Village Bank & Trust Financial Corp.
Form 10-Q
August 14, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

xQUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

oTRANSITION REPORT UNDER SECTION 13 OR 15(d)

OF THE EXCHANGE ACT

For the transition period from ______ to ______

____

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Virginia	**16-1694602**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15521 Midlothian Turnpike, Midlothian, Virginia	**23113**
Address of principal executive offices)	(Zip code)

804-897-3900
(Registrant's telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 **x** No o.

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 o No o

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

Large Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o (Do not check if smaller reporting company)	Smaller Reporting Company **x**

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

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

4,230,628 shares of common stock, $4.00 par value, outstanding as of August 4, 2009

Village Bank and Trust Financial Corp.

Form 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2009 (Unaudited) and December 31, 2008

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and due from banks	$ 14,233,867	$ 13,107,245
Federal funds sold	16,201,871	13,493,584
Investment securities available for sale	20,406,023	24,300,962
Loans held for sale	19,520,283	4,325,746
Loans		
Outstanding	480,245,383	470,918,182
Allowance for loan losses	(9,617,886)	(6,059,272)
Deferred fees	(92,140)	(195,896)
	470,535,357	464,663,014
Premises and equipment, net	27,759,795	28,173,518
Accrued interest receivable	3,156,115	3,499,793
Goodwill	7,422,141	7,422,141
Other real estate owned	4,625,967	2,932,100
Bank owned life insurance	5,140,781	5,099,022
Other assets	5,576,869	5,390,868
	$ 594,579,069	$ 572,407,993
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 483,663,351	$ 466,232,043
Trust preferred securities	8,764,000	8,764,000
Federal home loan bank advances	25,000,000	25,000,000
Other borrowings	16,432,991	23,962,898
Accrued interest payable	822,577	1,014,534
Other liabilities	1,014,430	1,271,944
Total liabilities	535,697,349	526,245,419
Stockholders' equity		
Preferred stock, $4 par value, $1,000 liquidation preference, 1,000,000 shares authorized, 14,738 shares issued and outstanding	58,952	-
Common stock, $4 par value - 10,000,000 shares authorized; 4,230,628 shares issued and outstanding at June 30, 2009 4,229,372 shares issued and outstanding at December 31, 2008	16,922,512	16,917,488
Additional paid-in capital	40,498,332	25,737,048
Retained earnings	1,449,751	3,453,788
Warrant	732,479	-
Discount on preferred stock	(708,660)	-

Accumulated other comprehensive income (loss)	(71,646)	54,250
Total stockholders' equity	58,881,720	46,162,574
	$ 594,579,069	$ 572,407,993

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2009 and 2008
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Interest income				
Loans	$ 8,136,161	$ 6,739,632	$ 16,145,858	$ 13,248,190
Investment securities	286,519	90,615	622,977	233,933
Federal funds sold	5,136	39,280	12,409	146,115
Total interest income	8,427,816	6,869,527	16,781,244	13,628,238
Interest expense				
Deposits	3,824,352	3,321,309	7,827,808	7,016,552
Borrowed funds	435,569	360,347	878,874	638,276
Total interest expense	4,259,921	3,681,656	8,706,682	7,654,828
Net interest income	4,167,895	3,187,871	8,074,562	5,973,410
Provision for loan losses	3,100,000	498,024	4,200,000	747,378
Net interest income after provision for loan losses	1,067,895	2,689,847	3,874,562	5,226,032
Noninterest income				
Service charges and fees	452,636	271,621	825,755	478,746
Gain on sale of loans	1,509,971	608,344	2,453,087	1,034,861
Loss on Sale of equipment	(38,234)	-	(37,873)	-
Rental Income	40,349	-	82,019	-
Other	71,022	102,161	169,141	226,908
Total noninterest income	2,035,744	982,126	3,492,129	1,740,515
Noninterest expense				
Salaries and benefits	2,558,276	1,869,578	5,022,890	3,716,100
Occupancy	417,457	263,682	861,500	516,285
Equipment	202,305	174,930	457,924	348,205
Supplies	124,773	109,895	250,598	206,322
Professional and outside services	456,108	350,034	891,749	691,122
Advertising and marketing	86,675	77,355	158,170	126,216
Other real estate owned expenses	905,592	-	945,515	30,354
Other operating expense	1,052,343	555,524	1,592,081	919,560
Total noninterest expense	5,803,529	3,400,998	10,180,427	6,554,164
Net income (loss) before income taxes	(2,699,890)	270,975	(2,813,736)	412,383
Income tax (benefit) expense	(917,962)	92,131	(956,671)	140,209
Net income (loss)	(1,781,928)	178,844	(1,857,065)	272,174
Preferred stock dividends	123,153	-	123,153	-
Net income (loss) available to common shareholders	$ (1,905,081)	$ 178,844	$ (1,980,219)	$ 272,174

Earnings per share, basic	$	(0.45)	$	0.07	$	(0.47)	$	0.10
Earnings per share, diluted	$	(0.45)	$	0.07	$	(0.47)	$	0.10

See accompanying notes to consolidated financial statements

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity
For the Six Months Ended June 30, 2009 and 2008
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Warrant	Discount on Preferred Stock	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2008	$ -	$ 16,917,488	$ 25,737,048	$ 3,453,788	$ -	$ -	$ 54,250	$ 46,162,574
Issuance of preferred stock	58,952	-	14,679,048	-	732,479	(732,479)	-	14,738,000
Amortization of preferred stock discount	-	-	-	(23,818)	-	23,819	-	1
Preferred stock dividend	-	-	-	(123,153)	-	-	-	(123,153)
Issuance of common stock	-	5,024	(5,024)	-		-	-	-
Stock based compensation	-	-	87,260	-	-	-	-	87,260
Minimum pension adjustment (net of income taxes of $1,459)	-	-	-	-	-	-	4,290	4,290
Net income (loss)	-	-	-	(1,857,066)	-	-	-	(1,857,066)
Change in unrealized gain (loss) on securities available for sale (net of income taxes of $44,263)	-	-	-	-	-	-	(130,186)	(130,186)
Total comprehensive income (loss)	-	-	-	-	-	-	-	(1,982,962)
Balance, June 30, 2009	$ 58,952	$ 16,922,512	$ 40,498,332	$ 1,449,751	$ 732,479	$ (708,660)	$ (71,646)	$ 58,881,719
Balance, December 31, 2007	$ -	$ 10,303,940	$ 13,726,269	$ 2,985,697	-	-	$ (122,607)	$ 26,893,299
Issuance of common stock	-	185,112	265,249	-	-	-	-	450,361
Stock based compensation	-	-	33,942	-	-	-	-	33,942
Minimum pension adjustment (net of income taxes of $729)	-	-	-	-	-	-	4,290	4,290
Net income	-	-	-	272,174	-	-	-	272,174
Change in unrealized gain (loss) on securities available for sale (net of income taxes of $5,571)	-	-	-	-	-	-	(83,912)	(83,912)
Total comprehensive income (loss)	-	-	-	-	-	-	-	192,552
Balance, June 30, 2008	$ -	$ 10,489,052	$ 14,025,460	$ 3,257,871	$ -	$ -	$ (202,229)	$ 27,570,154

See accompanying notes to consolidated financial statements.

(Unaudited)

	Six Months Ended June 30,	
	2009	2008
Cash Flows from Operating Activities		
Net income (loss)	$ (1,857,066)	$ 272,174
Adjustments to reconcile net income to net		
cash provided by (used in) operating activities:		
Depreciation and amortization	619,533	330,813
Provision for loan losses	4,200,000	747,378
Gain on securities	(8,061)	(23,194)
Gain on loans sold	(2,453,087)	(1,034,861)
Loss on sale of premises and equipment	(37,872)	-
Stock compensation expense	87,260	33,942
Amortization of preferred stock discount	23,819	
Proceeds from sale of mortgage loans	114,618,514	45,160,669
Origination of mortgage loans for sale	(127,359,964)	(45,152,496)
Amortization of premiums and accretion		
discounts on securities, net	24,444	(25,509)
Increase (decrease) in interest receivable	343,678	(12,237)
Increase in other assets	(1,834,612)	(3,520,644)
Decrease in interest payable	(191,957)	(39,037)
Decrease in other liabilities	(404,485)	(524,969)
Net cash used in operating activities	(14,229,856)	(3,787,971)
Cash Flows from Investing Activities		
Purchases of available for sale securities	(6,230,297)	(994,374)
Maturities and calls of available for sale securities	9,895,942	9,396,145
Net increase in loans	(10,072,343)	(16,773,542)
Purchases of premises and equipment	(574,454)	(5,948,005)
Proceeds from sale of premises and equipment	406,516	-
Net cash used in investing activities	(6,574,636)	(14,319,776)
Cash Flows from Financing Activities		
Issuance of preferred stock	14,738,000	
Issuance of common stock	-	450,361
Net increase (decrease) in deposits	17,431,308	(13,614,567)
Federal Home Loan Bank borrowings	-	13,000,000
Net increase (decrease) in other borrowings	(7,529,907)	8,674,683
Net cash provided by financing activities	24,639,401	8,510,477
Net increase (decrease) in cash and cash equivalents	3,834,909	(9,597,270)
Cash and cash equivalents, beginning of period	26,600,829	22,115,004
Cash and cash equivalents, end of period	$ 30,435,738	$ 12,517,734
Supplemental Schedule of Noncash Activities		
Real estate owned assets acquired in settlement of loans	$ 3,743,473	$ 1,964,856

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the "Company") is the holding company of Village Bank (the "Bank"). The consolidated financial statements include the accounts of the Company, the Bank and the Bank's three wholly-owned subsidiaries, Village Bank Mortgage Company, Village Insurance Agency, Inc., and Village Financial Services Company. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three and six month periods ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission.

Note 2 - Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of income for the period. Actual results could differ significantly from those estimates.

Note 3 - Earnings per common share

Basic earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. For the three month periods ended June 30, 2009 and 2008, the weighted-average number of common shares totaled 4,230,603 and 2,609,835, respectively. For the six month periods ended June 30, 2009 and 2008, the weighted –average number of common shares totaled 4,230,293 and 2,593,192, respectively. Diluted earnings per share reflect the potential dilution of securities that could share in the net income of the Company. Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. For the three month periods ended June 30, 2009 and 2008, the weighted-average number of common shares on a fully diluted basis totaled 4,230,603 and 2,627,111, respectively For the six month periods ended June 30, 2009 and 2008, the weighted-average number of common shares on a fully diluted basis totaled 4,230,293 and 2,614,668, respectively. Options and warrants to acquire 333,955 and 499,029 shares respectively of common stock were anti-dilutive for the three and six month period ended June 30, 2009 and thus excluded from the computation of fully diluted earnings per share, and 98,350 were anti-dilutive for the three and six month periods ended June 30, 2008.

Note 4 – Incentive plans

The company has a stock incentive plan which authorizes the issuance of up to 455,000 shares of common stock to assist the Company in recruiting and retaining key personnel.

The following table summarizes stock options outstanding under the stock incentive plan at the indicated dates:

	Six Months Ended June 30,							
	2009				2008			
	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value
Options outstanding, beginning of period	247,410	$ 10.26	$ 4.70		247,410	$ 10.26	$ 4.70	
Granted	-	-	-		-	-	-	
Forfeited	-	-	-		(2,250)	11.77	5.29	
Exercised	-	-	-		-	-	-	
Options outstanding, end of period	247,410	$ 10.26	$ 4.70	$ -	245,160	$ 10.25	$ 4.69	$ -
Options exercisable, end of period	298,600				227,660			

During the first quarter of 2009, we granted to certain officers 26,592 restricted shares of common stock with a weighted average fair market value of $4.60 at the date of grant. These restricted stock awards have three-year graded vesting and the performance shares cliff vest at the end of the three years. The number of performance shares that ultimately vest is dependent upon achieving specific performance targets. Prior to vesting, these shares are subject to forfeiture to us without consideration upon termination of employment under certain circumstances. The total number of shares underlying non-vested restricted stock and performance share awards was 33,998 and 9,428 at June 30, 2009 and 2008, respectively.

Stock-based compensation expense was $87,260 and $33,942 for the six months ended June 30, 2009 and 2008, respectively. Unamortized stock-based compensation related to nonvested share based compensation arrangements granted under the Incentive Plan as of June 30, 2009 and 2008 was $399,665 and $189,003, respectively. Of the $399,665 of unamortized compensation at June 30, 2009, $91,055 relates to performance based restricted stock awards. The time based unamortized compensation of $308,610 is expected to be recognized over a weighted average period of 2.39 years.

Note 5 – Trust preferred securities

During the first quarter of 2005, Southern Community Financial Capital Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On February 24, 2005, $5.2 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate of interest (three-month LIBOR plus 2.15%) which adjusts, and is payable, quarterly. The interest rate at June 30, 2009 was 2.77%. The securities may be redeemed at par beginning on March 15, 2010 and each quarter after such date until the securities mature on March 15, 2035. The principal asset of the Trust is $5.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

During the third quarter of 2007, Village Financial Statutory Trust II, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On September 20, 2007, $3.6 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a five year fixed income rate of 6.29% payable quarterly, converting after five years to a LIBOR-indexed floating rate of interest (three-month LIBOR plus 1.40%) which adjusts, and is also payable, quarterly. The securities may be redeemed at par at any time commencing in December 2012 until the securities mature in 2037. The principal asset of the Trust is $3.6 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

The Trust Preferred Capital Notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred Capital Notes not considered as Tier 1 capital may be included in Tier 2 capital.

The obligations of the Company with respect to the issuance of the Trust Preferred Capital Notes constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the Trust Preferred Capital Notes. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Trust Preferred Capital Notes and require a deferral of common dividends.

Note 6 – Deposits

Deposits as of June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Noninterest bearing demand	$ 44,085,257	9.11%	$ 34,483,360	7.40%
Now	22,416,254	4.63%	17,427,061	3.74%
Money market	57,342,345	11.86%	30,002,756	6.43%
Savings	6,289,819	1.30%	5,387,829	1.15%
Time deposits of $100,000 and over	116,028,526	24.00%	120,750,254	25.90%
Other time deposits	237,501,150	49.10%	258,180,783	55.38%
Total	$ 483,663,351	100.00%	$ 466,232,043	100.00%

Note 7 – Business Combination

On September 30, 2008 the Company acquired River City Bank for approximately $20,720,000. The total consideration included approximately $16,269,000 of common stock, representing approximately 1,441,000 shares, and cash of $3,962,244 paid to shareholders of River City Bank. The transaction requires no future contingent consideration payments. The merger of the Company and River City Bank resulted in a combined company with approximately $572 million in assets and increases the Company's presence in Henrico County and establishes a presence in Hanover County continuing our goal of expanding our franchise into other counties in the Richmond metropolitan area.

Goodwill of $6.7 million has been recorded in this transaction which will not be amortizable and is not deductible for tax purposes. The Company also recorded $809,318 in core deposits intangibles which will be amortized over eight years using the straight line method.

The acquisition of River City Bank constituted a business combination under SFAS No. 141 "Business Combinations," and was accounted for using the purchase method of accounting. Accordingly the purchase price was allocated to the respective assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The excess of purchase price over the fair value of net assets was recorded as goodwill. The purchase price allocation as of December 31, 2008, is subject to revision in future periods, including adjustments that may be necessary upon the filing of the final tax returns of River City Bank.

Note 8 — Fair value

Effective January 1, 2008, the Company adopted SFAS 157. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

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

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

Level 3- Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods to determine the fair value of each type of financial instrument:

Investment securities: The fair values for investment securities are determined by quoted prices for similar assets or liabilities (Level 2).

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Impaired loans: The fair values of impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans on a nonrecurring basis. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The use of discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and are therefore classified within (Level 3).

Real estate owned: Real estate owned assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, real estate owned assets are carried at net realizable value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Assets and liabilities measured at fair value under SFAS No. 157 on a recurring and non-recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurement at June 30, 2009 Using (In Thousands)			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets-Recurring				
US Government Agencies	$ 13,654		$ 13,654	
MBS	5,062		5,062	
Other available for sale (1)	1,690		1,690	
Financial Assets-Non-Recurring				
Impaired loans	18,795			$ 18,795
Real estate owned				4,626
Residential loans held for sale	19,520		19,520	

(1) Excludes restricted stock.

The following tables present the changes in the Level 3 fair value category for the six months ended June 30, 2009.

	Impaired Loans	Real Estate Owned	Total Assets
Balance at December 31, 2008	$ 8,528	$ 2,932	$ 11,460
Total realized and unrealized gains (losses)			
Included in earnings	-	29	29
Included in other comprehensive income	-		-
Purchases, sales, issuances and other settlements, net	-		29
Transfers in and/or out of Level 3	10,267	1,665	11,932
Balance at June 30, 2009	$ 18,795	$ 4,626	$ 23,450

Fair Value Measurement
at December 31, 2008 Using
(In Thousands)

	Carrying Value	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets-Recurring				
Available for sale investment securities (1)	$ 24,301	-	$ 24,301	-
Residential loans held for sale	$ 4,326	-	$ 4,326	-
Financial Assets-Non-Recurring				
Impaired loans	$ 8,528	-	-	$ 8,528
Real estate owned				2,932

(1) Excludes restricted stock.

The fair value information for financial instruments, which is provided below, is based on the requirements of Financial Accounting Standard Board Statement of Financial Accounting Standards No. 107, “Disclosures about Fair Value of Financial Instruments,” and does not represent the aggregate net fair value of the Bank. Much of the information used to determine fair value is subjective and judgmental in nature; therefore, fair value estimates, especially for less marketable securities, may vary. The amounts actually realized or paid upon settlement or maturity could be significantly different. The Bank uses the following methods and assumptions in estimating fair values of financial instruments:

Cash and cash equivalents – The carrying amount of cash and cash equivalents approximates fair value.

Investment securities – The fair value of investment securities available-for-sale is estimated based on bid quotations received from independent pricing services for similar assets. The carrying amount of other investments approximates fair value.

Loans – For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. For all other loans, fair values are calculated by

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discounting the contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loans, or by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits – The fair value of deposits with no stated maturity, such as demand, interest checking and money market, and savings accounts, is equal to the amount payable on demand at year-end. The fair value of certificates of deposit is based on the discounted value of contractual cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of FHLB borrowings is based on the discounted value of contractual cash flows using the rates currently offered for borrowings of similar remaining maturities. The carrying amounts of federal funds purchased approximate their fair values. Other borrowings are short-term in nature and the carrying amounts approximate fair value.

Accrued interest – The carrying amounts of accrued interest receivable and payable approximate fair value.

Off-balance-sheet instruments –The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of commitments to extend credit, including letters of credit, is estimated to approximate their aggregate book balance and is not considered material and therefore not included in the following table.

	June 30, 2009 Carrying Value	Estimated Fair Value	December 31, 2008 Carrying Value	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 30,435,738	$ 30,435,738	$ 26,612,829	$ 26,612,829
Investment securities available for sale	20,406,023	20,406,023	24,300,962	24,300,962
Loans held for sale	19,520,283	19,520,283	4,325,746	4,325,746
Loans	470,535,357	496,189,327	464,663,014	506,263,603
Accrued interest receivable	3,156,115	3,156,115	3,499,793	3,499,793
Financial liabilities				
Deposits	483,663,351	470,879,596		