

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(MARK ONE)

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

**For the Quarterly Period ended September 30, 2011**

OR

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File No. 001-16413

**FIRST CENTURY BANCORP.**

(Exact name of registrant as specified in its charter)

Georgia

\_\_\_\_\_  
(State or other jurisdiction  
of incorporation)

58-2554464

\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

**807 Dorsey Street  
Gainesville, Georgia 30501**

(Address of principal executive offices)

(770) 297-8060

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated  (do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 8,120,623 shares of common stock, no par value per share, were issued and outstanding as of November 14, 2011.

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements	
<a href="#">Consolidated Balance Sheets – September 30, 2011 (Unaudited) and December 31, 2010</a>	3
<a href="#">Consolidated Statements of Operations (Unaudited) – Three and Nine Months Ended September 30, 2011 and 2010</a>	5
<a href="#">Consolidated Statements of Comprehensive Income (Loss) (Unaudited) – Three and Nine Months Ended September 30, 2011 and 2010</a>	6
<a href="#">Consolidated Statements of Changes in Stockholders' Equity (Unaudited) – Nine Months Ended September 30, 2011</a>	7
<a href="#">Consolidated Statements of Cash Flows (Unaudited) – Nine Months Ended September 30, 2011 and 2010</a>	8
<a href="#">Notes to Consolidated Financial Statements (Unaudited)</a>	9
Item 2. <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	27
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	38
Item 4. <a href="#">Controls and Procedures</a>	38
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <a href="#">Legal Proceedings</a>	38
Item 1A. <a href="#">Risk Factors</a>	38
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	38
Item 3. <a href="#">Defaults upon Senior Securities</a>	38
Item 4. <a href="#">(Removed and Reserved)</a>	38
Item 5. <a href="#">Other Information</a>	38
Item 6. <a href="#">Exhibits</a>	38
<a href="#">Signatures</a>	39

**FIRST CENTURY BANCORP. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

**ASSETS**

<b>September 30, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<hr/>	<hr/>

Total Cash and Cash Equivalents	\$ 2,329,696	\$ 5,961,826
<b>Investment Securities</b>		
Available for Sale, at Fair Value	13,811,704	5,204,594
Held to Maturity, at Cost (Fair Value of \$5,081,899, and \$11,580,363 as of September 30, 2011 and December 31, 2010, respectively)	4,779,652	10,800,469
Total Investment Securities	18,591,356	16,005,063
<b>Other Investments</b>	515,750	620,100
<b>Loans Held for Sale</b>	12,738,233	13,908,172
<b>Loans</b>	27,859,000	31,895,912
Allowance for Loan Losses	(448,064)	(478,039)
Loans, Net	27,410,936	31,417,873
<b>Premises and Equipment</b>	3,031,723	3,076,825
<b>Other Real Estate</b>	806,886	522,061
<b>Other Assets</b>	912,692	539,480
<b>Total Assets</b>	\$ 66,337,272	\$ 72,051,400

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

**FIRST CENTURY BANCORP. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	September 30, 2011 (Unaudited)	December 31, 2010
<b>Deposits</b>		
Non-interest-Bearing	\$ 4,043,753	\$ 3,905,003
Interest-Bearing	50,055,719	58,757,378
Total Deposits	54,099,472	62,662,381
<b>Borrowings</b>	5,000,000	2,000,000
<b>Other Liabilities</b>	652,731	744,224
Total Liabilities	59,752,203	65,406,605
<b>Commitments and Contingencies</b>	—	—
<b>Stockholders' Equity</b>		
Preferred Stock, Non-voting; Non-participating; Variable Rate Cumulative; No Par Value; 10,000,000 Shares Authorized;		

No Shares Issued and Outstanding; Liquidation Preference of \$10 Per Share Plus Accumulated Undeclared Dividends;	—	—
Common Stock, No Par Value; 300,000,000 Shares Authorized; 8,121,293 Shares Issued at September 30, 2011 and December 31, 2010	17,036,976	17,030,466
Accumulated Deficit	(10,963,220)	(10,445,022)
Treasury Stock, 670 shares, at cost	(1,005)	(1,005)
Accumulated Other Comprehensive Income	512,318	60,356
<b>Total Stockholders' Equity</b>	<b>6,585,069</b>	<b>6,644,795</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 66,337,272</b>	<b>\$ 72,051,400</b>

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

**FIRST CENTURY BANCORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
<b>Interest Income</b>				
Loans, Including Fees	\$ 482,628	\$ 646,838	\$ 1,440,761	\$ 1,849,485
Investments	281,932	372,731	910,812	1,368,668
Interest Bearing Deposits	4,083	3,230	19,982	7,700
<b>Total Interest Income</b>	<b>768,643</b>	<b>1,022,799</b>	<b>2,371,555</b>	<b>3,225,853</b>
<b>Interest Expense</b>				
Deposits	153,597	245,217	539,759	807,741
Borrowings	12,973	14,510	38,220	40,063
<b>Total Interest Expense</b>	<b>166,570</b>	<b>259,727</b>	<b>577,979</b>	<b>847,804</b>
<b>Net Interest Income</b>	<b>602,073</b>	<b>763,072</b>	<b>1,793,576</b>	<b>2,378,049</b>
Provision for Loan Losses	—	127,880	179,761	438,619
<b>Net Interest Income After Provision for Loan Losses</b>	<b>602,073</b>	<b>635,192</b>	<b>1,613,815</b>	<b>1,939,430</b>
<b>Non-interest Income</b>				
Service Charges and Fees on Deposits	3,584	14,906	11,459	56,368
Gain on Investment Securities, net	56,842	—	56,842	145,602
Mortgage Banking Income	1,073,550	1,511,062	2,637,090	3,416,702
Other	6,177	4,621	26,962	50,403
<b>Total Non-interest Income</b>	<b>1,140,153</b>	<b>1,530,589</b>	<b>2,732,353</b>	<b>3,669,075</b>
<b>Non-interest Expense</b>				
Salaries and Employee Benefits	855,416	1,046,492	2,498,081	2,876,554
Occupancy and Equipment	114,449	107,229	322,511	346,160
Professional Fees	82,486	98,724	261,894	277,749
Advertising and Marketing	109,701	60,381	291,839	173,714
Data Processing	258,477	173,265	735,009	514,316
Insurance, Tax, and Regulatory Assessments	37,276	83,038	186,437	253,517

Lending Related Expense	144,255	159,660	342,000	424,263
Other Non-interest Expense	85,786	86,171	226,595	250,466
<b>Total Non-interest Expense</b>	<b>1,687,846</b>	<b>1,814,960</b>	<b>4,864,366</b>	<b>5,116,739</b>
<b>Income (Loss) Before Income Taxes</b>	<b>54,380</b>	<b>350,821</b>	<b>(518,198)</b>	<b>491,766</b>
Provision for Income Taxes	—	—	—	—
<b>Net Income (Loss)</b>	<b>\$ 54,380</b>	<b>\$ 350,821</b>	<b>\$ (518,198)</b>	<b>\$ 491,766</b>
<b>Basic Earnings (Losses) Per Share</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>	<b>\$ (0.06)</b>	<b>\$ .08</b>
<b>Fully Diluted Earnings (Losses) Per Share</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>	<b>\$ (0.06)</b>	<b>\$ .08</b>
<b>Weighted Average Shares Outstanding</b>	<b>8,120,623</b>	<b>8,039,734</b>	<b>8,120,623</b>	<b>6,107,948</b>

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

5

**FIRST CENTURY BANCORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
<b>Net Income (Loss)</b>	<b>\$ 54,380</b>	<b>\$ 350,821</b>	<b>\$ (518,198)</b>	<b>\$ 491,766</b>
<b>Other Comprehensive Income</b>				
Unrealized Gains on Securities Available for Sale Arising				
During the period	355,089	154,393	508,804	484,122
Reclassification Adjustments for gains included in net income (loss)	(56,842)	—	(56,842)	(145,602)
Other comprehensive income	298,247	154,393	451,962	338,520
<b>Comprehensive Income (Loss)</b>	<b>\$ 352,627</b>	<b>\$ 505,214</b>	<b>\$ (66,236)</b>	<b>\$ 830,286</b>

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

6

**FIRST CENTURY BANCORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

	Preferred Stock		Common Stock		Accumulated Deficit	Treasury Stock	Accumulated Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
<b>Balance, December 31, 2010</b>	—	\$ —	8,121,293	\$ 17,030,466	\$ (10,445,022)	\$ (1,005)	\$ 60,356	\$ 6,644,795
Stock Compensation Costs	—	—	—	6,510	—	—	—	6,510

Net Change in Unrealized Gains  
on Securities Available for  
Sale

	—	—	—	—	—	—	451,962	451,962
Net Loss	—	—	—	—	(518,198)	—	—	(518,198)

<b>Balance, September 30, 2011</b>	<u>—</u>	<u>\$ —</u>	<u>8,121,293</u>	<u>\$ 17,036,976</u>	<u>\$ (10,963,220)</u>	<u>\$ (1,005)</u>	<u>\$ 512,318</u>	<u>\$ 6,585,069</u>
------------------------------------	----------	-------------	------------------	----------------------	------------------------	-------------------	-------------------	---------------------

The accompanying notes are an integral part of these consolidated statements

**FIRST CENTURY BANCORP. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30  
(UNAUDITED)**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ (518,198)	\$ 491,766
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation	125,568	143,587
Amortization and Accretion	(286,074)	(586,986)
Provision for Loan Losses	179,761	438,619
Write-down of Other Real Estate	—	34,644
Loss on Sale of Other Assets	—	10,544
Loss on Sale of Premises and Equipment	1,581	—
Gains on Investment Securities	(56,842)	(145,602)
Stock Compensation Expense	6,510	408
<b>Change In</b>		
Loans Held for Sale	1,169,939	(8,047,860)
Other Assets	(373,212)	(212,815)
Other Liabilities	(91,493)	82,796
Net Cash Provided (Used) by Operating Activities	<u>157,540</u>	<u>(7,790,899)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of Investment Securities Available for Sale	(11,131,392)	(1,000,000)
Proceeds from Sales of Investment Securities Available for Sale	—	3,524,842
Proceeds from Maturities, Calls and Paydowns of Investment Securities Available for Sale	2,977,690	2,148,056
Proceeds from Sales of Investment Securities Held to Maturity	579,712	2,014,129
Proceeds from Maturities, Calls and Paydowns of Investment Securities Held to Maturity	5,782,575	3,488,866
Net (Purchases) Sales of Other Investments	104,350	(152,600)
Net Change in Loans	3,542,351	2,081,629
Proceeds from Sale of Other Real Estate	—	62,356
Proceeds from Sale of Other Assets	—	24,107
Net (Purchases) Disposals of Premises and Equipment	(82,047)	10,206
Net Cash Provided by Investing Activities	<u>1,773,239</u>	<u>12,201,591</u>
<b>Cash Flows from Financing Activities</b>		
Net Change in Deposits	(8,562,909)	(8,000,463)
Proceeds from Borrowings	3,000,000	3,500,000
Proceeds from the Issuance of Common Stock	—	1,261,706
Payments of Stock Issuance Costs	—	(18,670)
Net Cash Used by Financing Activities	<u>(5,562,909)</u>	<u>(3,257,427)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>(3,632,130)</u>	<u>1,153,265</u>

<b>Cash and Cash Equivalents, Beginning</b>	<b>5,961,826</b>	2,531,126
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 2,329,696</b>	<b>\$ 3,684,391</b>

**Supplemental Disclosure of Cash Flow Information:**

Interest Paid	\$ 465,223	\$ 834,223
Change in Unrealized Gains on Securities Available for Sale	\$ 451,962	\$ 338,520
Loans transferred to other real estate	\$ 284,825	\$ —
Preferred stock exchanged for Common Stock	\$ —	\$ 830,349

The accompanying notes are an integral part of these consolidated statements

**Notes to Consolidated Financial Statements  
(Unaudited)**

**NOTE 1 – BASIS OF PRESENTATION**

First Century Bancorp. (the “Company”), a bank holding company, owns 100% of the outstanding common stock of First Century Bank, National Association (the “Bank”), which is headquartered in Gainesville, Georgia.

The consolidated financial statements include the accounts of the Company and the Bank. All inter-company accounts and transactions have been eliminated in consolidation.

The accompanying financial statements have been prepared in accordance with the requirements for interim financial statements and, accordingly, they omit disclosures, which would substantially duplicate those contained in the most recent annual report to stockholders on Form 10-K. The financial statements as of September 30, 2011 and 2010 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for the periods ended September 30, 2011 are not necessarily indicative of the results of a full year’s operations. The financial information as of December 31, 2010 has been derived from the audited financial statements as of that date. For further information, refer to the financial statements and the notes included in the Company’s 2010 Form 10-K.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment* (“ASU No. 2011-08”). ASU No. 2011-08 allows an entity first to assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. An entity is required to perform step one only if the entity concludes that it is more likely than not that a reporting unit’s fair value is less than its carrying amount (that is, a likelihood of more than 50 percent). This amends the existing guidance, which required entities to perform step one of the test, at least annually, by calculating and comparing the fair value of a reporting unit to its carrying amount. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, an entity can choose to early adopt the revised standard even if its annual test date is before September 15, 2011 (the date on which the revised standard was issued), provided that the entity has not yet issued its financial statements for the period that includes its annual test date. Since the Company has no goodwill balance, ASU No. 2011-08 will not currently have an impact on the Company’s financial position, results of operation, or disclosures.

In September 2011, the FASB issued Accounting Standards Update No. 2011-09, *Disclosures about an Employer’s Participation in a Multiemployer Plan* (“ASU No. 2011-09”). ASU No. 2011-09 is intended to provide more information about an employer’s financial obligations to a multiemployer pension plan and, therefore help financial statement users better understand the financial health of all significant plans in which the employer participates. It is effective for public entities for fiscal years ending after December 15, 2011, with a one year deferral for non-public entities. The Company does not participate in a multiemployer plan, so this revised standard does not apply to the Company.

**NOTE 2 – CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company has adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. The Company’s significant accounting policies are described in the footnotes to the consolidated financial statements at December 31, 2010 as filed on our annual report on Form 10-K.

Certain accounting policies involve significant estimates and assumptions by the Company, which have a material impact on the carrying value of certain assets and liabilities. The Company considers these accounting policies to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the estimates and assumptions made, actual results could differ from these estimates and assumptions which could have a material impact on carrying values of assets and liabilities and results of operations.

The Company believes that the provision and allowance for loan losses and income taxes are critical accounting policies that require the most significant judgments and estimates used in preparation of its consolidated financial statements. Refer to the portion of management's discussion and analysis of financial condition and results of operations that addresses the provision for allowance for loan losses and income taxes for a description of the Company's processes and methodology for determining the allowance for loan losses and income taxes.

---

### **NOTE 3 – STOCK COMPENSATION PLANS**

The Company did not grant any options during the quarter ended September 30, 2011.

### **NOTE 4 – NET INCOME (LOSS) PER SHARE**

Net income (loss) per common share is based on the weighted average number of common shares outstanding during the period. The effects of potential common shares outstanding, including warrants and options, are included in diluted earnings per share. No common stock equivalents were considered in 2011 and 2010 as the effects of such would be anti-dilutive to the income (loss) per share calculation.

---

### **NOTE 5 – INVESTMENT SECURITIES**

The composition of the investment securities portfolio reflects First Century's investment strategy for maintaining an appropriate level of liquidity while providing a relatively stable source of revenue. The securities portfolio also provides a balance to interest rate risk and credit risk in other categories of the balance sheet, while providing a vehicle for the investment of available funds, furnishing liquidity, and to provide collateral for borrowings and public unit deposits.

At September 30, 2011, the Company's investment portfolio primarily consisted of AAA-rated U.S. Government agency and non-agency mortgage-backed securities, U.S. Government agency securities and municipal securities.

In late 2008 and early 2009 with very few lending opportunities and the lack of any loan demand, the bank made a strategic decision to invest in AAA-rated commercial mortgage-backed securities due to inefficiencies that occurred within that market. The decision was to invest in intermediate-duration, high quality securities that would paydown over 18 to 48 months, providing cash flow for lending at a later date and providing for earnings stabilization immediately. Using very specific underwriting guidelines, securities were selected based upon the year of issuance, experience and quality of the issuer, geographic concentrations, property type concentrations and seniority of the security within the investment structure. The decision was made to maintain this portfolio as a held-to-maturity portfolio given the company's intent and ability to hold these securities until maturity.

First Century continually monitors and analyzes these securities to ensure they maintain their intended performance characteristics. Should circumstances change, the Company will review the circumstances and determine the appropriateness of maintaining the securities as held-to-maturity according the ASC 320-10-35.

Investment securities as of September 30, 2011 and December 31, 2010 are summarized as follows.

	<b>September 30, 2011</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Securities Available for Sale</b>				
Obligations of U.S. Government Agencies	\$ 2,000,000	\$ 2,236	\$ —	\$ 2,002,236
Obligations of States and Political Subdivisions	879,255	27,778	(10,397)	896,636

Mortgage Backed Securities-GNMA	1,695,368	56,576	—	1,751,944
Mortgage Backed Securities-FNMA and FHLMC	4,045,907	209,704	(2,403)	4,253,208
Private Label Residential Mortgage Backed Securities	2,248,782	165,350	(815)	2,413,317
Corporate Debt Securities	2,430,074	74,663	(10,374)	2,494,363
	<u>\$ 13,299,386</u>	<u>\$ 536,307</u>	<u>\$ (23,989)</u>	<u>\$ 13,811,704</u>
<b>Securities Held to Maturity</b>				
Private Label Commercial Mortgage Backed Securities	<u>\$ 4,779,652</u>	<u>\$ 302,247</u>	<u>\$ —</u>	<u>\$ 5,081,899</u>

## December 31, 2010

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities Available for Sale</b>				
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
	<u>\$ 5,146,081</u>	<u>\$ 164,402</u>	<u>\$ (105,889)</u>	<u>\$ 5,204,594</u>
<b>Securities Held to Maturity</b>				
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
	<u>\$ 10,800,469</u>	<u>\$ 780,124</u>	<u>\$ (230)</u>	<u>\$ 11,580,363</u>

Securities with a carrying value of \$13,215,397 and \$14,312,954 at September 30, 2011, and December 31, 2010, respectively, 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 September 30, 2011 and December 31, 2010:

	September 30, 2011					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
<b>Securities Available for Sale</b>						
Obligations of States and Political Subdivisions	\$ 326,603	\$ (10,397)	\$ —	\$ —	\$ 326,603	\$ (10,397)
Mortgage Backed Securities- FNMA and FHLMC	—	—	121,695	(2,403)	121,695	(2,403)
Private Label Residential Mortgage Backed Securities	171,948	(815)	—	—	171,948	(815)
Corporate Debt Securities	594,126	(10,374)	—	—	594,126	(10,374)
	<u>\$ 1,092,677</u>	<u>\$ (21,586)</u>	<u>\$ 121,695</u>	<u>\$ (2,403)</u>	<u>\$ 1,214,372</u>	<u>\$ (23,989)</u>
<b>December 31, 2010</b>						
<b>Securities Available for Sale</b>						
<b>Less than 12 Months</b>						
<b>12 Months or Greater</b>						
<b>Total</b>						
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses

<b>Obligations of U.S. Government Agencies</b>	\$ 1,917,438	\$ (82,562)	\$ —	\$ —	\$ 1,917,438	\$ (82,562)
<b>Obligations of States and Political Subdivisions</b>	—	—	325,500	(6,955)	325,500	(6,955)
<b>Mortgage Backed Securities-FNMA and FHLMC</b>	—	—	262,607	(3,493)	262,607	(3,493)
<b>Private Label Residential Mortgage Backed Securities</b>	—	—	196,830	(12,879)	196,830	(12,879)
	<u>\$ 1,917,438</u>	<u>\$ (82,562)</u>	<u>\$ 784,937</u>	<u>\$ (23,327)</u>	<u>\$ 2,702,375</u>	<u>\$ (105,889)</u>
<b>Securities Held to Maturity</b>						
<b>Private Label Commercial Mortgage Backed Securities</b>	<u>\$ 327,692</u>	<u>\$ (230)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 327,692</u>	<u>\$ (230)</u>

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

At September 30, 2011, 4 of the 19 debt securities available for sale contained unrealized losses with an aggregate depreciation of 1.94% 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 loss on one investment in obligations of U.S. Government agencies was 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 September 30, 2011.

**Obligations of States and Political Subdivisions.** The unrealized loss on the one investment in obligations of states and political subdivisions was caused by interest rate increases. The contractual terms of this investment do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. 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 September 30, 2011.

**Mortgage-backed Securities - FNMA and FHLMC.** The unrealized loss on one investment in mortgage-backed securities was caused by interest rate increases. The Company purchased investments 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 the amortized cost bases, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at September 30, 2011.

**Corporate Debt Securities.** The Company's unrealized loss on investment in one corporate bond relates to an investment in a company within the financial services sector. The unrealized loss is primarily caused by interest rate increases. The contractual terms of this investment does not permit the Company to settle the security at a price less than the par value of the investments. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. 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 investments before recovery of its par value, which may be maturity, it does not consider this investment to be other-than-temporarily impaired at September 30, 2011.

Gross realized gains on securities totaled \$56,842 and \$228,899 for the nine months ended September 30, 2011 and 2010, respectively. Gross realized losses, including impairment losses, on securities totaled \$0 and \$83,297 for the nine months ended September 30, 2011 and 2010, respectively.

One investment security with a carrying value of \$526,503 and categorized as held to maturity was sold during the third quarter 2011. This security was sold because it experienced significant credit deterioration and was downgraded by nationally recognized rating agencies. Since this security was purchased at a substantial discount during the market disruption that occurred in late 2008 and early 2009, it was sold for a gain of \$53,210. Upon review of ASC 320-10-35, the Company determined that pursuant to ASC 320-10-25-6, the held to maturity security that was sold had evidence of a significant deterioration in the issuer's creditworthiness based on the downgrade of the security by a nationally recognized rating agency. This is not inconsistent with the Company's original decision and intent to hold this security in held-to-maturity status. The Company has the intent and ability to hold the remaining securities in this portfolio to maturity.

Other investments on the consolidated balance sheets at September 30, 2011 and December 31, 2010 include restricted equity securities consisting of Federal Reserve Bank stock of \$179,250 and \$184,900, respectively, and Federal Home Loan Bank stock of \$336,500 and \$435,200, 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 September 30, 2011, 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	\$ 2,002,236	2.06%	\$ —	\$ —	—
Obligations of States and Political Subdivisions						
1 to 5 Years	337,000	326,603	8.71%	—	—	—
5 to 10 Years	542,255	570,033	4.23%	—	—	—
Mortgage Backed Securities						
Less than 1 Year	124,098	121,695	4.67%	152,872	154,259	10.35%
1 to 5 Years	4,009,990	4,299,756	4.52%	4,374,385	4,626,284	10.34%
5 to 10 Years	3,653,379	3,781,368	3.08%	252,395	301,356	9.58%
Over 10 Years	202,590	215,650	2.27%	—	—	—
Corporate Debt Securities						
Over 10 Years	2,430,074	2,494,363	6.43%	—	—	—
	<u>\$ 13,299,386</u>	<u>\$ 13,811,704</u>	<u>4.17%</u>	<u>\$ 4,779,652</u>	<u>\$ 5,081,899</u>	<u>10.30%</u>

#### **NOTE 6 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

The composition of loans as of September 30, 2011 and December 31, 2010 are:

	September 30, 2011	December 31, 2010
Commercial and Financial	\$ 2,390,608	\$ 2,946,664
Commercial Real Estate -Owner Occupied	7,172,096	8,549,938
Commercial Real Estate -Other	517,867	1,933,797
Total Commercial Real Estate	<u>7,689,963</u>	<u>10,483,735</u>
1-4 Family Residential Construction	260,936	995,760
Other Construction, land development, and other land loans	<u>3,421,539</u>	<u>4,165,571</u>

Total Construction and Land	<b>3,682,475</b>	5,161,331
Farmland	<b>1,115,664</b>	1,172,500
Residential Real Estate	<b>12,299,759</b>	11,032,849
Multifamily Real Estate	<b>230,148</b>	236,414
All Other Real Estate	<b>13,645,571</b>	12,441,763
Consumer	<b>444,996</b>	838,343
Total Loans	<b>27,853,613</b>	31,871,836
Unamortized costs	<b>5,387</b>	24,076
Total Loans plus unamortized costs	<b>\$ 27,859,000</b>	\$ 31,895,912

### 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 the Bank's loans are \$6,522,707 and \$8,659,611 of interest only loans at September 30, 2011 and December 31, 2010. These loans present greater risk to the Company, especially considering the 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 September 30, 2011 and December 31, 2010.

September 30, 2011	Current	Accruing 30-89 Days Past Due	Accruing Greater than 90 Days Past Due	Nonaccrual	Total
<b>Commercial and Financial</b>	\$ 2,382,066	\$ 8,542	\$ —	\$ —	\$ 2,390,608
<b>Commercial Real Estate -Owner Occupied</b>	7,172,096	—	—	—	7,172,096
<b>Commercial Real Estate -Other</b>	406,966	110,901	—	—	517,867
<b>Total Commercial Real Estate</b>	7,579,062	110,901	—	—	7,689,963
<b>1-4 Family Residential Construction</b>	260,936	—	—	—	260,936
<b>Other Construction, land development, and other land loans</b>	2,338,339	769,200	—	314,000	3,421,539
<b>Total Construction and Land</b>	2,599,275	769,200	—	314,000	3,682,475
<b>Farmland</b>	721,604	—	—	394,060	1,115,664
<b>Residential Real Estate</b>	10,996,612	144,397	412,000	746,750	12,299,759
<b>Multifamily Real Estate</b>	230,148	—	—	—	230,148
<b>All Other Real Estate</b>	11,948,364	144,397	412,000	1,140,810	13,645,571
<b>Consumer</b>	444,996	—	—	—	444,996
<b>Total Loans</b>	\$ 24,953,763	\$ 1,033,040	\$ 412,000	\$ 1,454,810	\$ 27,853,613

December 31, 2010	Current	Accruing 30-89 Days Past Due	Nonaccrual	Total
<b>Commercial and Financial</b>	\$ 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
<b>Total Commercial Real Estate</b>	<b>10,483,735</b>	<b>—</b>	<b>—</b>	<b>10,483,735</b>
<b>1-4 Family Residential Construction</b>	<b>918,952</b>	<b>76,808</b>	<b>—</b>	<b>995,760</b>
<b>Other Construction, land development, and other land loans</b>	<b>3,761,320</b>	<b>—</b>	<b>404,250</b>	<b>4,165,571</b>
<b>Total Construction and Land</b>	<b>4,680,272</b>	<b>76,808</b>	<b>404,250</b>	<b>5,161,331</b>
<b>Farmland</b>	<b>778,440</b>	<b>—</b>	<b>394,060</b>	<b>1,172,500</b>
<b>Residential Real Estate</b>	<b>10,176,610</b>	<b>162,167</b>	<b>694,072</b>	<b>11,032,849</b>
<b>Multifamily Real Estate</b>	<b>236,414</b>	<b>—</b>	<b>—</b>	<b>236,414</b>
<b>All Other Real Estate</b>	<b>11,191,464</b>	<b>162,167</b>	<b>1,088,132</b>	<b>12,441,763</b>
<b>Consumer</b>	<b>828,133</b>	<b>557</b>	<b>9,653</b>	<b>838,343</b>
<b>Total Loans</b>	<b>\$ 30,093,329</b>	<b>\$ 276,471</b>	<b>\$ 1,502,035</b>	<b>\$ 31,871,836</b>

Nonaccrual loans as of September 30, 2011 and December 31, 2010 were \$1,454,810 and \$1,502,035, respectively. Interest income on nonaccrual loans outstanding at September 30, 2011 and December 31, 2010 that would have been recorded if the loans had been current and performed in accordance with their original terms was \$52,529 for the nine months ended September 30, 2011 and \$40,862 for the year ended December 31, 2010.

One residential real estate loan with a balance of \$412,000 was 90 days past due and still accruing at September 30, 2011. This loan was pending renewal with an expected principal paydown and interest paid current.

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.

The following is a summary of the loan portfolio credit exposure by risk grade as of September 30, 2011 and December 31, 2010.

September 30, 2011	Pass	Special Mention	Substandard	Total
<b>Commercial and Financial</b>	\$ 2,390,608	\$ —	\$ —	\$ 2,390,608
<b>Commercial Real Estate -Owner Occupied</b>	7,172,096	—	—	7,172,096
<b>Commercial Real Estate -Other</b>	456,270	61,597	—	517,867
<b>Total Commercial Real Estate</b>	<u>7,628,366</u>	<u>61,597</u>	<u>—</u>	<u>7,689,963</u>
<b>1-4 Family Residential Construction</b>	260,936	—	—	260,936
<b>Other Construction, land development, and other land loans</b>	2,296,263	42,076	1,083,200	3,421,539
<b>Total Construction and Land</b>	<u>2,557,199</u>	<u>42,076</u>	<u>1,083,200</u>	<u>3,682,475</u>
<b>Farmland</b>	721,604	—	394,060	1,115,664
<b>Residential Real Estate</b>	10,530,773	875,453	893,533	12,299,759
<b>Multifamily Real Estate</b>	230,148	—	—	230,148
<b>All Other Real Estate</b>	<u>11,482,525</u>	<u>875,453</u>	<u>1,287,593</u>	<u>13,645,571</u>
<b>Consumer</b>	<u>377,170</u>	<u>—</u>	<u>67,826</u>	<u>444,996</u>
<b>Total Loans</b>	<u>\$ 24,435,868</u>	<u>\$ 979,126</u>	<u>\$ 2,438,619</u>	<u>\$ 27,853,613</u>
December 31, 2010	Pass	Special Mention	Substandard	Total
<b>Commercial and Financial</b>	\$ 2,875,652	\$ 71,012	\$ —	\$ 2,946,664
<b>Commercial Real Estate -Owner Occupied</b>	8,549,938	—	—	8,549,938
<b>Commercial Real Estate -Other</b>	1,869,881	63,916	—	1,933,797
<b>Total Commercial Real Estate</b>	<u>10,419,819</u>	<u>63,916</u>	<u>—</u>	<u>10,483,735</u>
<b>1-4 Family Residential Construction</b>	948,986	46,774	—	995,760
<b>Other Construction, land development, and other land loans</b>	3,761,321	—	404,250	4,165,571
<b>Total Construction and Land</b>	<u>4,710,307</u>	<u>46,774</u>	<u>404,250</u>	<u>5,161,331</u>
<b>Farmland</b>	778,440	—	394,060	1,172,500
<b>Residential Real Estate</b>	9,306,998	1,031,176	694,675	11,032,849
<b>Multifamily Real Estate</b>	236,414	—	—	236,414
<b>All Other Real Estate</b>	<u>10,321,852</u>	<u>1,031,176</u>	<u>1,088,735</u>	<u>12,441,763</u>
<b>Consumer</b>	<u>812,853</u>	<u>5,492</u>	<u>19,998</u>	<u>838,343</u>
<b>Total Loans</b>	<u>\$ 29,140,483</u>	<u>\$ 1,218,370</u>	<u>\$ 1,512,983</u>	<u>\$ 31,871,836</u>

Transactions in the allowance for loan losses are summarized for the nine month periods ended September 30 as follows:

	<u>2011</u>	<u>2010</u>
<b>Balance, Beginning</b>	\$ 478,039	\$ 414,670
Provision Charged to Operating Expenses	179,761	438,619
Loans Charged Off	(247,314)	(211,892)
Loan Recoveries	37,578	3,325
<b>Balance, Ending</b>	<u>\$ 448,064</u>	<u>\$ 664,722</u>

The following table details the change in the allowance for loan losses from June 30, 2011 to September 30, 2011 by loan segment.

	Commercial and Financial	Commercial Real Estate	Construction and Land	All Other Real Estate	Consumer	Total
<b>Allowance for loan losses</b>						
Beginning balance	\$ 42,472	\$ 15,201	\$ 87,791	\$ 288,146	\$ 38,305	\$ 471,915
Charge-offs	—	—	—	(24,274)	(29,292)	(53,566)
Recoveries	—	—	—	24,953	4,762	29,715
Provision	—	—	—	—	—	—
Reallocation	4,318	(552)	4,287	(10,460)	2,407	—
Ending balance	\$ 46,790	\$ 14,649	\$ 92,078	\$ 278,365	\$ 16,182	\$ 448,064

The following table details the change in the allowance for loan losses from December 31, 2010 to September 30, 2011 by loan segment.

	Commercial and Financial	Commercial Real Estate	Construction and Land	All Other Real Estate	Consumer	Total
<b>Allowance for loan losses</b>						
Beginning balance	\$ 45,456	\$ 17,043	\$ 191,655	\$ 196,760	\$ 27,125	\$ 478,039
Charge-offs	—	—	—	(216,878)	(30,436)	(247,314)
Recoveries	—	—	—	24,953	12,625	37,578
Provision	1,334	(2,394)	(99,577)	273,530	6,868	179,761
Ending balance	\$ 46,790	\$ 14,649	\$ 92,078	\$ 278,365	\$ 16,182	\$ 448,064
Ending allowance attributable to loans individually evaluated for impairment	\$ —	\$ —	\$ 8,000	\$ —	\$ —	\$ 8,000
Ending allowance attributable to loans collectively evaluated for impairment	\$ 46,790	\$ 14,649	\$ 84,078	\$ 278,365	\$ 16,182	\$ 440,064
Ending allowance	\$ 46,790	\$ 14,649	\$ 92,078	\$ 278,365	\$ 16,182	\$ 448,064
Loan balance: individually evaluated for impairment	\$ —	\$ —	\$ 314,000	\$ 1,045,970	\$ —	\$ 1,359,970
Loan balance: collectively evaluated for impairment	\$ 2,390,608	\$ 7,689,963	\$ 3,368,475	\$ 12,599,601	\$ 444,996	\$ 26,493,643
Total Loans	\$ 2,390,608	\$ 7,689,963	\$ 3,682,475	\$ 13,645,571	\$ 444,996	\$ 27,853,613

The following table details the change in the allowance for loan losses for the year ended December 31, 2010 by loan segment.

	Commercial and Financial	Commercial Real Estate	Construction and Land	All Other Real Estate	Consumer	Total
<b>Allowance for loan losses</b>						
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 allowance attributable to loans individually evaluated						

for impairment	\$	—	\$	—	\$	—	\$	—	\$	—		
Ending allowance attributable to loans collectively evaluated for impairment	\$	45,456	\$	17,043	\$	191,655	\$	196,760	\$	27,125	\$	478,039
Ending allowance	\$	45,456	\$	17,043	\$	191,655	\$	196,760	\$	27,125	\$	478,039
Loan balance: individually evaluated for impairment	\$	—	\$	—	\$	404,250	\$	1,088,735	\$	—	\$	1,492,985
Loan balance: collectively evaluated for impairment	\$	2,946,664	\$	10,483,735	\$	4,757,081	\$	11,353,028	\$	838,343	\$	30,378,851
Total Loans	\$	2,946,664	\$	10,483,735	\$	5,161,331	\$	12,441,763	\$	838,343	\$	31,871,836

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

### Impaired Loans For the Period Ended September 30, 2011 and December 31, 2010

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three months ended September 30, 2011		Nine months ended September 30, 2011	
				Average Recorded Investment	Interest Income recognized	Average Recorded Investment	Interest Income recognized
<b>2011</b>							
<b>With no related allowance recorded:</b>							
Construction and Land	\$ 237,500	\$ 300,000	\$ —	\$ 237,500	\$ —	\$ 297,667	\$ —
All other Real Estate	1,045,970	1,200,286	—	921,181	—	982,037	—
Total	\$ 1,283,470	\$ 1,500,286	\$ —	\$ 1,158,681	\$ —	\$ 1,279,704	\$ —
<b>With an allowance recorded:</b>							
Construction and Land	76,500	127,000	8,000	76,500	—	76,500	—
Total	\$ 76,500	\$ 127,000	\$ 8,000	\$ 76,500	\$ —	\$ 76,500	\$ —
<b>December 31, 2010</b>							
<b>With no related allowance recorded:</b>							
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	\$ —

At September 30, 2011 and December 31, 2010, the recorded investment in loans that were considered to be impaired was \$1,359,970 and \$1,492,985, respectively. Included in this amount at September 30, 2011 and December 31, 2010 is \$1,283,470 and \$1,492,985, respectively, of impaired loans (which consist entirely of collateral dependent loans) for which there is no related allowance for loan losses determined in accordance with provisions included in sections 35 and 55 of ASC 310-10, Accounting by Creditors for Impairment of a Loan. The allowance on these loans is zero because estimated losses on these collateral dependent impaired loans have already been charged-off to the allowance for loan losses.

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.

The following table presents additional information on troubled debt restructurings including the number of loan contracts restructured and the pre and post modification recorded investment.

	<u>Number of Contracts</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
<b>As of September 30, 2011</b>			
Residential real estate - non accrual but performing in accordance with modified terms	1	\$ 440,595	\$ 440,226
<b>As of December 31, 2010</b>			
Residential real estate	1	\$ 128,345	\$ 125,875
Consumer	1	28,001	6,251
Total loans	2	\$ 156,346	\$ 132,126

The following table presents the number of contracts and the recorded investment for those trouble debt restructurings that have subsequently defaulted which we define as 90 days or more past due.

	<b>Troubled Debt Restructurings That Have Subsequently Defaulted</b>			
	<b>Three Months Ended September 30, 2011</b>		<b>Nine Months Ended September 30, 2011</b>	
	<u>Number of Contracts</u>	<u>Recorded Investment</u>	<u>Number of Contracts</u>	<u>Recorded Investment</u>
Residential real estate	1	\$ 102,600	1	\$ 102,600
Consumer	1	23,296	1	23,296
Total	2	\$ 125,896	2	\$ 125,896

#### **NOTE 7 – INCOME TAXES**

The Company accounts for income taxes under the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets are subject to management's judgment based upon available evidence that future realization is more likely than not. For financial reporting purposes, a valuation allowance of 100 percent of the deferred tax assets as of September 30, 2011 and December 31, 2010 has been recognized to offset the deferred tax assets related to cumulative temporary differences and tax loss carry-forwards. If management determines that the Company may be able to realize all or part of the deferred tax asset in the future, a credit to income tax expense may be required to increase the recorded value of net deferred tax asset to the expected realizable amount.

**NOTE 8 – 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.

The Bank's actual ratios as of September 30, 2011 are as follows:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>		
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	
			(In Thousands)				
Total Capital to Risk-Weighted Assets	\$ 6,332	15.14%	\$ 3,346	8.00%	\$ 4,183	10.00%	
Tier I Capital to Risk-Weighted Assets	5,883	14.07	1,673	4.00	2,510	6.00	
Tier I Capital to Average Assets	5,883	9.18	2,562	4.00	3,203	5.00	

**NOTE 9 – 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, due from banks and federal funds sold, 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 September 30 2011 and December 31, 2010 are presented hereafter:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in Thousands)			
<b>Assets</b>				
Cash and Short-Term Investments	\$ 2,330	\$ 2,330	\$ 5,962	\$ 5,962
Investment Securities Available for Sale	13,812	13,812	5,205	5,205
Investment Securities Held to Maturity	4,780	5,082	10,800	11,580
Other Investments	516	516	620	620
Loans Held for Sale	12,738	12,738	13,908	13,908
Loans, Net	27,411	27,561	31,418	31,664
Accrued Interest Receivable	256	256	221	221
<b>Liabilities</b>				
Deposits	54,099	54,193	62,662	62,582
Borrowings	5,000	5,061	2,000	2,077
Accrued Interest Payable	313	313	200	200

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 recent 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 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 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.

	September 30, 2011 Using			
	Total	Level 1	Level 2	Level 3
Investment Securities Available for Sale	\$ 13,811,704	\$ 609,000	\$ 13,202,704	\$ —
Loans Held for Sale	12,738,233	\$ —	12,738,233	\$ —
			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	\$ —

The following table presents the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy at September 30, 2011 and December 31, 2010, for which a nonrecurring change in fair value has been recorded:

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis as of September 30, 2011 and December 31, 2010*

	Fair Value Measurements at September 30, 2011 Using			Total Gains (Losses)	
	Level 1	Level 2	Level 3		
Impaired Loans	\$ —	\$ —	\$ 153,423	\$ (17,261)	
Other Real Estate	\$ —	\$ —	\$ —	\$ —	
				Fair Value Measurements at December 31, 2010 Using	
	Level 1	Level 2	Level 3	Total Gains (Losses)	
Impaired Loans	\$ —	\$ —	\$ 1,284,851	\$ (309,855)	
Other Real Estate	\$ —	\$ —	\$ 522,061	\$ (67,512)	

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation**

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 report and in our 2010 Form 10-K, as well as with an understanding of our short operating history.

### **Discussion of Forward-Looking Statements**

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact, and can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "could," "should," "projects," "plans," "goal," "targets," "potential," "estimates," "pro forma," "seeks," "intends," or "anticipates" or the negative thereof or comparable terminology. We caution our stockholders and other readers not to place undue reliance on such statements. Our businesses and operations are and will be subject to a variety of risks, uncertainties and other factors. Consequently, actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the following:

- 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 downgrade in the U.S. credit rating and 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 Securities and Exchange Commission (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. Since 2008, the capital and credit markets have experienced extended volatility and disruption. There can be no assurance that these conditions 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,” “First Century,” “the Company,” “we,” “us” and “our” in this Quarterly Report on Form 10-Q refer to First Century Bancorp. and our wholly owned subsidiary, First Century Bank, National Association.*

## **General**

First Century Bancorp (the “Company”) was incorporated in 2000 for the purpose of becoming a bank holding company. We are subject to extensive federal and state banking laws and regulations, including the Bank Holding Company Act, and the bank holding company laws of Georgia. We have one bank subsidiary, First Century Bank, National Association (the “Bank”), which opened for business on March 25, 2002. The Bank is also subject to various federal banking laws and regulations.

The following discussion describes our results of operations for the three and nine months ended September 30, 2011 as compared to the same periods in 2010 and also analyzes our financial condition at September 30, 2011 compared to December 31, 2010. 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.

Of course, 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. Specifically, our mortgage division is a substantial source of this non-interest income. We describe the various components of this non-interest income, as well as our non-interest expense, in the following discussion.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with the financial statements and the related notes and the other statistical information also included herein.

Markets in the United States and elsewhere have experienced extreme volatility and disruption for more than three years. These circumstances have exerted significant downward pressure on prices of equity securities and virtually all other asset classes, and have resulted in substantially increased market volatility, severely constrained credit and capital markets, particularly for financial institutions, and an overall loss of investor confidence. Credit quality has deteriorated at many institutions resulting from, among other factors, a weak economy and a decline in the value of the collateral supporting their loans. Dramatic slowdowns in the housing industry, due in part to falling home prices and increasing foreclosures and unemployment, have created strains on financial institutions. Many borrowers are now unable to repay their loans, and the collateral securing these loans has, in some cases, declined below the loan balance.

Like many financial institutions across the United States, our operations have been negatively affected by this current economic crisis. Combined, the deterioration in the residential and the commercial real estate markets has materially increased our level of nonperforming assets and charge-offs of problem loans over the past two years. These market conditions and the tightening of credit have led to increased delinquencies in our loan portfolio, increased market volatility, and increased pressure on our capital and net-interest margin. The following

discussion and analysis describes our performance in this challenging economic environment.

### **Critical Accounting Policies**

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our audited consolidated financial statements as of December 31, 2010 included in the Company's 2010 Annual Report filed on Form 10-K.

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.

#### ***Allowance for Loan Losses***

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 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 loan portfolio also represents the largest asset type on our consolidated balance sheets.

The evaluation of the allowance for loan losses is based upon loan categories except for impaired loans and 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 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.

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.

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.

#### ***Income Taxes***

Accounting for income taxes is another critical accounting policy because it requires significant estimates, assumptions, and judgments. Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets or liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The determination of current and deferred taxes is based on complex analyses of many factors including interpretation of federal and state income tax laws, the difference between tax and financial reporting basis assets and liabilities (temporary

differences), estimates of amounts due or owed such as the reversals of temporary differences, and current financial accounting standards. Actual results could differ significantly from the estimates and interpretations used in determining current and deferred taxes.

Our ability to realize a deferred tax benefit as a result of net operating losses will depend upon whether we have sufficient taxable income of an appropriate character in the carry-forward periods. We then establish a valuation allowance to reduce the deferred tax asset to the level that it is “more likely than not” that we will realize the tax benefit.

## **Results of Operations**

### *Three and Nine Months Ended September 30, 2011 and 2010*

Results from operations was net income of \$54,380 for the three months ended September 30, 2011 compared to net income of \$350,821 for the same three month period in 2010. 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 three month period ended September 30, 2011 as compared to 71% of our total revenues for the same period in 2010. Results from operations was a net loss of \$518,198 for the nine months ended September 30, 2011 compared to net income of \$491,766 for the same nine month period in 2010. Non-interest income was approximately 60% of our total revenues for the nine month period ended September 30, 2011 as compared to 61% of our total revenues for the same period in 2010.

Earnings were negatively impacted by a significant reduction in mortgage production volume during the first nine months of 2011. Factors contributing to the reduction in volume include increasing mortgage lending rates and turnover in production staff. Management is continuing to diversify its production sources to mitigate fluctuations in production in the future. Implementation of these additional production sources will occur throughout 2011. Production will continue to be affected by rates in addition to the implementation of these new production sources. Additionally, performance within the first three quarters of 2011 was impacted by the Company’s portfolio of commercial mortgage-backed securities paying down as anticipated, reducing the contribution from the investment portfolio.

## **Net Interest Income**

Net interest income is the difference between the interest income received on earning assets (such as loans, investment securities, and federal funds sold) and the interest expense on deposit liabilities and borrowings. For the quarter ended September 30, 2011 and 2010, net interest income totaled \$602,000 and \$763,000, respectively. For the nine months ended September 30, 2011 and 2010, net interest income totaled \$1,794,000 and \$2,378,000, respectively.

Interest income from loans, including fees, was \$1,441,000 and \$1,849,000 for the nine months ended September 30, 2011 and 2010, respectively, a decrease of \$408,000, largely due to the decrease in loan volume. Average loan balances outstanding have decreased approximately \$10.8 million from the same period in 2010 due to decreased mortgage production and loan payoffs. The loan yield increased to 5.93% in 2011 from 5.72% for the nine months ended September 30, 2011, and 2010, respectively. The yield on loans held for sale decreased to 4.12% for the nine months ended September 30, 2011 from 4.39% for the same period in 2010 due to declining mortgage interest rates in late 2010 and early 2011.

Interest income from investment securities was \$911,000 and \$1,369,000 for the nine months ended September 30, 2011 and 2010, respectively, which represented a lower yield of 6.10% in 2011, compared to the 9.13% yield earned in 2010. 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 \$578,000 for the nine months ended September 30, 2011, compared to \$848,000 for the comparable period in 2010. The rate on interest-bearing liabilities decreased 47 basis points to 1.36% for the nine months ended September 30 2011, compared to 1.83% for the comparable period in 2010. The net interest margin realized on earning assets and the interest rate spread were 3.81% and 3.67%, respectively, for the nine months ended September 30, 2011, compared to 4.74% and 4.60%, respectively, for the comparable period in 2010.

The Bank’s net interest margin has been supported by a strategy of lowering our cost of funding through growth of low cost deposits. Since September 30, 2010, non interest-bearing demand deposits have grown approximately \$1.1 million, or 37%. The Bank has been successful implementing this strategy, lowering our cost of funds by 47 basis points for the nine month period ended September 30, 2011 over the comparable period in 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 the

nine months ended September 30, 2011 and 2010 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 Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<i>(Amounts presented in thousands)</i>						
Assets:						
Interest earning assets:						
Loans (including loans held for sale and loan fees)	\$ 32,469	\$ 1,441	5.93%	\$ 43,221	\$ 1,849	5.72%
Investment securities and other investments	19,977	911	6.10%	20,047	1,369	9.13%
Interest bearing deposits	10,546	20	0.25%	3,798	8	0.28%
Total interest earning assets	62,992	2,372	5.03%	67,065	3,226	6.43%
Other non-interest earnings assets	5,555			3,484		
Total assets	<u>\$ 68,547</u>			<u>\$ 70,549</u>		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$ 6,180	\$ 38	0.82%	\$ 6,572	\$ 27	0.55%
Savings and money market	16,766	133	1.06%	13,924	186	1.79%
Time	31,846	369	1.55%	38,718	595	2.05%
Borrowings	2,073	38	2.46%	2,616	40	2.05%
Total interest-bearing liabilities	56,865	578	1.36%	61,830	848	1.83%
Other non-interest bearing liabilities	5,531			3,693		
Stockholders' equity	6,151			5,026		
Total liabilities and stockholders' equity	<u>\$ 68,547</u>			<u>\$ 70,549</u>		
Excess of interest-earning assets over interest-bearing liabilities	<u>\$ 6,127</u>			<u>\$ 5,235</u>		
Ratio of interest-earning assets to interest-bearing liabilities	111%			108%		
Net interest income		<u>\$ 1,794</u>			<u>\$ 2,378</u>	
Net interest spread			<u>3.67%</u>			<u>4.60%</u>
Net interest margin			<u>3.81%</u>			<u>4.74%</u>

Non-accrual loans are excluded from average loan balances and totaled \$1,391,000 and \$495,000 for the nine months ended September 30, 2011 and 2010, respectively.

---

**Non-interest Income and Expense**

Non-interest income includes service charges on deposit accounts, customer service fees, mortgage banking income and investment security gains (losses). Revenue from the mortgage banking is primarily non-interest income consisting of fees, and gains on loan sales. Interest income on mortgage banking loan is also earned from the time the loans 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. 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 quarter ended September 30, 2011, non-interest income was \$1,140,000 compared to \$1,531,000 for the comparable period in 2010, a decrease of \$391,000, or 26%. For the nine months ended September 30, 2011, non-interest income was \$2,732,000 compared to \$3,669,000 for the comparable period in 2010, a decrease of \$937,000, or 26%. The decrease in non-interest income was primarily due to a decrease in mortgage banking income, due to a slowdown in production in the mortgage divisions following a refinance wave in 2010. 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 \$97.7 million in mortgage loans during the first nine months of 2011, a decrease of \$44.4 million, or 31%, from the same period a year ago. Net gains on sales of securities were \$56,842 and \$145,602 for the nine months ended September 30, 2011 and 2010, respectively.

Total non-interest expense for the quarter ended September 30, 2011 was \$1,688,000 compared to \$1,815,000 for the quarter ended September 30, 2010, a decrease of \$127,000, or 7%. For the nine months ended September 30, 2011, non-interest expense was \$4,864,000 as compared to \$5,117,000 for the nine months ended September 30, 2010, a decrease of \$253,000, or 5%.

Salaries and benefits, the largest component of non-interest expense, were \$855,000 for the three months ended September 30, 2011, as compared to \$1,046,000 for the three months ended September 30, 2010, a decrease of \$191,000, or 18%. For the nine months ended September 30, 2011, salaries and benefits were \$2,498,000, as compared to \$2,877,000 for the nine months ended September 30, 2010, a decrease of \$379,000, or 13%. The decrease in salaries and benefits is primarily attributable to the decrease in variable pay based on mortgage production and two loan production office closures in the first half of 2010.

Total occupancy and equipment expenses for the three months ended September 30, 2011, were \$114,000 as compared to \$107,000 for the three months ended September 30, 2010, an increase of \$7,000, or 7%. For the nine months ended September 30, 2011, occupancy and equipment expenses were \$322,000, as compared to \$346,000 for the nine months ended September 30, 2010, a decrease of \$24,000, or 7%. The decrease in expense is primarily attributable to the closure of two loan production offices in the first half of 2010.

Professional fees for the three months ended September 30, 2011, were \$82,000 compared to \$99,000 for the three months ended September 30, 2010, a decrease of \$17,000, or 17%. For the nine months ended September 30, 2011, professional fees were \$262,000, as compared to \$278,000 for the nine months ended September 30, 2010, a decrease of \$16,000, or 6%. Legal fees increased \$9,000, accounting and auditing fees decreased \$12,000, and other professional fees decreased \$12,000.

Marketing expenses for the three months ended September 30, 2011, were \$110,000 compared to \$60,000 for the three months ended September 30, 2010, an increase of \$50,000, or 83%. For the nine months ended September 30, 2011, marketing expenses were \$292,000, as compared to \$174,000 for the nine months ended September 30, 2010, an increase of \$118,000, or 68%. 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 2011, marketing expenses of \$101,000 were directed to the Mortgage Call Center primarily in the form of direct mail and warehouse club referrals. As the mortgage divisions are evolving and maturing, the marketing budget is being analyzed and directed to the most successful techniques.

---

Data processing expense for the quarter ended September 30, 2011, was \$258,000, compared to \$173,000 for the quarter ended September 30, 2010, an increase of \$85,000, or 49%. Data processing expense for the nine months ended September 30, 2011, was \$735,000, compared to \$514,000 for the nine months ended September 30, 2010, an increase of \$221,000, or 43%. Fees for core data processing were \$175,000 and \$186,000 for the nine month periods ended September 30, 2011 and 2010, respectively. Fees paid for management and advisory services under a

master services agreement with First Covenant Bank were \$457,000 and \$242,000 for the nine month periods ended September 30, 2011 and 2010, respectively. The fees for core processing have a base component which is adjusted quarterly based on asset size and a variable component based on transactional activity. Management and advisory services are adjusted quarterly based on asset size and additional contracted services. Additional management services were retained for the mortgage division in 2010.

Insurance, taxes, and regulatory assessment expenses totaled \$37,000 for the three months ended September 30, 2011 compared to \$83,000 for the three months ended September 30, 2010, a decrease of \$46,000, or 55%. For the nine months ended September 30, 2011, insurance, taxes, and regulatory assessment expenses were \$186,000, as compared to \$254,000 for the nine months ended September 30, 2010, a decrease of \$68,000, or 26%. Our FDIC assessment decreased \$77,000 due to the new assessment calculation and rates effective for the second quarter 2011, the OCC assessment decreased \$17,000, and business occupation tax increased \$24,000 over the same period in 2010.

Lending related expenses were \$144,000 for the three months ended September 30, 2011 compared to \$160,000 for the three months ended September 30, 2010, a decrease of \$16,000, or 10%. For the nine months ended September 30, 2011, lending related expenses were \$342,000, as compared to \$424,000 for the nine months ended September 30, 2010, a decrease of \$82,000, or 19%. The decrease is primarily related to the reduced volume of appraisals and other loan origination expenses generated by the mortgage divisions. As production varies, so do these types of variable expenses.

Other non-interest expenses were \$86,000 for the three months ended September 30, 2011 and 2010, no change. For the nine months ended September 30, 2011, other non-interest expenses were \$227,000, as compared to \$250,000 for the nine months ended September 30, 2010, a decrease of \$23,000, or 9%. The decrease in expense is primarily attributable to the closure of the loan production offices in of the first half of 2010.

### **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. One method to measure interest rate sensitivity is through a repricing gap. The gap is calculated by taking all assets that reprice or mature within a given time frame and subtracting all liabilities that reprice or mature during that time frame. Gap analysis 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 analysis 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 September 30, 2011, the Bank, as measured by such gap analysis, is in a liability sensitive position within one year.

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. This information is used to monitor interest rate exposure risk relative to anticipated interest rate trends. Our most recent data shows that the Bank's net interest income would increase \$16,000 on an annual basis if rates increased 100 basis points, and would decrease \$8,000 on an annual basis if rates decreased

---

100 basis points. Certain shortcomings are inherent in the method of analysis presented in the foregoing paragraphs. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees or at different points in time to changes in market interest rates. Additionally, certain 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. Changes in interest rates, prepayment rates, early withdrawal levels and the ability of borrowers to service their debt, among other factors, may change significantly from the assumptions made above. In addition, significant rate decreases would not likely be reflected in liability repricing and therefore would make the Bank more sensitive in a falling rate environment. 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.

**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 appropriate level. 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. The provision charged to expense was \$180,000 for the nine months ended September 30, 2011, as compared to the \$439,000 that was charged against earnings in the comparable period in 2010. Through the normal course of internal loan review, impairment of \$152,440 was determined to exist on three mortgage loans that had been placed on nonaccrual status at the end of 2010. The impaired amounts were charged off and a related provision recorded. The allowance for loan losses was \$448,000, or 1.61%, of gross loans at September 30, 2011, compared to \$478,000, or 1.50%, of gross loans at December 31, 2010.

The allocation of the allowance for loan losses by loan category at the date indicated is presented below:

	September 30, 2011		December 31, 2010	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial	\$ 46,790	10%	\$ 45,456	10%
Commercial Real Estate	14,649	3%	17,043	3%
Construction and Land	92,078	21%	191,655	40%
All Other Real Estate	278,365	62%	196,760	41%
Consumer	16,182	4%	27,125	6%
	<b>\$ 448,064</b>	<b>100%</b>	<b>\$ 478,039</b>	<b>100%</b>

The following table presents a summary of changes in the allowance for loan losses for the three and nine month periods ended September 30, 2011 and 2010 (dollar amounts are presented in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance beginning of period	\$ 472	\$ 545	\$ 478	\$ 415
Provision for loan losses	—	128	180	439
Loan Charge-Offs:				
Commercial	—	—	—	—
Construction and Land	—	(2)	—	(181)
All Other Real Estate	(24)	—	(217)	—
Consumer	(30)	(27)	(30)	(31)
Total Charge-offs	(54)	(29)	(247)	(212)
Loan Recoveries:				
All Other Real Estate	25	—	25	—
Consumer	5	1	13	3
Total Recoveries	30	1	37	3
Net (Charge-offs) Recoveries	(24)	(28)	(210)	(209)
Balance end of period	\$ 448	\$ 645	\$ 448	\$ 645
Total loans at end of period	\$ 27,859	\$ 34,340	\$ 27,859	\$ 34,340
Average loans outstanding	\$ 28,326	\$ 34,042	\$ 29,764	\$ 35,317
As a percentage of average loans:				
Net loans (charged-off) recovered	(0.08)%	(0.08)%	(0.70)%	(0.59)%
Provision for loan losses	0.00%	0.38%	0.60%	1.24%
Allowance for loan losses as a percentage of:				
Gross loans	1.61%	1.88%	1.61%	1.88%

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.

### Credit Quality

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 reevaluated 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.

The following is a summary of risk elements in the balance sheets at September 30, 2011 and at December 31, 2010:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Loans on Nonaccrual	\$ 1,454,810	\$ 1,502,035
Loans Past Due 90 Days and Still Accruing	412,000	—
Other Real Estate Owned and Repossessions	<u>806,886</u>	<u>522,061</u>
<b>Total Nonperforming Assets</b>	<b><u>\$ 2,673,696</u></b>	<b><u>\$ 2,024,096</u></b>
<b>Total Nonperforming Assets as a Percentage of Total Assets</b>	<b><u>4.03%</u></b>	<b><u>2.81%</u></b>

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, 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 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.

## Financial Condition

Total assets decreased \$5,714,000, or 8% from \$72,051,000 at December 31, 2010 to \$66,337,000 at September 30, 2011. Total investment securities increased \$2,586,000, or 16%, from \$16,005,000 at December 31, 2010 to \$18,591,000 at September 30, 2011. Loans held for sale decreased \$1,170,000, or 8% from \$13,908,000 at December 31, 2010 to \$12,738,000 at September 30, 2011. Gross loans decreased by \$4,037,000, or 13%, from December 31, 2010 to September 30, 2011. Total deposits decreased by \$8,563,000, or 14%, from December 31, 2010 to September 30, 2011. Total stockholders' equity decreased \$60,000 from \$6,645,000 at December 31, 2010 to \$6,585,000 at September 30, 2011.

## Loans

Gross loans totaled approximately \$27,859,000 at September 30, 2011, a decrease of \$4,037,000, or 13%, from \$31,896,000 at December 31, 2010 due to loan payoffs. Loan balances have declined due to the lack of quality lending opportunities resulting from the extended economic malaise in the local market and Georgia. Balances within the major loans receivable categories as of September 30, 2011 and December 31, 2010 are as follows (amounts presented in thousands).

	September 30, 2011		December 31, 2010	
Commercial and Financial	\$ 2,391	9%	\$ 2,947	9%
Commercial Real Estate	7,690	28%	10,484	33%
Construction and Land	3,682	13%	5,161	16%
All Other Real Estate	13,646	49%	12,442	39%
Consumer	445	1%	838	3%
Unamortized costs	5	—	24	—
Total	\$ 27,859	100%	\$ 31,896	100%

## Deposits

Total deposits totaled approximately \$54,099,000 at of September 30, 2011, a decrease of \$8,563,000, or 14%, from \$62,662,000 at December 31, 2010. In an effort to reduce our cost of funds, we are reducing our reliance on higher cost time deposits as we continue to grow lower cost core transactional based deposits. Balances within the major deposit categories as of September 30, 2011 and December 31, 2010 are as follows (amounts presented in thousands):

	September 30, 2011		December 31, 2010	
	Amount	Rate	Amount	Rate
Non-interest-bearing demand deposits	\$ 4,044	N/A	\$ 3,905	N/A
Interest-bearing demand deposits	4,590	0.82%	8,506	0.65%
MMDA and Savings deposits	14,051	1.06%	15,926	1.78%
Time deposits less than \$100,000	12,341	1.80%	15,459	2.44%
Time deposits \$100,000 and over	19,073	1.30%	18,866	1.29%
	\$ 54,099		\$ 62,662	

## Capital Resources

Total stockholders' equity was \$6,585,000 at September 30, 2011 compared to \$6,645,000 at December 31, 2010.

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

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 following table summarizes the Bank's risk-based capital ratios at September 30, 2011:

Tier 1 Capital (to risk-weighted assets)	14.07%
Total Capital (to risk-weighted assets)	15.14%
Tier 1 Capital (to total average assets)	9.18%

The Bank was considered "well capitalized" at September 30, 2011.

### **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.

As of September 30, 2011 the Bank has \$2,329,696 in cash and cash equivalents as well as \$13,811,704 in investment securities available-for-sale to fund its operations and loan growth. The Bank also maintains relationships with correspondent banks that can provide funds to it on short notice, if needed. Presently, the Bank has arrangements with a correspondent bank for short-term unsecured advances of up to \$1,000,000. At September 30, 2011 there were no advances on these lines. The Bank has borrowing capacity through its membership in the Federal Home Loan Bank of Atlanta ("FHLB") subject to the availability of investment securities to pledge as collateral. As of September 30, 2011, the Bank had advances outstanding of \$5,000,000. The Bank has primary borrowing capacity through the Federal Reserve Bank discount window program subject to the availability of loans and investment securities to pledge as collateral. As of September 30, 2011, the Bank had no advances outstanding.

### **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 nonperformance 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 September 30, 2011:

Commitments to extend credit	\$ 935,430
Stand-by letters of credit	\$ 550,000

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Not Applicable.

**Item 4. 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 Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e).

Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer have concluded that our current disclosure controls and procedures are effective as of September 30, 2011 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. There have been no significant changes in our internal controls over financial reporting during the fiscal quarter ended September 30, 2011 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.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are, from time to time, a party to litigation arising in the normal course of our business. In the opinion of management, we are not a party to any other material legal proceedings, nor are there any other material proceedings known to us to be contemplated by any governmental authority. Additionally, we are not aware of any material proceedings, pending or contemplated, in which any of our directors, officers or affiliates, or any principal security holder or any associate of any of the foregoing, is a party or has an interest adverse to us.

**Item 1A. Risk Factors**

Not Applicable.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

[31.1](#) [Rule 13a-14\(a\) Certification of the Principal Executive Officer.](#)

[31.2](#) [Rule 13a-14\(a\) Certification of the Principal Financial Officer.](#)

[32](#) [Section 1350 Certifications.](#)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document  
 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

38

### SIGNATURES

Pursuant to the requirements 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.

Date: November 14, 2011

By: /s/ William R. Blanton  
 William R. Blanton  
 Principal Executive Officer

Date: November 14, 2011

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

39

### FIRST CENTURY BANCORP.

### EXHIBIT INDEX

Exhibit Number	Description
<a href="#">31.1</a>	<a href="#">Rule 13a-14(a) Certification of the Principal Executive Officer.</a>
<a href="#">31.2</a>	<a href="#">Rule 13a-14(a) Certification of the Principal Financial Officer.</a>
<a href="#">32</a>	<a href="#">Section 1350 Certifications.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

40

**FIRST CENTURY BANCORP.****Exhibit 31.1 Rule 13a-14(a) Certification of the Principal Executive Officer**

I, William R. Blanton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Century Bancorp.
2. Based on my knowledge, this 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 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 control 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: November 14, 2011

By: /s/ William R. Blanton

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

**FIRST CENTURY BANCORP.****Exhibit 31.2      Rule 13a-14(a) Certification of the Principal Financial Officer**

I, Denise Smyth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Century Bancorp.
2. Based on my knowledge, this 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 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 control 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: November 14, 2011

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

**FIRST CENTURY BANCORP.**

**Exhibit 32 Section 1350 Certifications**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Principal Executive Officer and the Principal Financial and Accounting Officer of First Century Bancorp. (the "Company"), certify that, to their knowledge on the date of this certification:

1. The quarterly report of the Company for the period ending September 30, 2011 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 results of operations of the Company.

Date: November 14, 2011

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

Date: November 14, 2011

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