -**	$ -
Noncash Investing and Financing Activities:		
Transfer of Loans to Other Real Estate	**$ 33,072**	$ 653,501
Change in Unrealized Gain (Loss) on Securities Available for Sale	**$ 326,885**	$ (183,424)
Conversion of Preferred Stock to Common Stock and Accrued Dividends	**$ 830,349**	$ -

Segment Reporting

Management is required to report certain information about reportable operating segments. Generally, disclosures are required for segments internally identified to evaluate performance and resource allocation based on discrete financial information generated by internal financial and reporting systems. In all material respects, the Company's operations are entirely within the commercial banking segment and have similar economic characteristics, and the consolidated financial statements presented herein reflect the results of that segment.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In April 2010, the FASB issued Accounting Standards Update No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset* ("ASU No. 2010-18"). ASU No. 2010-18 provides guidance on the accounting for loan modifications when the loan is part of a pool of loans accounted for as a single asset such as acquired loans that have evidence of credit deterioration upon acquisition that are accounted for under the guidance in ASC 310-30. ASU No. 2010-18 addresses diversity in practice on whether a loan that is part of a pool of loans accounted for as a single asset should be removed from that pool upon a modification that would constitute a troubled debt restructuring or remain in the pool after modification. ASU No. 2010-18 clarifies that modifications of loans that are accounted for within a pool under ASC 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 the expected cash flows for the pool change. The amendments in this update do not require any additional disclosures and are effective for modifications of loans accounted for within pools under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. ASU 2010-18 did not have a material impact on the Company's results of operations, financial position or disclosures.

In July 2010, the FASB issued 2010-20 Accounting Standards Update (ASU) No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This ASU amends the guidance in the *FASB Accounting Standards Codification* (Codification) to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class of financing receivable, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The ASU is effective for interim and annual reporting periods ending on or after December 15, 2010. ASU 2010-20 has significantly increased the disclosures related to loans and the allowance for loan losses.

In January 2011, the FASB issued 2011-01 Accounting Standards Update (ASU) No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated.

NOTE 2 - Investment Securities

Investment securities as of December 31, 2010 and 2009 are summarized as follows.

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Obligations of U.S. Government Agencies	$ 2,000,000	$ -	$ (82,562)	$ 1,917,438
Obligations of States and Political Subdivisions	332,455	-	(6,955)	325,500
Mortgage Backed Securities-GNMA	365,670	16,221	-	381,891
Mortgage Backed Securities-FNMA and FHLMC	457,571	6,312	(3,493)	460,390
Private Label Residential Mortgage Backed Securities	1,337,633	141,334	(12,879)	1,466,088
Private Label Commercial Mortgage Backed Securities	652,752	535	-	653,287
	$ 5,146,081	$ 164,402	$ (105,889)	$ 5,204,594
Securities Held to Maturity				
Private Label Residential Mortgage Backed Securities	$ 766,732	$ 87,519	$ -	$ 854,251
Private Label Commercial Mortgage Backed Securities	10,033,737	692,605	(230)	10,726,112
	$ 10,800,469	$ 780,124	$ (230)	$ 11,580,363

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Obligations of U.S. Government Agencies	$ 983,146	$ 28,888	$ -	$ 1,012,034
Obligations of States and Political Subdivisions	326,855	-	(87,693)	239,162
Mortgage Backed Securities-GNMA	1,435,829	71,850	-	1,507,679
Mortgage Backed Securities-FNMA and FHLMC	794,697	9,750	(1,928)	802,519
Private Label Residential Mortgage Backed Securities	2,720,521	4,331	(288,440)	2,436,412
Private Label Commercial Mortgage Backed Securities	726,226	12,223	-	738,449
Corporate Debt Securities	575,000	6,700	(9,490)	572,210
Equity Securities	298,680	-	(12,720)	285,960
	$ 7,860,954	$ 133,742	$ (400,271)	$ 7,594,425
Securities Held to Maturity				
Private Label Residential Mortgage Backed Securities	$ 1,963,140	$ 255,583	$ -	$ 2,218,723
Private Label Commercial Mortgage Backed Securities	14,831,223	1,056,040	(57,627)	15,829,636
	$ 16,764,363	$ 1,311,623	$ (57,627)	$ 18,048,359

Securities with a carrying value of $14,312,954 and $20,150,917 at December 31, 2010 and 2009 were pledged to institutions which the Company has available lines of credit outstanding.

The following outlines the unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009:

December 31, 2010		
Less than 12 Months	12 Months or Greater	Total

	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities Available for Sale						
Obligations of U.S. Government Agencies	$ 1,917,438	$ (82,562)	$ -	$ -	$ 1,917,438	$ (82,562)
Obligations of States and Political Subdivisions			325,500	(6,955)	325,500	(6,955)
Mortgage Backed Securities-FNMA and FHLMC	-	-	262,607	(3,493)	262,607	(3,493)
Private Label Residential Mortgage Backed Securities	-	-	196,830	(12,879)	196,830	(12,879)
	$ 1,917,438	$ (82,562)	$ 784,937	$ (23,327)	$ 2,702,375	$ (105,889)
Securities Held to Maturity						
Private Label Commercial Mortgage Backed Securities	$ 327,692	$ (230)	$ -	$ -	$ 327,692	$ (230)

	December 31, 2009					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities Available for Sale						
Obligations of States and Political Subdivisions	$ 239,162	$ (87,693)	$ -	$ -	$ 239,162	$ (87,693)
Mortgage Backed Securities-FNMA and FHLMC	-	-	492,889	(1,928)	492,889	(1,928)
Private Label Residential Mortgage Backed Securities	1,463,016	(117,778)	416,654	(170,662)	1,879,670	(288,440)
Corporate Debt Securities	315,510	(9,490)	-	-	315,510	(9,490)
Equity Securities	-	-	285,960	(12,720)	285,960	(12,720)
	$ 2,017,688	$ (214,961)	$ 1,195,503	$ (185,310)	$ 3,213,191	$ (400,271)
Securities Held to Maturity						
Private Label Commercial Mortgage Backed Securities	$ 887,578	$ (57,627)	$ -	$ -	$ 887,578	$ (57,627)

Management evaluates investment securities for other-than-temporary impairment on a quarterly basis.

At December 31, 2010, 6 of the 10 debt securities available for sale, and 1 of the 14 debt securities held to maturity contained unrealized losses with an aggregate depreciation of 3.38% from the Company's amortized cost basis.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Although the issuers may have shown declines in earnings and a weakened financial condition as a result of the weakened economy, no credit issues have been identified that cause management to believe the declines in market value are other than temporary. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Obligations of U.S. Government Agencies. The unrealized losses on two investments in obligations of U.S. Government agencies were caused by interest rate increases. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be

required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

Obligations of States and Political Subdivisions. The unrealized losses on two investments in obligations of states and political subdivisions were caused by interest rate increases. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost bases, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2010.

Mortgage-backed Securities - FNMA and FHLMC. The unrealized loss on the Company's investment in one mortgage-backed security was caused by interest rate increases. The Company purchased this investment at a discount relative to its face amount, and the contractual cash flows of this investment is guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the security would not be settled at a price less than the amortized cost bases of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost bases, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2010.

Private Label Residential Mortgage-backed Securities. The unrealized loss associated with one private label residential mortgage-backed security is primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. We assess for credit impairment using a cash flow model. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our credit enhancement, we expect to recover the entire amortized cost basis of this security.

Private Label Commercial Mortgage-backed Securities. The unrealized loss associated with one commercial mortgage-backed security is primarily driven by higher projected collateral losses, wider credit spreads, and changes in interest rates. We assess for credit impairment using a cash flow model. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to the credit enhancement, the Company expects to recover the entire amortized cost basis of this security.

Gross realized gains on securities totaled $228,899 and $49,176 for the years ended December 31, 2010 and 2009, respectively. Gross realized losses, including impairment losses, on securities totaled $83,297 and $24,192 for the years ended December 31, 2010 and 2009, respectively.

Three investment securities with a carrying value of $1,854,800 and categorized as held to maturity were sold during the second quarter 2010. These securities were sold because they experienced significant credit deterioration and were downgraded by nationally recognized rating agencies. Since these securities were purchased at a substantial discount during the market disruption that occurred in late 2008 and early 2009, they were sold for a gain of $159,329.

Other investments on the consolidated balance sheets at December 31, 2010 and 2009 include restricted equity securities consisting of Federal Reserve Bank stock of $184,900 and $137,300, respectively, and Federal Home Loan Bank stock of $435,200 and $263,500, respectively. These securities are carried at cost since they do not have readily determinable fair values due to their restricted nature and the Bank does not exercise significant influence.

The amortized cost, estimated fair value, and weighted average yield of investment securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale			**Held to Maturity**		
	Amortized Cost	**Fair Value**	**Weighted Average Yield**	**Amortized Cost**	**Fair Value**	**Weighted Average Yield**
Obligations of U.S. Government Agencies						
Less than 1 Year	$ 2,000,000	$ 1,917,438	2.06%	$ -	$ -	-
Obligations of States and Political Subdivisions						
1 to 5 Years	332,455	325,500	8.71%	-	-	-
Mortgage Backed Securities						
Less than 1 Year	266,100	262,607	5.25%	222,501	229,384	10.35%
1 to 5 Years	1,053,933	1,047,900	8.57%	10,333,184	11,054,683	10.04%
5 to 10 Years	1,127,923	1,269,258	7.36%	244,784	296,296	9.58%

Over 10 Years	365,670	381,891	2.18%	-	-	-
	$ 5,146,081	$ 5,204,594	5.16%	$ 10,800,469	11,580,363	10.05%

NOTE 3 - Loans and Allowance for Loan Losses

The composition of loans as of December 31 are:

	2010	2009
Commercial and Financial	**$ 2,946,664**	$ 3,698,597
Commercial Real Estate -Owner Occupied	**8,549,938**	10,995,858
Commercial Real Estate -Other	**1,933,797**	2,004,081
Total Commercial Real Estate	**10,483,735**	12,999,939
1-4 Family Residential Construction	**995,760**	683,508
Other Construction, land development, and other land loans	**4,165,571**	4,060,893
Total Construction and Land	**5,161,331**	4,744,401
Farmland	**1,172,500**	1,285,250
Residential Real Estate	**11,032,850**	12,035,972
Multifamily Real Estate	**236,213**	243,372
All Other Real Estate	**12,441,763**	13,564,594
Consumer	**838,343**	1,526,295
Total Loans	**31,871,836**	36,533,826
Unamortized costs	**24,076**	96,761
Total Loans plus unamortized costs	**$ 31,895,912**	$ 36,630,587

Commercial and Financial

The Bank's commercial loans include working capital loans, accounts receivable and inventory and equipment financing. The terms of these loans vary by purpose and by type of underlying collateral. The Bank typically makes equipment loans for a term of five years or less at fixed or variable rates, with most loans fully amortized over the term. Equipment loans generally are secured by the financed equipment, and the ratio of the loan principal to the value of the financed equipment or other collateral will generally be 70% or less. Loans to support working capital typically have terms not exceeding one year and usually are secured by accounts receivable, inventory and/or personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal is typically repaid as the assets securing the loan are converted into cash. For loans secured with other types of collateral, principal is typically due at maturity. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to respond effectively to such changes are significant factors in a commercial borrower's creditworthiness.

Commercial Real Estate Loans

The Bank strives to diversify this portfolio across different property types. Accordingly, the commercial real estate portfolio includes loans secured by warehouses, office buildings, land, extended stay properties, assisted living properties, retail office and service properties, self storage properties, apartments, condominiums, industrial properties, and restaurants. Commercial real estate loan terms generally are limited to five years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable, but generally are not fixed for a period exceeding 60 months. The Bank normally charges an origination fee on these loans. Risks associated with commercial real estate loans include fluctuations in the value of real estate, new job creation trends, tenant vacancy rates and the quality of the borrower's management. The Bank attempts to limit its risk by analyzing borrowers' cash position, global cash flow, value of assets, payment record to all creditors, needs of proposed market area and collateral value of pledged property on an ongoing basis.

Construction and Land Loans

The Bank strives to diversify this portfolio across a mix of commercial, single family and multi-family developments. Construction loans are generally made with a term of approximately 12 months and interest is typically paid monthly. Acquisition and Development loans are generally made with a term of approximately 24 months and interest is typically paid monthly. The ratio of the loan principal to the value of the collateral as established by independent appraisal and generally does not exceed regulatory requirements.

Loans on developments or properties that have not been pre-sold by the builder are also based on the builder/borrower's financial strength and cash flow position, as well as the financial strength and reputation of the developer in case of an Acquisition and Development loan. Loan proceeds are disbursed based on the percentage of completion and only after an experienced construction lender or engineer has inspected the project. Risks associated with construction loans include fluctuations in the value of real estate, the time required to bring a project to market, changes in land use surrounding the project location, governmental restrictions and new job creation trends.

The Bank continues to strive to diversify its entire portfolio and has established goals that de-emphasize reliance upon any single class of loans. To that end, the Bank's goal is to have total outstanding acquisition, development, and construction loans (AD&C) less than 100% of capital.

Other Real Estate Loans

The Bank's residential real estate loans consist primarily of residential first and second mortgage loans and home equity lines of credit. The majority of the bank's residential real estate loans are variable rate, balloon or short term amortized loans. As a result, the Bank limits its exposure to long-term interest rate risks, which are typically associated with residential real estate loans. Residential real estate loans are consistent with the Bank's loan policy and with the ratio of the loan principal to the value of collateral as established by independent appraisal not to exceed regulatory restrictions of the pledged collateral. We believe the loan to value ratios together with the requirements for satisfactory credit, income and residence stability are sufficient to compensate for fluctuations in real estate market value and reduces losses that may result from the downturn in the residential real estate market.

Consumer Loans

The Bank makes a variety of loans to individuals for personal, family and household purposes, including secured and unsecured installment and term loans and lines of credit. The approval of these loans is determined by the length and breadth of the consumer's credit record, employment and residence stability and an evaluation of the continuation of these factors. Consumer loan repayments depend upon the borrower's financial stability and are more likely to be adversely affected by divorce, job loss, illness and personal hardships. Generally, consumer loans are secured by depreciable assets such as boats, cars, and trailers therefore these types of loans would most likely be amortized over the useful life of the asset. For those clients who demonstrate excellent credit records, the bank offers unsecured and secured (based on the equity in a personal residence) lines of credit. These lines of credit are subject to an annual review for continuation of the relationship. Deterioration in payment record, reported activity from a credit reporting agency or decreasing value in the pledged equity of the real estate may cause the line to be reduced or closed.

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located primarily in its general trade area of Hall County and Clarke County, Georgia. Although the Bank has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Included in loans above are $8,659,611 and $9,923,674 of interest only loans at December 31, 2010 and 2009. These loans present greater risk to the Company, especially considering the current decline in the real estate markets in and around the Metro Atlanta area.

The following is a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2010. There were no loans past due 90 days or more and accruing at December 31, 2010.

	Current	Accruing 30-89 Days Past Due	Nonaccrual	Total
Commercial and Financial	$ 2,909,725	$ 36,939	$ -	$ 2,946,664
Commercial Real Estate -Owner Occupied	8,549,938	-	-	8,549,938

Commercial Real Estate -Other	1,933,797	-	-	1,933,797
Total Commercial Real Estate	10,483,735	-	-	10,483,735
1-4 Family Residential Construction	918,952	76,808	-	995,760
Other Construction, land development, and other land loans	3,761,320	-	404,250	4,165,571
Total Construction and Land	4,680,272	76,808	404,250	5,161,331
Farmland	778,440	-	394,060	1,172,500
Residential Real Estate	10,176,610	162,167	694,072	11,032,849
Mulitfamily Real Estate	236,414	-	-	236,414
All Other Real Estate	11,191,464	162,167	1,088,132	12,441,763
Consumer	828,133	557	9,653	838,343
Total Loans	$ 30,093,329	$ 276,471	$ 1,502,035	$ 31,871,836

Non accrual loans as of December 31, 2010 and 2009 were $1,502,035 and $122,000, respectively. Interest income on nonaccrual loans outstanding at December 31, 2010 and 2009, that would have been recorded if the loans had been current and performed in accordance with their original terms was $40,862 and $70,000 for the years ended December 31, 2010 and 2009, respectively.

The credit quality of the loan portfolio is summarized no less frequently than quarterly using the standard asset classification system utilized by the federal banking agencies. These classifications are divided into three groups - Not Classified (Pass), Special Mention, and Classified or Adverse rating (Substandard, Doubtful, and Loss) and are defined as follows:

Pass - loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

Special Mention - loans which have potential weaknesses that deserve management's close attention. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.

Substandard - loans which are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans with this classification are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - loans which have all the weaknesses inherent in loans classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

Loss - loans which are considered by management to be uncollectible and of such little value that its continuance on the institution's books as an asset, without establishment of a specific valuation allowance or charge-off is not warranted.

When a retail loan reaches 90 days past due, it is downgraded to substandard, and upon reaching 120 days past due, it is downgraded to loss and charged off.

The following is a summary of the loan portfolio credit exposure by risk grade as of December 31, 2010.

	Pass	Special Mention	Substandard	Total
Commercial and Financial	$ 2,875,652	$ 71,012	$ -	$ 2,946,664
Commercial Real Estate -Owner Occupied	8,549,938	-	-	8,549,938
Commercial Real Estate -Other	1,869,881	63,916	-	1,933,797
Total Commercial Real Estate	10,419,819	63,916	-	10,483,735
1-4 Family Residential Construction	948,986	46,774	-	995,760

Other Construction, land development, and other land loans	3,761,321	-	404,250	4,165,571
Total Construction and Land	4,710,307	46,774	404,250	5,161,331
Farmland	778,440	-	394,060	1,172,500
Residential Real Estate	9,306,999	1,031,176	694,675	11,032,850
Multifamily Real Estate	236,413	-	-	236,413
All Other Real Estate	10,321,852	1,031,176	1,088,735	12,441,763
Consumer	812,853	5,492	19,998	838,343
Total Loans	$ 29,140,483	$ 1,218,370	$ 1,512,983	$ 31,871,836

Transactions in the allowance for loan losses are summarized for the years ended December 31 as follows:

	2010	2009
Balance, Beginning	**$ 414,670**	$ 838,234
Provision Charged to Operating Expenses	**750,390**	333,673
Loans Charged Off	**(692,967)**	(780,090)
Loan Recoveries	**5,946**	22,853
Balance, Ending	**$ 478,039**	$ 414,670

The following table details the change in the allowance for loan losses from December 31, 2009 to December 31, 2010 by loan segment.

	As Of and For The Year Ended December 31, 2010					
	Commercial	Commercial Real Estate	Construction and Land	All Other Real Estate	Consumer	Total
Allowance for loan losses						
Beginning balance	$ 84,175	$ 19,143	$ 85,239	$ 180,035	$ 46,078	$ 414,670
Charge-offs	-	-	(503,679)	(154,455)	(34,833)	(692,967)
Recoveries	-	-	-	-	5,946	5,946
Provision	(38,719)	(2,100)	610,095	171,180	9,934	750,390
Ending balance	$ 45,456	$ 17,043	$ 191,655	$ 196,760	$ 27,125	$ 478,039
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Loans						
Ending balance	$ 2,946,664	$ 10,483,735	$ 5,161,331	$ 12,441,763	$ 838,343	$ 31,871,836
Ending balance: individually evaluated for impairment	$ -	$ -	$ 404,250	$ 1,088,735	$ -	$ 1,492,985

The following is a summary of information pertaining to impaired loans.

Impaired Loans
For the Years Ended December 31, 2010 and 2009

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income recognized
2010					
With no related allowance recorded:					
Other Construction, land development, and other land loans	404,250	518,788	-	331,385	-
Farmland	394,060	525,000	-	32,838	-
Residential Real Estate	694,675	759,052	-	639,968	10,070
Total	$ 1,492,985	$ 1,802,840	$ -	$ 1,004,191	$ 10,070
2009					
With no related allowance recorded:					
Commercial, Financial and Agricultural	$ -	$ -	$ -	$ 37,649	$ -
Other Construction, land development, and other land loans	351,584	626,584	-	409,660	-
Consumer	-	-	-	2,246	-
With an allowance recorded:					
Residential Real Estate	608,128	608,128	24,427	325,551	37,474
Total	$ 959,712	$ 1,234,712	$ 24,427	$ 775,106	$ 37,474

Impaired loans include loans modified in troubled debt restructuring where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

For the years ended December 31, 2010 and 2009 troubled debt restructurings were $132,000 and $141,000. At December 31, 2010 and 2009, the Company had loans totaling $-0- and $118,000 that were modified in troubled debt restructuring and impaired. In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of $132,000 and $23,000 at December 31, 2010 and 2009. In years subsequent to a modification, loans that are performing in accordance with their modified terms are not reported as impaired loans.

NOTE 4 - Premises and Equipment

Premises and equipment are comprised of the following as of December 31:

	2010	2009
Land and Land Improvements	**$ 1,409,442**	$ 409,442
Building	**1,693,776**	1,693,776
Leasehold Improvements	**-**	18,820
Furniture and Equipment	**1,270,939**	1,252,296
Bank Vehicles	**46,388**	88,904
	4,420,545	3,463,238
Accumulated Depreciation	**(1,343,720)**	(1,186,557)
	$ 3,076,825	$ 2,276,681

Depreciation charged to operations totaled $187,840 and $201,255 for the years ended December 31, 2010 and 2009, respectively.

Certain bank facilities and equipment are leased under various short-term operating leases. Total lease expense was $159,679 and $134,498 for the years ended December 31, 2010 and 2009, respectively.

NOTE 5 - Deposits

Components of interest-bearing deposits as of December 31 are as follows:

	2010	2009
Interest-Bearing Demand	**$ 8,505,693**	$ 8,443,141
MMDA and Savings	**15,926,491**	11,950,003
Time, $100,000 and Over	**18,865,595**	18,025,985
Other Time	**15,459,599**	28,071,327
	$ 58,757,377	$ 66,490,456

The aggregate amount of certificates of deposit, each with a minimum denomination of $100,000, was $18,865,595 and $18,025,985 as of December 31, 2010 and 2009, respectively.

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $1,954 and $1,427 as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, the scheduled maturities of certificates of deposit are as follows:

Year	Amount
2011	$21,413,346
2012	12,470,449
2013	400,000
2014	39,210
2015	2,189
	$34,325,193

Brokered deposits are third-party deposits placed by or through the assistance of a deposit broker. As of December 31, 2010 and 2009, the Bank had $-0- and $1,357,000, respectively, in brokered deposits.

NOTE 6 - Income Taxes

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

	2010	2009
Deferred Expense	**$ 256,748**	$ 42,245
Change in Valuation Allowance	**(256,748)**	(42,245)
	$ -	$ -

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income/(loss) before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2010	2009
Tax provision at federal statutory rate	**$ 226,750**	$ 14,810

Stock Compensation	**3,148**	17,866
State Income Taxes	**25,141**	-
Other items, net	**1,709**	9,569
Valuation Allowance	**(256,748)**	(42,245)
Income Tax Expense	**$ -**	$ -

The following summarizes the components of deferred taxes at December 31:

	2010	2009
Deferred Income Tax Assets		
Operating Loss Carryforwards	**$ 3,579,315**	$ 3,957,990
Stock Compensation	**26,855**	27,219
Capital Loss	**21,146**	21,433
Other Real Estate	**22,871**	-
Other	**5,292**	7,202
	3,655,479	4,013,844
Deferred Tax Liabilities		
Premises and Equipment	**27,350**	26,979
Allowance for Loan Losses	**7,996**	83,963
	35,346	110,942
	3,620,133	3,876,881
Less Valuation Allowance	**(3,620,133)**	(3,902,902)
Net Deferred Tax Asset	**$ -**	$ -

The future tax consequences of the differences between the financial reporting and tax bases of the Company's assets and liabilities resulted in a net deferred tax asset. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

At December 31, 2010, the Company had federal and state net operating loss carryforwards for tax purposes of approximately $10,566,000 and $11,192,000, respectively, which will expire beginning in 2022 if not previously utilized.

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2007.

NOTE 7 - Borrowings

The Bank has a line of credit totaling $14,840,000, representing 20.6% of the Bank's total assets at December 31, 2010 with the Federal Home Loan Bank. At December 31, 2010, and 2009, the Bank has one advance from the Federal Home Loan Bank of Atlanta (FHLB) in the amount of $2,000,000. The advance bears interest at a fixed interest rate of 2.497 percent and matures on May 1, 2013. The Bank has pledged as collateral investment securities with a carrying amount of $3,300,804, and eligible residential and commercial real estate loans with a carrying amount of $9,561,455 at December 31, 2010.

The Bank has a line of credit available with a correspondent bank which represents available credit for overnight borrowing from this financial institution. As of December 31, 2010 this was an unsecured line of credit for $1,000,000, of which no balance was outstanding.

The Bank is approved to borrow from the Federal Reserve Bank discount window program. As of December 31, 2010 the Bank's primary borrowing capacity was $15,922,752, based on pledged investment securities with a carrying amount of $11,012,222 and eligible commercial real estate loans with a carrying amount of $8,207,806 at December 31, 2010. There were no advances outstanding at December 31, 2010 and 2009.

NOTE 8 - Contingencies and Commitments

Financial Instruments with Off-Balance Sheet Risk

The Bank is a 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 extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. In most cases, the Bank requires collateral to support financial instruments with credit risk.

The following summarizes commitments as of December 31:

	Approximate Contract Amount	
	2010	2009
Financial Instruments Whose Contract Amounts Represent Credit Risk		
Commitments to Extend Credit	**$ 1,222,000**	$ 3,238,000
Standby Letters of Credit	**550,000**	276,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit or personal property.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of 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.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 9 - Stockholders' Equity

Shares of preferred stock may be issued from time to time in one or more series as established by resolution of the board of directors of the Company, up to a maximum of 10,000,000 shares. Each resolution shall include the number of shares issued, preferences, special rights and limitations as determined by the board.

At December 31, 2009 the Company had outstanding 75,000 shares of Series B Preferred Stock, no par value (the Series B Preferred Stock), issued at $10.00 per share. The Series B Preferred Stock was cumulative perpetual preferred stock and was treated as Tier 1 capital under existing Federal Reserve regulations. The Series B Preferred Stock was nonvoting and could not be converted into common stock of First Century without Board approval. The Company had the right, subject to Federal Reserve approval, to redeem the shares for their purchase price plus accrued dividends. Dividends accrued on the Series B Preferred Stock at a rate per annum initially equal to the prime rate in effect on the date of issuance, adjusted semi-annually on the first date of January and the first day of July each year to be equal to the prime rate in effect on such date. The preferred stock investors also received a warrant to acquire one share of common stock for each share of Series B Preferred Stock purchased in the offering at an exercise price of $1.50 per share, which was the fair market value of the common stock on the date of the issuance of the warrants. The warrants have no expiration date. Cumulative dividends in arrears at December 31, 2010 and 2009 were $0 and $70,266, respectively.

In June 2010, with Board approval, the holders of Series B Preferred Stock exchanged their shares of preferred stock for shares of common stock at an exchange rate of $0.67 per share. The Company redeemed 75,000 shares of Series B Preferred Stock and issued an aggregate of 1,239,328 shares of common stock, which included additional shares in lieu of the payment of $80,349 of accrued dividends, to accredited investors in transactions exempt from registration under Section 4(2) of the Securities Act.

In June 2010, the Company commenced a private offering of up to 2,000,000 shares of its common stock at of price of $0.67 per share to a limited number of accredited investors. The private offering closed August 13, 2010. Total net proceeds raised in the offering were $1,242,830 from the sale of 1,883,145 shares. For each share issued, a warrant to purchase one share of common stock at a price of $0.67 was also granted, resulting in the issuance of 1,883,145 warrants. The Company is using the net proceeds from the private offering for working capital purposes. The common stock sold in the offering has not been registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings and the ratio of equity capital to total assets. As of December 31, 2010, the Bank was prohibited from paying any dividends without prior approval from its regulators.

NOTE 10 - Related Party Transactions

It is the Bank's policy to make loans to directors and officers, including companies in which they have a beneficial interest, in the normal course of business. It is also the Bank's policy to comply with federal regulations that require that loan and deposit transactions with directors and executive officers be made on substantially the same terms as those prevailing at the time made for comparable loans and deposits to other persons.

The following summary reflects activities for related party loans for the years ended December 31:

	2010	2009
Balance, Beginning	**$ 118,501**	$ 321,340
New Loans	**417,624**	110,006
Principal Repayments	**(423,203)**	(312,845)
Balance, Ending	**$ 112,922**	$ 118,501

As of December 31, 2010 and 2009, deposit accounts for related parties totaled approximately $1,156,000 and $1,937,000, respectively.

The Bank has entered into a master service agreement and data processing agreement with First Covenant Bank, an entity in which William R. Blanton, a director and the Chief Executive Officer of the Company, is a principal owner and Chief Executive Officer. For the year ended December 31, 2010 and 2009 the total billed for data processing services was $262,289 and $186,145, respectively. For the year ended December 31, 2010 and 2009 the total billed under the master services agreement was $392,196 and $228,150, respectively.

The Bank is affiliated with CINC Systems ("CINC"), a software services company, an entity in which William R. Blanton, a director and the Chief Executive Officer of the Company, is a principal owner. The Bank has contracted with CINC for it to provide the Bank with web and server hosting facilities. For the years ended December 31, 2010 and 2009 the total expense incurred for these services was $19,522 and $19,200, respectively.

The Bank has certain loans with a carrying amount of $1,865,093 and $842,072 as of December 31, 2010 and 2009, respectively, which were purchased from First Covenant Bank, an entity in which William R. Blanton is a principal owner.

The Bank sold certain loans with a carrying amount of $3,814,555 and $7,324,121 as of December 31, 2010 and 2009, respectively, to First Covenant Bank.

NOTE 11 - Employee Benefit Plan

The Company has a qualified retirement plan pursuant to Internal Revenue Code Section 401(K) covering substantially all employees subject to minimum age and service requirements. Contribution to the plan by employees is voluntary. The Company made no contributions to the plan in 2010 or 2009.

NOTE 12 - Stock Options

The Company has a stock option plan (the Option Plan) whereby the Company may grant options to acquire shares of common stock of the Company at the grant date fair value. A total of 750,000 shares of common stock were reserved for possible issuance under this plan. Vesting periods are established by the board at the date of grant and expire on the tenth anniversary of the grant date.

The Company also granted a consultant a non-qualified stock option to purchase 100,000 shares of common stock at an exercise price of $5.00.

A summary of activity related to the stock options, for the years ended December 31, 2010 and 2009 is presented below:

	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2008	538,334	$ 2.78
Granted	30,000	$ 1.50
Exercised	-	-
Forfeited	(118,500)	$ 1.60
Outstanding, December 31, 2009	449,834	$ 2.53
Granted	-	-
Exercised	-	-
Forfeited	(210,000)	$ 1.50
Outstanding, December 31, 2010	239,834	$ 3.44
Eligible to be Exercised, December 31, 2010	152,234	$ 4.56

The Company recognized stock-based compensation expense of $9,258 and $52,547 for the years ended December 31, 2010 and 2009, respectively. There were no options exercised during the years ended December 31, 2010 and 2009. The total fair value of shares vested during the years ended December 31, 2010 and 2009 was $113,834 and $170,751, respectively. There were no income tax benefits recognized for the years ended December 31, 2010 and 2009.

During the year ended December 31, 2009, the Company modified 421,000 outstanding options with an exercise price of $2.00 per option by lowering the exercise price to $1.50 per option. The total incremental cost related to the modifications was $17,252 and will be recognized as compensation expense over the remaining service period of the individual grants.

The options outstanding and exercisable at December 31, 2010 had no aggregate intrinsic value. At December 31, 2010, there was $52,150 of total unrecognized compensation expense related to non-vested share-based compensation arrangements. The cost is expected to be recognized over a weighted average period of 2.4 years.

Information pertaining to options outstanding at December 31, 2010 is as follows:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life

$10.00	13,334	2.4	13,334	2.4
5.00	100,500	4.8	100,500	4.8
1.50	126,000	7.5	38,400	7.5
	239,834	6.0	152,234	5.2

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table for the years ended December 31, 2009. There we no options granted in 2010.

	2009
Dividend Yield	**0.00%**
Risk Free Interest Rate	**1.89%**
Expected Life (in Years)	**6.5**
Expected Volatility	**92%**
Weighted average fair value per option granted	$ **1.16**

The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options represents the period of time that options granted are expected to be outstanding. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

NOTE 13 - Stock Warrants

On March 25, 2002, the Company issued warrants (the "2002 Warrants") to directors to purchase an aggregate of 199,736 shares of the Company's common stock at an exercise price of $10.00 per share. The warrants become exercisable in one-third annual increments beginning on the first anniversary of the issuance date, provided that throughout the period beginning on the date of the initial issuance of the warrants and ending on the particular anniversary, the warrant holder has served continuously as a director of the Company and the Bank and has attended at least 75% of the meetings of the relevant boards of directors. Warrants which fail to vest as provided in the previous sentence will expire and no longer be exercisable. Exercisable warrants will generally remain exercisable for the 10-year period following the date of issuance. The exercise price of each warrant is subject to adjustment for stock splits, recapitalizations or other similar events. As of December 31, 2010, 153,393 of these warrants remained outstanding of which all were exercisable.

In April 2007, the Company issued 738,008 shares of the Company's common stock in a private placement at $2.71 per share. The Company also issued a warrant to each investor in the offering (the "Original Warrant") to purchase up to 738,008 shares at $2.71 per share. The Original Warrant has no expiration date and contains provisions which provide for automatic adjustments in price and shares purchasable under the Original Warrants in the event additional securities are issued below or have a conversion or exercise price below the current Original Warrant exercise price. As of December 31, 2010, 2,985,077 of these warrants at an adjusted exercise price of $0.67 remained outstanding of which all were exercisable.

In December 2007, the Company completed a private placement of Series B Preferred Stock, no par value, for $10.00 per share, selling a total of $750,000 worth of shares. The investors in that offering also received warrants (the "B Warrant") to acquire 75,000 shares of common stock at an exercise price of $1.50 per share, which we believe was the fair market value of the common stock on the date of issuance of the B Warrants. As with the Original Warrant, the B Warrant have no expiration date and contains provisions which provide for automatic adjustments in price and shares purchasable under the warrants in the event additional shares or warrants are issued below the current warrant exercise price. As of December 31, 2010, 167,910 of these warrants at an adjusted exercise price of $0.67 remained outstanding of which all were exercisable.

In 2010, the Company issued 1,883,145 shares of common stock in a private offering. For each share issued, a warrant (the "2010 Warrant") to purchase one share of common stock at a price of $0.67 was also granted to each investor in the offering, resulting in the issuance of 1,883,145 warrants. The 2010 Warrant will remain exercisable for the 10-year period following the date of issuance. As with the Original Warrant, the 2010 Warrant contains provisions which provide for automatic adjustments in price and shares purchasable under the warrants in the event additional shares or warrants are issued below the current warrant exercise price. As of December 31, 2010, 1,883,145 of these warrants at an exercise price of $0.67 remained outstanding of which all were exercisable.

Information pertaining to warrants outstanding at December 31, 2010 is as follows:

	Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Remaining Contractual Life
2002 Warrants	$ 10.00	153,393	1.5	153,393	1.5
2007 Original Warrants	$ 0.67	2,985,077	no expiration	2,985,077	no expiration
2007 B Warrants	$ 0.67	167,910	no expiration	167,910	no expiration
2010 Warrants	$ 0.67	1,883,145	9.5	1,883,145	9.5
		5,189,526		5,189,526	

NOTE 14 – FAIR VALUE DISCLOSURES

Fair Value of Financial Instruments

ASC Topic 825, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of the Company's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

Cash and Short-Term Investments - For cash and due from banks, the carrying amount is a reasonable estimate of fair value.

Investment Securities - Fair values for investment securities are based on quoted market prices.

Other Investments - The fair value of other investments approximates carrying value.

Loans Held for Sale - The fair value of loans held for sale are based on third party quotes.

Loans - The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. Fair values of nonperforming loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Deposit Liabilities - The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowings - Due to their short-term nature, the fair value of FRB advances approximates carrying amount. The fair value of FHLB advances are provided by the FHLB and approximate fair value derived from their proprietary models.

Accrued Interest - The carrying amounts of accrued interest approximate fair value.

Standby Letters of Credit and Unfulfilled Loan Commitments - Fair values are based on fees currently charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standing. The fees associated with these instruments are not considered material.

The carrying amount and estimated fair values of the Company's financial instruments as of December 31, are presented hereafter:

	December 31, 2010		December 31, 2009	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
	(in Thousands)			
Assets				
Cash and Short-Term Investments	**$ 5,962**	**$ 5,962**	$ 2,531	$ 2,531
Investment Securities Available for Sale	**5,205**	**5,205**	7,594	7,594
Investment Securities Held to Maturity	**10,800**	**11,580**	16,794	18,048
Other Investments	**620**	**620**	401	401
Loans, Net	**31,418**	**31,664**	9,637	9,637
Loans Held for Sale	**13,908**	**13,908**	36,215	36,572
Accrued Interest Receivable	**221**	**221**	279	279
Liabilities				
Deposits	**62,662**	**62,582**	69,567	69,596
Borrowings	**2,000**	**2,077**	2,000	2,062
Accrued Interest Payable	**200**	**200**	279	279

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include the deferred income taxes, other real estate, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

ASC Topic 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations

are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Investment Securities Available for Sale

Where quoted prices are available in an active market, investment securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 and Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans Held for Sale

Loans held for sale are reported at the lower of cost or fair value. Fair Value is determined based on the expected proceeds based on sales contracts and commitments and are considered Level 2 inputs.

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Impaired loans

ASC Topic 820 applies to loans measured for impairment using the practical expedients permitted by ASC Section 310-30-30, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate

Other real estate is reported at fair value less selling costs. Fair value is based on third party or internally developed appraisals considering the assumptions in the valuation and is considered Level 2 or Level 3 inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2010 and 2009

		Fair Value Measurements at December 31, 2010 Using		
	Total	**Level 1**	**Level 2**	**Level 3**
Investment Securities Available for Sale	**$ 5,204,594**	**-**	**$ 5,204,594**	**-**
Loans Held for Sale	**13,908,172**	**-**	**13,908,172**	**-**

	Total	Fair Value Measurements at December 31, 2009 Using		
		Level 1	Level 2	Level 3
Investment Securities Available for Sale	$ 7,594,425	-	$ 7,594,425	-
Loans Held for Sale	9,637,123	-	9,637,123	-

The following table presents the financial instruments carried on the consolidated balance sheets 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:

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis as of December 31, 2010 and 2009

	Fair Value Measurements at December 31, 2010 Using			
	Level 1	**Level 2**	**Level 3**	**Total (Losses)**
Impaired Loans	**-**	**-**	**$ 1,284,851**	**$ (309,855)**
Other Real Estate	**-**	**-**	**522,061**	**(67,512)**

	Fair Value Measurements at December 31, 2009 Using			
	Level 1	Level 2	Level 3	Total (Losses)
Impaired Loans	-	-	$ 935,284	$ (299,427)
Other Real Estate	-	-	653,501	(34,644)

For the years ended December 31, 2010 and 2009 losses on impaired loans consisted of partial charge-offs to the allowance for loan losses of $309,855 and $275,000, respectively, and specific reserves allocated on impaired loans at December 31, 2009 of $24,427. Losses on other real estate consisted of write-downs recognized in earnings for the years ended December 31, 2010 and 2009.

NOTE 15 - Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under certain adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices, must be met. The 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 Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 Capital to risk-weighted assets and of Tier 1 Capital to average assets.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table and also must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by federal banking regulators. The actual capital amounts and ratios for the Bank are presented in the following table. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the Bank's classification. Disclosures related to the Company have been excluded as they did not significantly deviate from the disclosure herein.

	For Capital Adequacy	**To Be Well Capitalized Under Prompt Corrective**

	Actual		Purposes		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In Thousands)			
December 31, 2010						
Total Capital to Risk-Weighted Assets	**$ 6,789**	**15.99%**	**$ 3,397**	**8.00%**	**$ 4,247**	**10.00%**
Tier I Capital to Risk-Weighted Assets	**6,311**	**14.86**	**1,699**	**4.00**	**2,548**	**6.00**
Tier I Capital to Average Assets	**6,311**	**8.50**	**2,968**	**4.00**	**3,710**	**5.00**
December 31, 2009						
Total Capital to Risk-Weighted Assets	$ 5,062	10.82%	$ 3,748	8.00%	$ 4,685	10.00%
Tier I Capital to Risk-Weighted Assets	4,647	9.94	1,874	4.00	2,811	6.00
Tier I Capital to Average Assets	4,647	6.22	2,991	4.00	3,739	5.00

NOTE 16 - Financial Information of First Century Bancorp. (Parent Only)

FIRST CENTURY BANCORP. (PARENT ONLY)
CONDENSED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
ASSETS

	2010	2009
Cash and Interest-Bearing Deposits	**$ 299,891**	$ 25,907
Investment in Subsidiary	**6,370,685**	4,393,532
Other Assets	**-**	937
Total Assets	**$ 6,670,576**	$ 4,420,376
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other Liabilities	**$ 25,781**	$ 21,467
Stockholders' Equity	**6,644,795**	4,398,909
Total Liabilities and Stockholders' Equity	**$ 6,670,576**	$ 4,420,376

FIRST CENTURY BANCORP. (PARENT ONLY)
CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Expenses		
Professional Fees	**120,436**	94,939
Other	**3,662**	19,402
	124,098	114,341

	2010	2009
Loss Before Equity in Undistributed Earnings of Subsidiary	**(124,098)**	(114,341)
Equity in Undistributed Earnings of Subsidiary	**791,010**	157,901
Net Income	**$ 666,912**	$ 43,560

FIRST CENTURY BANCORP. (PARENT ONLY)
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Net Income	**$ 666,912**	$ 43,560
Adjustments to Reconcile Net Income to Net		
Cash Used by Operating Activities		
Equity in Undistributed Earnings of Subsidiary	**(791,010)**	(157,901)
Change In		
Other Assets	**937**	1,892
Other Liabilities	**4,315**	(166,979)
	(118,846)	(279,428)
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	**(850,000)**	(1,050,000)
Cash Flows from Financing Activities		
Purchase of Treasury Stock	**-**	(1,005)
Proceeds from Issuance of Common Stock	**1,261,707**	1,529,541
Payments of Stock Issuance Costs	**(18,877)**	(206,211)
	1,242,830	1,322,325
Net Increase (Decrease) in Cash	**273,984**	(7,103)
Cash and Interest-Bearing Deposits, Beginning	**25,907**	33,010
Cash and Interest-Bearing Deposits, Ending	**$ 299,891**	$ 25,907