

***CBC HOLDING COMPANY  
AND SUBSIDIARY***

***CONSOLIDATED FINANCIAL STATEMENTS***

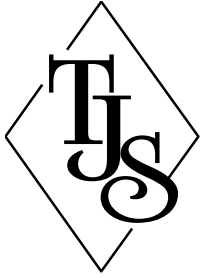
***YEAR ENDED DECEMBER 31, 2010***

**CBC HOLDING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**

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# Thigpen, Jones, Seaton & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
CBC Holding Company and Subsidiary

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBC Holding Company and Subsidiary at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

March 07, 2011  
Dublin, Georgia

**CBC HOLDING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**

<b>Assets</b>	<i>As of December 31,</i>	
	<b>2010</b>	<b>2009</b>
Cash and due from banks	\$ 4,962,509	\$ 6,050,789
Federal funds sold	8,920,000	14,629,068
Total cash and cash equivalents	<u>13,882,509</u>	<u>20,679,857</u>
Interest-bearing deposits in other banks	1,493,000	992,000
Securities available for sale, at fair value	12,269,757	13,460,814
Securities held to maturity, at cost	6,241,604	6,357,375
Federal Home Loan Bank stock, restricted, at cost	182,300	182,300
Loans, net of unearned income	61,511,739	54,873,336
Less - allowance for loan losses	<u>(1,107,126)</u>	<u>(993,043)</u>
Loans, net	<u>60,404,613</u>	<u>53,880,293</u>
Bank premises and equipment, net	1,863,408	1,903,663
Intangible assets, net of amortization	1,668,127	1,668,127
Other real estate	206,362	97,288
Accrued interest receivable	583,015	581,280
Other assets	<u>3,356,597</u>	<u>3,639,224</u>
<b>Total Assets</b>	<b><u>\$ 102,151,292</u></b>	<b><u>\$ 103,442,221</u></b>
 <b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Non-interest bearing	\$ 8,991,678	\$ 9,145,614
Interest bearing	<u>78,647,556</u>	<u>80,508,154</u>
Total deposits	87,639,234	89,653,768
Accrued interest payable	78,142	96,404
Accrued expenses and other liabilities	<u>1,312,056</u>	<u>1,274,826</u>
Total liabilities	<u>89,029,432</u>	<u>91,024,998</u>
Shareholders' Equity:		
Preferred stock, \$1 par value, authorized 2,000,000 shares, issued and outstanding 87,664 in 2010 and 88,268 in 2009	87,664	88,268
Common stock, \$1 par value, authorized 10,000,000 shares, issued and outstanding 644,240 in 2010 and 643,636 in 2009	644,240	643,636
Paid-in capital surplus	6,816,170	6,816,170
Retained earnings	6,017,810	5,247,285
Accumulated other comprehensive income	186,681	252,569
Common stock in treasury, at cost 32,798 shares in 2010 and 2009	<u>(630,705)</u>	<u>(630,705)</u>
Total shareholders' equity	<u>13,121,860</u>	<u>12,417,223</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 102,151,292</u></b>	<b><u>\$ 103,442,221</u></b>

*See Accompanying Notes to Consolidated Financial Statements*

**CBC HOLDING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Preferred Stock	Common Stock	Paid-in Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
<b>Balance, December 31, 2007</b>	\$ 90,764	\$ 641,140	\$ 6,816,170	\$ 4,706,508	\$ 74,563	\$ (630,705)	\$ 11,698,440
Cash dividends	-	-	-	(283,206)	-	-	(283,206)
Effect of implementation of EITF 06-04	-	-	-	(30,781)	-	-	(30,781)
Reclassification of minority common shares to preferred shares	(1,786)	1,786	-	-	-	-	-
Comprehensive income:							
Net income	-	-	-	953,720	-	-	953,720
Valuation allowance adjustment on securities available for sale	-	-	-	-	90,408	-	90,408
Total comprehensive income	-	-	-	-	-	-	1,044,128
<b>Balance, December 31, 2008</b>	88,978	642,926	6,816,170	5,346,241	164,971	(630,705)	12,428,581
Cash dividends	-	-	-	(283,201)	-	-	(283,201)
Reclassification of minority common shares to preferred shares	(710)	710	-	-	-	-	-
Comprehensive income:							
Net income	-	-	-	184,245	-	-	184,245
Valuation allowance adjustment on securities available for sale	-	-	-	-	87,598	-	87,598
Total comprehensive income	-	-	-	-	-	-	271,843
<b>Balance, December 31, 2009</b>	88,268	643,636	6,816,170	5,247,285	252,569	(630,705)	12,417,223
Cash dividends	-	-	-	(70,790)	-	-	(70,790)
Reclassification of minority common shares to preferred shares	(604)	604	-	-	-	-	-
Comprehensive income:							
Net income	-	-	-	841,315	-	-	841,315
Valuation allowance adjustment on securities available for sale	-	-	-	-	(65,888)	-	(65,888)
Total comprehensive income	-	-	-	-	-	-	775,427
<b>Balance, December 31, 2010</b>	<u>\$ 87,664</u>	<u>\$ 644,240</u>	<u>\$ 6,816,170</u>	<u>\$ 6,017,810</u>	<u>\$ 186,681</u>	<u>\$ (630,705)</u>	<u>\$ 13,121,860</u>

*See Accompanying Notes to Consolidated Financial Statements*

**CBC HOLDING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<i>Years Ended December 31,</i>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Interest and Dividend Income:</b>			
Interest and fees on loans	\$ 3,776,865	\$ 3,440,781	\$ 4,193,010
Interest on securities:			
Taxable income	599,068	785,003	918,365
Non-taxable income	152,651	147,567	81,404
Income on federal funds sold	25,120	20,551	178,789
Income on interest-bearing deposits in other banks	24,233	12,490	-
Other interest income	32,059	30,423	66,503
Total interest and dividend income	<u>4,609,996</u>	<u>4,436,815</u>	<u>5,438,071</u>
<b>Interest Expense:</b>			
Deposits	1,335,007	1,598,007	2,071,297
Other interest expense	147	-	48
Total interest expense	<u>1,335,154</u>	<u>1,598,007</u>	<u>2,071,345</u>
Net interest income before provision for loan losses	3,274,842	2,838,808	3,366,726
Less - provision for loan losses	<u>205,000</u>	<u>120,000</u>	<u>120,000</u>
Net interest income after provision for loan losses	<u>3,069,842</u>	<u>2,718,808</u>	<u>3,246,726</u>
<b>Noninterest Income:</b>			
Service charges on deposit accounts	630,247	590,888	663,321
Other service charges, commissions and fees	85,069	90,752	83,949
Gain (loss) on sales / calls / impairment of investment securities	6,047	(487,307)	21,883
Gain (loss) on sales of foreclosed assets and other real estate	810	(21,571)	(5,531)
Other income	179,005	166,191	165,379
Total noninterest income	<u>901,178</u>	<u>338,953</u>	<u>929,001</u>
<b>Noninterest Expense:</b>			
Salaries	1,109,652	1,127,675	1,133,940
Employee benefits	342,687	352,777	358,989
Net occupancy expense	137,408	130,813	133,406
Equipment rental and depreciation of equipment	124,194	152,052	168,700
Other expenses	1,204,661	1,158,373	1,101,123
Total noninterest expense	<u>2,918,602</u>	<u>2,921,690</u>	<u>2,896,158</u>
<b>Income Before Income Taxes</b>	1,052,418	136,071	1,279,569
Provision for (benefit of) income taxes	<u>211,103</u>	<u>(48,174)</u>	<u>325,849</u>
<b>Net Income</b>	<u>\$ 841,315</u>	<u>\$ 184,245</u>	<u>\$ 953,720</u>
<b>Earnings per common share:</b>			
Basic	<u>\$ 1.36</u>	<u>\$ 0.24</u>	<u>\$ 1.50</u>
Diluted	<u>\$ 1.19</u>	<u>\$ 0.21</u>	<u>\$ 1.31</u>

See Accompanying Notes to Consolidated Financial Statements

**CBC HOLDING COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<i>Years Ended December 31,</i>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 841,315	\$ 184,245	\$ 953,720
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	205,000	120,000	120,000
Depreciation	121,341	150,195	166,289
Loss on impairment of investment securities	-	500,000	-
(Gain) loss on sales of other real estate	(810)	21,571	5,531
Net amortization on securities	97,304	99,101	6,210
Gain on sales / calls of investment securities	(6,047)	(12,693)	(21,883)
Changes in accrued income and other assets	280,892	(666,261)	(326,637)
Changes in accrued expenses and other liabilities	52,910	230,879	92,738
Net cash provided by operating activities	<u>1,591,905</u>	<u>627,037</u>	<u>995,968</u>
<b>Cash Flows from Investing Activities:</b>			
Net change in loans to customers	(6,945,625)	(2,625,066)	(2,464,281)
Net change in interest-bearing deposits in other banks	(501,000)	(992,000)	-
Purchase of available for sale securities	(5,553,175)	(5,429,301)	(6,896,762)
Proceeds from sales of available for sale securities	1,119,033	-	-
Proceeds from maturities/calls of available for sale securities	5,446,507	9,501,394	5,729,494
Purchase of held to maturity securities	(1,567,377)	(3,026,017)	(2,484,981)
Proceeds from maturities/calls of held to maturity securities	1,670,753	2,492,385	4,766,512
Purchases of Federal Home Loan Bank stock	-	(12,500)	(2,300)
Proceeds from redemption of Federal Home Loan Bank stock	-	-	-
Property and equipment expenditures	(81,086)	(46,268)	(385,138)
Proceeds from sales of other real estate and repossessed assets	108,041	365,649	190,917
Net cash provided by (used in) investing activities	<u>(6,303,929)</u>	<u>228,276</u>	<u>(1,546,539)</u>
<b>Cash Flows from Financing Activities:</b>			
Net change in deposits	(2,014,534)	1,894,863	6,092,354
Cash dividends paid	(70,790)	(283,201)	(283,206)
Net cash provided by (used in) financing activities	<u>(2,085,324)</u>	<u>1,611,662</u>	<u>5,809,148</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(6,797,348)</b>	<b>2,466,975</b>	<b>5,258,577</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b><u>20,679,857</u></b>	<b><u>18,212,882</u></b>	<b><u>12,954,305</u></b>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 13,882,509</u></b>	<b><u>\$ 20,679,857</u></b>	<b><u>\$ 18,212,882</u></b>

*See Accompanying Notes to Consolidated Financial Statements*

**CBC HOLDING COMPANY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**

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**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Principles of Consolidation** - The consolidated financial statements include the accounts of CBC Holding Company (the "Company") and its wholly owned subsidiary, Community Banking Company of Fitzgerald (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.
2. **Reporting Entity** - The Company was incorporated as a Georgia corporation on October 15, 1996 for the purpose of acquiring all of the issued and outstanding shares of common stock of the Bank. The Bank provides a variety of financial services to individuals and small businesses through its office in South Georgia. The Bank offers a full range of commercial and personal loans. The Bank makes loans to individuals for purposes such as home mortgage financing, personal vehicles and various consumer purchases and other personal and family needs. The Bank makes commercial loans to businesses for purposes such as providing equipment and machinery purchases, commercial real estate purchases and working capital. The Bank offers a full range of deposit services that are typically available from financial institutions, including NOW accounts, demand, savings and other time deposits. In addition, retirement accounts such as Individual Retirement Accounts are available. All deposit accounts are insured by the FDIC up to the maximum amount currently permitted by law.

The consolidated financial statements include the accounts of the Company and the Bank. All material intercompany accounts and transactions have been eliminated in consolidation.

3. **Securities** - The classification of securities is determined at the date of purchase. Gains or losses on the sale of securities are recognized on a specific identification basis.

Securities available for sale, primarily debt securities, are recorded at fair value with unrealized gains or losses (net of tax effect) excluded from earnings and reported as a component of shareholders' equity. Securities available for sale will be used as a part of the Company's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, and other factors.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. Mortgage-backed securities are carried at unpaid principal balances, adjusted for unamortized premiums and unearned discounts.

The market value of securities is generally based on quoted market prices. If a quoted market price is not available, market value is estimated using quoted market prices for similar securities.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

4. **Loans and Interest Income** - Loans are stated at the amount of unpaid principal, reduced by net deferred loan fees, unearned discounts and a valuation allowance for possible loan losses. Interest on simple interest installment loans and other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are generally placed on non-accrual status when full payment of principal or interest is in doubt, or when they are past due 90 days as to either principal or interest. Senior management may grant a waiver from non-accrual status if a past due loan is well secured and in process of collection. A non-accrual loan may be restored to accrual status when all principal and interest amounts contractually due, including payments in arrears, are reasonably assured of repayment within a reasonable period, and there is a sustained period of performance by the borrower in accordance with the contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

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5. **Allowance for Loan Losses** - The allowance for loan losses is available to absorb losses inherent in the credit extension process. The entire allowance is available to absorb losses related to the loan and lease portfolio and other extensions of credit, including off-balance sheet credit exposures. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Additions to the allowance for loan losses are made by charges to the provision for loan losses.

The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will not be able to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Substantially all of the Bank's loans, which have been identified as impaired, have been measured by the fair value of existing collateral.

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

6. **Premises and Equipment** - Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful lives of the assets and is computed on the straight-line method. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses from disposition of property are reflected in operations and the asset account is reduced.
7. **Other Real Estate Owned** - Other real estate owned, acquired principally through foreclosure, is stated at the lower of cost or net realizable value. Loan losses incurred in the acquisition of these properties are charged against the allowance for possible loan losses at the time of foreclosure. Subsequent write-downs of other real estate owned are charged against the current period's expense.
8. **Intangible Assets** - Prior to 2002, goodwill was amortized using the straight-line method over fifteen years. The original amount of goodwill was \$2,692,939 with accumulated amortization at December 31, 2010 and 2009 of \$1,024,812, resulting in an unamortized balance of \$1,668,127. No amortization was charged to operations during any of the years ended December 31, 2010, 2009 and 2008. Financial Accounting Standard 142 became effective for the year ending December 31, 2002. Under this

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Standard, goodwill with an indefinite life is not amortized, but evaluated annually for impairment and to determine if its life is still indefinite. At December 31, 2010, this asset had no impairment and still had an indefinite life; accordingly, no amortization is recorded for the year.

9. **Income Taxes** - The Company reports income under Accounting Standards Codification Topic 740, Income Taxes, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company and the Bank file a consolidated income tax return. The Bank computes its income tax expense as if it filed an individual return except that it does not receive any portion of the surtax allocation. Any benefits or disadvantages of the consolidation are absorbed by the parent company. The Bank pays its allocation of federal income taxes to the parent company or receives payment from the parent company to the extent that tax benefits are realized.

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109 ("FIN 48"), as of January 1, 2009. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Company's financial statement for the year ending December 31, 2010.

The Company recognizes penalties related to income tax matters in income tax expense. The Company is subject to U.S. federal and Georgia state income tax audit for returns for the tax periods ending December 31, 2010, 2009, and 2008.

10. **Cash and Cash Equivalents** - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, highly liquid debt instruments purchased with an original maturity of three months or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.
11. **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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based

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on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

12. **Advertising Costs** - It is the policy of the Company to expense advertising costs as they are incurred. The Company does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its balance sheet. Amounts charged to advertising expense for the years ended December 31, 2010, 2009 and 2008 were \$42,668, \$44,666 and \$50,181, respectively.
13. **Earnings per Common Share** - Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potentially dilutive common shares are limited to preferred shares outstanding that would be converted to common shares upon change in control of the Company. As such, the average number of common shares outstanding used to calculate diluted earnings per share equals the total number of common and preferred shares outstanding less any shares held in treasury.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	2010	2009	2008
Net income	\$ 841,315	\$ 184,245	\$ 953,720
Less: Preferred stock dividends	(9,722)	(39,150)	(39,199)
Net income available to common shareholders	\$ 831,593	\$ 145,095	\$ 914,521
Average number of common shares outstanding	610,595	610,252	609,240
Effect of dilutive options, warrants, etc.	88,511	88,854	89,866
Average number of common shares outstanding used to calculate diluted earnings per common share	699,106	699,106	699,106
Earnings per share - basic	\$ 1.36	\$ 0.24	\$ 1.50
Earnings per share - diluted	\$ 1.19	\$ 0.21	\$ 1.31

14. **Comprehensive Income** - Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

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The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31,		
	2010	2009	2008
Unrealized holding gains (losses) on available-for-sale securities	\$ (93,783)	\$ 145,417	\$ 158,865
Reclassification adjustment for gains realized in income	(6,047)	(12,693)	(21,883)
Net unrealized gains (losses)	(99,830)	132,724	136,982
Tax effect	33,942	(45,126)	(46,574)
Net-of-tax amount	<u>\$ (65,888)</u>	<u>\$ 87,598</u>	<u>\$ 90,408</u>

15. **Reclassifications** - Certain accounts in the prior-year financial statements have been reclassified to conform to the presentation of current-year financial statements.

16. **Accounting Standards Codification** - The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered nonauthoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

17. **Changes in Accounting Principles and Effects of New Accounting Pronouncements**

Newly revised standards on Business Combinations apply to all transactions and other events in which one entity obtains control over one or more other businesses. An acquirer, upon initially obtaining control of another entity, must recognize the assets, liabilities and any noncontrolling interest in the acquirer at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. Acquirers must expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case. Pre-acquisition contingencies are to be recognized at fair value, unless it is a noncontractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of contingency accounting. The revised standards are expected to have an impact on the Company's accounting for business combinations closing on or after January 1, 2009.

Revised standards for Noncontrolling Interest in Consolidated Financial Statements, establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. A noncontrolling interest in a subsidiary, which is sometimes referred to as a minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, consolidated net income must be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. Also required are disclosures, on the

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face of the consolidated statements of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. Requirements were effective for the Company on January 1, 2009 and did not have a significant impact on the Company's consolidated financial statements.

In April 2009, standards were issued for Recognition and Presentation of Other-Than-Temporary Impairments. These standards amend the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The existing recognition and measurement guidance related to other-than-temporary impairments of equity securities is not amended. Changes are effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of the other-than-temporary impairment amendments on June 15, 2009 did not have a significant impact on the Company's financial statements.

In April 2009, new standards were issued providing additional guidance for estimated fair value when the volume and level of activity for the asset or liability have significantly decreased. The standard emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The standard is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Adoption on June 15, 2009 did not have a significant impact on the Company's financial statements.

New requirements for subsequent events establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The standards define (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The effective date for the Company's financial statements is for periods ending after June 15, 2009. Implementation resulted in no significant impact on the Company's financial statements.

***Accounting Standards Update (ASU) No. 2009-16, "Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets."***

ASU 2009-16 amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. ASU 2009-16 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The provisions of ASU 2009-16 became effective on January 1, 2010 and did not have significant impact on the Company's financial statements.

***ASU No. 2009-17, "Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities."***

ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based

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on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. As further discussed below, ASU No. 2010-10, "Consolidations (Topic 810)," deferred the effective date of ASU 2009-17 for a reporting entity's interests in investment companies. The provisions of ASU 2009-17 became effective on January 1, 2010 and did not have a significant impact on the Company's financial statements.

***ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements."***

ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for the Company on January 1, 2010.

***ASU No. 2010-20, "Receivables (Topic 830) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."***

ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. Existing disclosures were amended to require a rollforward of the allowance for loan losses by portfolio segment, with the ending balance broken out by basis of impairment method, as well as the recorded investment in the respective loans. Nonaccrual and impaired loans by class must also be shown. ASU No. 2010-20 also requires disclosures regarding: 1) credit quality indicators by class, 2) aging of past due loans by class, 3) TDRs by class and their effect on the allowance for loan losses, 4) defaults on TDRs by class and their effect on the allowance for loan losses, and 5) significant purchases and sales of loans disaggregated by portfolio segment. ASU 2010-20 will be effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for the Company's financial statements that include periods beginning on or after January 1, 2011. For nonpublic companies, the amendments are effective for periods ending on or after December 15, 2011.

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**B. INVESTMENT SECURITIES**

Debt and equity securities have been classified in the balance sheet according to management's intent. The following table reflects the amortized cost and estimated market values of investments in debt and equity securities held at December 31, 2010 and 2009. In addition, gross unrealized gains and gross unrealized losses are disclosed as of December 31, 2010 and 2009.

The book and market values of securities **available for sale** were:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>
<b><i>December 31, 2010</i></b>				
Non-mortgage backed debt securities of :				
U.S. Agencies	\$ 499,209	\$ 35,111	\$ -	\$ 534,320
State and Political subdivisions	5,198,718	48,022	(40,487)	5,206,253
Other debt securities	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total non-mortgage backed debt securities	6,197,927	83,133	(40,487)	6,240,573
Mortgage backed securities	<u>5,788,981</u>	<u>242,040</u>	<u>(1,837)</u>	<u>6,029,184</u>
Total	<u>\$ 11,986,908</u>	<u>\$ 325,173</u>	<u>\$ (42,324)</u>	<u>\$ 12,269,757</u>

***December 31, 2009***

Non-mortgage backed debt securities of :				
U.S. Agencies	\$ 498,753	\$ 41,276	\$ -	\$ 540,029
State and Political subdivisions	5,306,805	78,236	(2,197)	5,382,844
Other debt securities	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>
Total non-mortgage backed debt securities	6,305,558	119,512	(2,197)	6,422,873
Mortgage backed securities	<u>6,772,577</u>	<u>265,494</u>	<u>(130)</u>	<u>7,037,941</u>
Total	<u>\$ 13,078,135</u>	<u>\$ 385,006</u>	<u>\$ (2,327)</u>	<u>\$ 13,460,814</u>

The book and market values of securities **held to maturity** were:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Market Value</u>
<b><i>December 31, 2010</i></b>				
Non-mortgage backed debt securities of :				
U.S. Agencies	\$ 498,261	\$ 15,619	\$ -	\$ 513,880
Mortgage backed securities	<u>5,743,343</u>	<u>181,383</u>	<u>(11,979)</u>	<u>5,912,747</u>
Total	<u>\$ 6,241,604</u>	<u>\$ 197,002</u>	<u>\$ (11,979)</u>	<u>\$ 6,426,627</u>

***December 31, 2009***

Non-mortgage backed debt securities of :				
U.S. Agencies	\$ 495,403	\$ 34,825	\$ -	\$ 530,228
Mortgage backed securities	<u>5,861,972</u>	<u>173,816</u>	<u>(284)</u>	<u>6,035,504</u>
Total	<u>\$ 6,357,375</u>	<u>\$ 208,641</u>	<u>\$ (284)</u>	<u>\$ 6,565,732</u>

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The book and market values of pledged securities were \$17,200,162 and \$17,734,446 at December 31, 2010, respectively and \$16,778,255 and \$17,054,340 at December 31, 2009, respectively.

The amortized cost and estimated market value of debt securities held to maturity and available for sale at December 31, 2010 and 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	<u>Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
<b>December 31, 2010</b>		
Non-mortgage backed securities:		
Due in one year or less	\$ 1,006,287	\$ 1,015,195
Due after one year through five years	3,244,699	3,314,878
Due after five years through ten years	520,111	523,686
Due after ten years	<u>1,426,830</u>	<u>1,386,814</u>
Total non-mortgage backed securities	6,197,927	6,240,573
Mortgage backed securities	<u>5,788,981</u>	<u>6,029,184</u>
Total	<u>\$ 11,986,908</u>	<u>\$ 12,269,757</u>
<b>December 31, 2009</b>		
Non-mortgage backed securities:		
Due in one year or less	\$ 2,848,701	\$ 2,865,532
Due after one year through five years	2,956,857	3,057,341
Due after five years through ten years	-	-
Due after ten years	<u>500,000</u>	<u>500,000</u>
Total non-mortgage backed securities	6,305,558	6,422,873
Mortgage backed securities	<u>6,772,577</u>	<u>7,037,941</u>
Total	<u>\$ 13,078,135</u>	<u>\$ 13,460,814</u>

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	<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
<b>December 31, 2010</b>		
Non-mortgage backed securities:		
Due in one year or less	\$ 498,261	\$ 513,880
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	-	-
Total non-mortgage backed securities	498,261	513,880
Mortgage backed securities	5,743,343	5,912,747
Total	<u>\$ 6,241,604</u>	<u>\$ 6,426,627</u>
<b>December 31, 2009</b>		
Non-mortgage backed securities:		
Due in one year or less	\$ 495,403	\$ 530,228
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	-	-
Total non-mortgage backed securities	495,403	530,228
Mortgage backed securities	5,861,972	6,035,504
Total	<u>\$ 6,357,375</u>	<u>\$ 6,565,732</u>

The market value is established by an independent pricing service as of the approximate dates indicated. The differences between the book value and market value reflect current interest rates and represent the potential loss (or gain) had the portfolio been liquidated on that date. Security losses (or gains) are realized only in the event of dispositions prior to maturity.

At December 31, 2010 and 2009, the Company did not hold investment securities of any single issuer, other than obligations of the U. S. Treasury and other U. S. Government agencies, whose aggregate book value exceeded ten percent of shareholders' equity.

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Information pertaining to securities with gross unrealized losses at December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2010			
	Less Than Twelve Months		Twelve Months or More	
	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
<b><u>Securities Available for Sale</u></b>				
Non-mortgage backed debt securities of				
U.S. agencies	\$ -	\$ -	\$ -	\$ -
State and Political subdivisions	<u>40,487</u>	<u>1,723,244</u>	<u>-</u>	<u>454,728</u>
Total non-mortgage backed debt securities	40,487	1,723,244	-	454,728
Mortgage backed securities	<u>1,837</u>	<u>804,533</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 42,324</u>	<u>\$ 2,527,777</u>	<u>\$ -</u>	<u>\$ 454,728</u>

<b><u>Securities Held to Maturity</u></b>				
Non-mortgage backed debt securities of				
U.S. agencies	\$ -	\$ -	\$ -	\$ -
Mortgage backed securities	<u>11,979</u>	<u>1,033,884</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,979</u>	<u>\$ 1,033,884</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2009			
	Less Than Twelve Months		Twelve Months or More	
	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
<b><u>Securities Available for Sale</u></b>				
Non-mortgage backed debt securities of				
U.S. agencies	\$ -	\$ -	\$ -	\$ -
State and Political subdivisions	<u>2,197</u>	<u>572,318</u>	<u>-</u>	<u>-</u>
Total non-mortgage backed debt securities	2,197	572,318	-	-
Mortgage backed securities	<u>-</u>	<u>-</u>	<u>130</u>	<u>792,190</u>
Total	<u>\$ 2,197</u>	<u>\$ 572,318</u>	<u>\$ 130</u>	<u>\$ 792,190</u>

<b><u>Securities Held to Maturity</u></b>				
Non-mortgage backed debt securities of				
U.S. agencies	\$ -	\$ -	\$ -	\$ -
Mortgage backed securities	<u>-</u>	<u>-</u>	<u>284</u>	<u>23,339</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 284</u>	<u>\$ 23,339</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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At December 31, 2010, one debt security has unrealized losses with aggregate depreciation of 5% 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. 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.

**C. LOANS**

The following is a summary of the loan portfolio by principal categories at December 31, 2010 and 2009:

	2010	2009
Commercial	\$ 8,560,169	\$ 7,140,125
Real estate - Commercial	13,502,966	9,868,024
Real estate - Construction	5,070,384	5,788,973
Real estate - Mortgage	26,722,885	24,765,203
Farm loans	457,742	214,197
Installment loans to individuals	7,197,593	7,096,814
Total Loans	61,511,739	54,873,336
Less:		
Allowance for loan losses	(1,107,126)	(993,043)
Loans, net	\$ 60,404,613	\$ 53,880,293

Overdrafts included in loans were \$265,180 and \$105,912 at December 31, 2010 and 2009, respectively.

**D. ALLOWANCE FOR LOAN LOSSES**

A summary of changes in allowance for loan losses of the Company for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Beginning Balance	\$ 993,043	\$ 1,228,749	\$ 1,132,459
Add - Provision for possible loan losses	205,000	120,000	120,000
Subtotal	1,198,043	1,348,749	1,252,459
Less:			
Loans charged off	133,055	430,159	48,833
Recoveries on loans previously charged off	(42,138)	(74,453)	(25,123)
Net loans charged off	90,917	355,706	23,710
Balance, end of year	\$ 1,107,126	\$ 993,043	\$ 1,228,749

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The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31,	
	2010	2009
Impaired loans without a valuation allowance	\$ 728,396	\$ 246,211
Impaired loans with a valuation allowance	1,560,284	1,346,329
Total impaired loans	<u>\$ 2,288,680</u>	<u>\$ 1,592,540</u>
Valuation allowance related to impaired loans	\$ 400,653	\$ 218,110
Total non-accrual loans	\$ 968,898	\$ 1,278,575
Total loans past-due ninety days or more and still accruing	\$ 14,300	\$ 69,436

**E. BANK PREMISES AND EQUIPMENT**

The following is a summary of asset classifications and depreciable lives for the Bank as of December 31, 2010 and 2009:

	<u>Useful Lives (Years)</u>	2010	2009
Land		\$ 565,000	\$ 565,000
Banking house and improvements	8-40	1,716,649	1,663,061
Equipment, furniture and fixtures	5-10	774,296	759,124
Software and capitalized conversion costs	3	<u>187,912</u>	<u>185,788</u>
Total		3,243,857	3,172,973
Less - accumulated depreciation		<u>(1,380,449)</u>	<u>(1,269,310)</u>
Bank premises and equipment, net		<u>\$ 1,863,408</u>	<u>\$ 1,903,663</u>

Depreciation included in operating expenses amounted to \$121,341, \$150,195 and \$166,289 in 2010, 2009 and 2008, respectively.

**F. CASH VALUE OF LIFE INSURANCE**

The Bank has established a bank-owned life insurance (BOLI) program under which single-premium, split-dollar, whole-life insurance contracts are purchased on certain eligible officers. Initial investments in the policies are non-deductible for income tax purposes and the related investment income and death benefits are non-taxable when received. Death benefits are divided among the Bank and beneficiaries designated by the insured officer. The cash surrender value of these policies was \$2,932,056 and \$2,821,830 at December 31, 2010 and 2009, respectively. Income earned on the cash surrender value of these policies was \$127,874, \$126,162 and \$120,457 for the years ended December 31, 2010, 2009 and 2008, respectively.

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**G. DEPOSITS**

The aggregate amount of time deposits exceeding \$100,000 at December 31, 2010 and 2009 was \$18,353,203 and \$17,476,502, respectively, and the Bank had deposit liabilities in NOW accounts of \$22,633,009 and \$27,334,835 at December 31, 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	\$	32,616,327
2012		6,327,457
2013		2,178,042
2014		289,098
2015 and thereafter		<u>125,298</u>
Total time deposits	\$	<u><u>41,536,222</u></u>

**H. SHORT-TERM BORROWINGS**

The Bank had a line of credit for federal funds purchased of \$3,000,000 with correspondent institutions as of December 31, 2010. At December 31, 2010, there was no outstanding balance on this line of credit.

The Bank had no advances on a line of credit of \$9,650,000 from the Federal Home Loan Bank (FHLB) at December 31, 2010 and 2009. Stock in FHLB, with a carrying value of \$182,300 at December 31, 2010 was pledged to FHLB as collateral in the event the Bank requests future advances. The Bank is required to maintain a minimum investment in FHLB stock of the greater of 1% of total mortgage assets or .18% of total assets while the advance agreement is in effect.

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in FASB Accounting Standards Codification Topic 320, Investments - Debt and Equity Securities; accordingly, the provisions of ASC Topic 320 are not applicable to this investment. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

**I. INCOME TAXES**

The provision for income taxes for the year ended December 31, 2010, 2009 and 2008 are as follows:

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current tax expense (benefit)	\$ 232,791	\$ (177,120)	\$ 278,217
Deferred tax benefit	24,383	128,946	47,632
Change in valuation allowance	<u>(46,071)</u>	<u>-</u>	<u>-</u>
Net provision for (benefit of) income taxes	<u><u>\$ 211,103</u></u>	<u><u>\$ (48,174)</u></u>	<u><u>\$ 325,849</u></u>

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Deferred income taxes are reflected for certain timing differences between book and taxable income and will be reduced in future years as these timing differences reverse. The reasons for the difference between the actual tax expense and tax computed at the federal income tax rate are as follows:

	Years Ended December 31,		
	2010	2009	2008
Tax on pretax income at statutory rate	\$ 357,822	\$ 46,265	\$ 435,062
Net operating loss carryback	-	(223,302)	-
State income taxes, net of federal tax benefit	(27,775)	-	8,680
Non-deductible expenses	5,773	13,409	17,067
Tax-exempt interest income	(114,501)	(83,203)	(53,535)
Life insurance income	(20,717)	(42,895)	(40,955)
Change in valuation allowance	46,071	-	-
Other	(35,570)	241,552	(40,470)
Total	<u>\$ 211,103</u>	<u>\$ (48,174)</u>	<u>\$ 325,849</u>
Net effective tax rate	<u>20.1%</u>	<u>-35.4%</u>	<u>25.5%</u>

The sources and tax effects of temporary differences that give rise to significant portions of deferred income tax assets (liabilities) are as follows:

	Years Ended December 31,		
	2010	2009	2008
<b>Deferred Income Tax Assets:</b>			
Provision for loan losses	\$ 245,523	\$ 206,735	\$ 244,688
Deferred compensation	37,964	28,310	6,984
Other real estate	35,203	-	-
Other	47,323	1,252	-
Total deferred tax assets	366,013	236,297	251,672
Less: valuation allowance	(46,071)	-	-
Net deferred tax assets	<u>319,942</u>	<u>236,297</u>	<u>251,672</u>
<b>Deferred Income Tax Liabilities:</b>			
Unrealized gains on securities available for sale	(87,317)	(121,259)	(80,652)
Depreciation	(81,419)	(80,503)	(90,808)
Amortization - goodwill	(549,359)	(488,319)	(364,444)
Total deferred tax liabilities	<u>(718,095)</u>	<u>(690,081)</u>	<u>(535,904)</u>
Net deferred tax liability	<u>\$ (398,153)</u>	<u>\$ (453,784)</u>	<u>\$ (284,232)</u>

**J. EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) plan covering substantially all of its employees meeting age and length-of-service requirements. Matching contributions to the plan are at the discretion of the Board of Directors. Retirement plan expenses for administrative fees charged to operations amounted to \$3,272, \$3,834, and \$3,320 for the years ended December 31, 2010, 2009, and 2008, respectively. The Company made matching contributions of \$27,768, \$27,030, and \$40,402 for the years ended December 31, 2010, 2009, and 2008, respectively.

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**K. LIMITATION ON DIVIDENDS**

The Board of Directors of any state-chartered bank in Georgia may declare and pay cash dividends on its outstanding capital stock without any request for approval of the Bank's regulatory agency if the following conditions are met:

- 1) Total classified assets at the most recent examination of the bank do not exceed eighty (80) percent of equity capital.
- 2) The aggregate amount of dividends declared in the calendar year does not exceed fifty (50) percent of the prior year's net income.
- 3) The ratio of equity capital to adjusted total assets shall not be less than six (6) percent.

As of January 1, 2011, the amount available for dividends without regulatory consent was \$420,658.

**L. FINANCIAL INSTRUMENTS**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

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

The Bank does require collateral or other security to support financial instruments with credit risk.

	<i>Contract or Notional Amount</i>
Financial instruments whose contract amount represent credit risk:	
Commitments to extend credit	\$ 10,064,637
Standby letters of credit	294,860
Total	\$ 10,359,497

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

Standby letters of credit are 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, including commercial paper, bond financing and similar transactions. All letters of credit are

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due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

**M. COMMITMENTS AND CONTINGENCIES**

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements.

**N. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company, through the Bank, has direct and indirect loans outstanding to or for the benefit of certain executive officers and directors. These loans were made on substantially the same terms as those prevailing, at the time made, for comparable loans to other persons and did not involve more than the normal risk of collectability or present other unfavorable features. The following is a summary of activity during 2010 with respect to such loans to these individuals:

Balances at December 31, 2009	\$	1,587,038
New loans		3,412,581
Repayments		<u>(2,144,894)</u>
Balances at December 31, 2010	\$	<u>2,854,725</u>

In addition to the above outstanding balances, there are loan commitments of \$2,044,776 available to certain executive officers and directors that were unused as of December 31, 2010.

The Bank also had deposits from these related parties of approximately \$3,905,851 at December 31, 2010.

**O. DISCLOSURES RELATING TO STATEMENT OF CASH FLOWS**

Interest and Income Taxes - Cash paid during the period for interest and income taxes was as follows:

	2010	2009	2008
Interest on deposits and borrowings	<u>\$ 1,353,269</u>	<u>\$ 1,621,109</u>	<u>\$ 2,125,677</u>
Income taxes, net	<u>\$ 174,500</u>	<u>\$ 47,000</u>	<u>\$ 276,200</u>

Other Noncash Transactions - Noncash transactions relating to investing and financing activities were as follows:

	2010	2009	2008
Changes in unrealized gain/loss on investments	<u>\$ (99,830)</u>	<u>\$ 132,724</u>	<u>\$ 136,982</u>
Transfer of loans to other real estate and other assets	<u>\$ (216,305)</u>	<u>\$ (484,508)</u>	<u>\$ (8,565)</u>

**P. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Generally accepted accounting standards in the U.S. require 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 hereafter. 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

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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, federal funds sold and interest-bearing deposits with other banks, the carrying amount is a reasonable estimate of fair value.

Investment Securities Held to Maturity and Securities Available for Sale - Fair values for investment securities are based on quoted market prices.

Loans and Mortgage Loans Held for Sale - 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.

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.

Federal Funds Purchased - The carrying value of federal funds purchased approximates their fair value.

FHLB Advances - The fair value of the Bank's fixed rate borrowings are estimated using discounted cash flows, based on Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Long-Term Debt and Convertible Subordinated Debentures - Rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written - Because commitments to extend credit and standby letters of credit are made using variable rates, the contract value is a reasonable estimate of fair value.

Limitations - 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 Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank'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 mortgage banking operation, brokerage network, deferred income taxes, premises and equipment and goodwill. 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.

Disclosures of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis, are required in the financial statements.

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The carrying amount and estimated fair values of the Bank subsidiary's financial instruments at December 31, 2010 and 2009 are as follows:

	2010		2009	
	Amount	Fair Value	Amount	Fair Value
<b>Assets:</b>				
Cash and short-term investments	\$ 13,882,509	\$ 13,882,509	\$ 20,679,857	\$ 20,679,857
Securities available for sale	12,269,757	12,269,757	13,460,814	13,460,814
Securities held to maturity	6,241,604	6,426,627	6,357,375	6,565,732
Loans	61,511,739	61,337,304	54,873,336	54,475,329
<b>Liabilities:</b>				
Deposits	87,639,234	87,397,816	89,653,768	89,313,521
<b>Unrecognized financial instruments:</b>				
Commitments to extend credit	10,064,637	10,064,637	11,104,421	11,104,421
Standby letters of credit	294,860	294,860	118,860	118,860

**Q. FAIR VALUE MEASUREMENTS**

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements 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 upon quoted prices for identical instruments traded in active markets.
- Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

**Assets Recorded at Fair Value on a Recurring Basis**

**Securities**

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. 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 flow. Examples of such instruments, which would generally be classified within Level 2 of the hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based

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on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

The Table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis at December 31, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities	\$ -	\$ 12,269,757	\$ -	\$ 12,269,757

**Assets Recorded at Fair Value on a Nonrecurring Basis**

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period.

**Impaired Loans**

Fair value accounting principles also apply to loans measured for impairment 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**

Certain foreclosed assets, upon initial recognition, are remeasured and reported at fair value less cost to sell through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset. 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 Bank records the other real estate 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 Bank records the other real estate asset as nonrecurring Level 3.

Assets measured at fair value on a nonrecurring basis are included in the table below.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Impaired loans	\$ -	\$ 1,888,027	\$ -	\$ 1,888,027
Other real estate	-	206,362	-	206,362
	<u>\$ -</u>	<u>\$ 2,094,389</u>	<u>\$ -</u>	<u>\$ 2,094,389</u>

**Liabilities**

The Company did not identify any liabilities that are required to be presented at fair value.

**Fair Value Measurement Using Significant Unobservable Inputs (Level 3)**

The Company reported no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010.

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**R. CREDIT RISK CONCENTRATION**

The Bank grants agribusiness, commercial and residential loans to customers. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the area's economic stability. The primary trade area for the Bank is generally that area within fifty miles in each direction.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of the legal lending limit to any single borrower or group of related borrowers.

The Company's bank subsidiary maintains its cash at several financial institutions located in the Southeast. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and permanently raised the FDIC coverage limit to \$250,000. In addition, on April 13, 2010, the FDIC extended the Transaction Account Guarantee Program (TAGP) through December 31, 2010 and reduced the maximum interest rate limit for NOW accounts guaranteed under the program to 0.25%, effective July 1, 2010. Under this program, FDIC insured institutions had the option of providing unlimited deposit insurance coverage on noninterest bearing transaction accounts, NOW accounts that paid no more than 0.25% interest and Interest on Lawyers Trust Accounts (IOLTA's). On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under this ruling, beginning December 31, 2010 through December 31, 2012, all noninterest bearing transaction accounts are fully insured, regardless of the balance of the account. However, unlike the TAGP, the Dodd-Frank act defines noninterest bearing transaction accounts as only traditional noninterest bearing transaction accounts and does not include either low-interest NOW accounts or IOLTA's. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules mentioned above. There were no uninsured balances outstanding as of December 31, 2010 and 2009.

**S. OPERATING EXPENSES**

Components of other operating expenses greater than 1% of total interest income and other income for the periods ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Professional fees	\$ 156,161	\$ 147,063	\$ 125,080
Data processing	255,293	243,893	230,500
Directors fees	109,850	107,500	108,000
FDIC insurance assessments	135,920	125,692	11,436

**T. REGULATORY MATTERS**

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

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2010, the most recent notification from the State Department of Banking and Finance categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b><i>As of December 31, 2010</i></b>						
Total Risk-Based Capital To (Risk-Weighted Assets)	\$ 12,066,000	18.91%	\$ 5,103,926	<u>&gt;</u> 8.0%	\$ 6,379,907	<u>&gt;</u> 10.0%
Tier I Capital To (Risk-Weighted Assets)	11,265,000	17.66%	2,551,962	<u>&gt;</u> 4.0%	3,827,944	<u>&gt;</u> 6.0%
Tier I Capital To (Average Assets)	11,265,000	11.46%	3,931,594	<u>&gt;</u> 4.0%	4,914,493	<u>&gt;</u> 5.0%
<b><i>As of December 31, 2009</i></b>						
Total Risk-Based Capital To (Risk-Weighted Assets)	\$ 11,233,000	18.78%	\$ 4,433,630	<u>&gt;</u> 8.0%	\$ 5,981,363	<u>&gt;</u> 10.0%
Tier I Capital To (Risk-Weighted Assets)	10,482,000	17.52%	2,216,442	<u>&gt;</u> 4.0%	3,589,726	<u>&gt;</u> 6.0%
Tier I Capital To (Average Assets)	10,482,000	10.78%	3,219,978	<u>&gt;</u> 4.0%	4,861,781	<u>&gt;</u> 5.0%

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**U. SEGMENT REPORTING**

Reportable segments are strategic business units that offer different products and services. Reportable segments are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Company and its subsidiary do not have any separately reportable operating segments. The entire operations of the Company are managed as one operation.

**V. SUBSEQUENT EVENTS**

The Company performed an evaluation of subsequent events through March 07, 2011, the date upon which the Company's financial statements were available for issue. The Company has not evaluated subsequent events after this date. No subsequent events were identified that would have required a change to the financial statements or disclosure in the notes to the financial statements.

**W. CONDENSED FINANCIAL STATEMENTS (PARENT COMPANY ONLY)**

Condensed parent company financial information on CBC Holding Company at December 31, 2010 and 2009, is as follows:

**BALANCE SHEETS**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash in subsidiary	\$ 4,318	\$ 14,522
Investment in subsidiary, at equity in underlying net assets	13,119,626	12,402,806
Accrued income and other assets	<u>1,534</u>	<u>247,584</u>
Total Assets	<u>\$ 13,125,478</u>	<u>\$ 12,664,912</u>
<b>Liabilities</b>		
Other expenses and accrued liabilities	<u>\$ 3,618</u>	<u>\$ 247,689</u>
<b>Shareholders' Equity</b>		
Preferred stock, \$1 par value, authorized 2,000,000 shares, issued and outstanding 87,664 in 2010 and 88,268 in 2009	87,664	88,268
Common stock, \$1 par value, authorized 10,000,000 shares, issued and outstanding 644,240 in 2010 and 643,636 in 2009	644,240	643,636
Additional paid-in capital surplus	6,816,170	6,816,170
Retained earnings	6,017,810	5,247,285
Accumulated other comprehensive income	186,681	252,569
Common stock in treasury, at cost 32,798 shares in 2010 and 2009	<u>(630,705)</u>	<u>(630,705)</u>
Total shareholders' equity	<u>13,121,860</u>	<u>12,417,223</u>
Total Liabilities and Shareholders' Equity	<u>\$ 13,125,478</u>	<u>\$ 12,664,912</u>

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**STATEMENTS OF INCOME AND RETAINED EARNINGS**

	<i>Years Ended December 31,</i>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Revenues</b>			
Dividend Income	\$ 70,792	\$ 283,202	\$ 283,206
<b>Expenses</b>			
Other	14,705	17,418	21,095
<b>Income Before Taxes and Equity Income (Loss) of Subsidiary</b>	56,087	265,784	262,111
Provision for (benefit of) income taxes	2,520	(23,569)	8,392
<b>Income Before Equity Income (Loss) of Subsidiary</b>	58,607	242,215	270,503
Equity in undistributed income (loss) of subsidiary	782,708	(57,970)	683,217
<b>Net Income</b>	841,315	184,245	953,720
<b>Retained Earnings, Beginning</b>	5,247,285	5,346,241	4,706,508
Effect of EITF 06-04	-	-	(30,781)
Stock and cash dividends	(70,790)	(283,201)	(283,206)
<b>Retained Earnings, Ending</b>	<u>\$ 6,017,810</u>	<u>\$ 5,247,285</u>	<u>\$ 5,346,241</u>

**STATEMENTS OF CASH FLOWS**

	<i>Years Ended December 31,</i>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities:</b>			
Net income	\$ 841,315	\$ 184,245	\$ 953,720
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed (income) loss of subsidiary	(782,708)	57,970	(683,217)
Net change in operating assets and liabilities:			
Accrued income and other assets	246,050	(224,119)	2,022
Accrued expenses and other liabilities	(244,071)	226,381	16,087
Net cash provided by operating activities	<u>60,586</u>	<u>244,477</u>	<u>288,612</u>
<b>Cash flows from financing activities:</b>			
Cash dividends paid	(70,790)	(283,201)	(283,206)
Net cash used in financing activities	<u>(70,790)</u>	<u>(283,201)</u>	<u>(283,206)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(10,204)	(38,724)	5,406
<b>Cash and cash equivalents at beginning of year</b>	14,522	53,246	47,840
<b>Cash and cash equivalents at end of year</b>	<u>\$ 4,318</u>	<u>\$ 14,522</u>	<u>\$ 53,246</u>