



Dear Stockholder,

The management of County First Bank is pleased to report that we had a good year despite the continued economic turmoil and instability. Net profit of \$1,256,168, was up 40.1% over 2009, and the Bank's return on average assets (ROAA) of 0.68% was well above our peer group. In addition, we set aside an additional \$600,000 to hedge against potential loan losses, although no losses have been specifically identified beyond those recognized in 2010.

The Bank continues to generate new customer relationships in our market area and, despite the 4% decrease in net loans, we disbursed \$37.6 million in new loans in 2010. We have continued to be an active lender in Southern Maryland; however, the weak real estate market and declining profit margins of many small businesses have hampered lending efforts.

At year-end the Bank had \$5,100,400 in impaired loans including \$3,387,094 on which the Bank had stopped accruing interest. The non-accruing loans consist of four relationships. All loans within each relationship appear to be well secured and supported by current appraisals. The remaining impaired loans with specific reserves are current as to interest payments and appear to be adequately secured.

Other Real Estate owned at year-end of \$825,041 consists of one house which is rented, and two parcels of land currently for sale. The value on the Bank's books is supported by current appraisals and no losses are anticipated. Two of the three homes owned at the end of 2009 were sold in 2010.

Our Bank, as well as our industry, continues to struggle with burdensome regulatory changes, escalating insurance and compliance costs, and worrisome economic instability. Our current strategy is to provide plain vanilla banking with exceptional customer service. We will focus on offering basic loan and deposit products to our Southern Maryland community.

The Bank remains well-capitalized and very liquid. Asset quality remains good, although it has slipped somewhat due to the effects of the economy on our customer base, and we are proud that we have been able to maintain our five-star Bauer Financial rating throughout the year. Dividends were paid in the amount of \$0.95 per share of common stock in 2010, and represent the seventeenth consecutive year of dividend payments.

In closing, we would like to thank our shareholders, customers, directors, employees, and friends for their continued support in making County First Bank a successful community bank. If anyone has any questions about our growth plans or corporate strategy, please feel free to call or stop by for a visit.

Very truly yours,

Earl R. Gieseman, III
President & CEO

Jerry Volman
Chairman of the Board



GROWING IN SOUTHERN MARYLAND



Board of Directors:

Standing, left-to-right: Stephen H. Brandt, Robert Thompson, G. Wade Compton, Thomas F. Mudd, Earl R. Gieseman III, William A. Roberts III, James A. Mudd Jr., E. Larry Sanders III, Van T. Mitchell, and Charles Carruth. Seated, left-to-right: Thomas C. Hayden Jr., Thomas J. Murphy, Jerry Volman, and William Higgs. Not pictured: Helen E. Keller

County First Bank

Financial Highlights

	2010	2009	2008
At year end			
Assets	\$ 182,519,126	\$ 178,450,727	\$ 165,542,219
Deposits	155,141,698	151,754,158	134,035,774
Loans, net	142,890,933	148,969,131	145,808,242
Stockholders' equity	21,416,770	20,587,809	20,159,991
Average balances			
Assets	\$ 185,405,570	\$ 173,909,774	\$ 161,255,333
Deposits	158,259,530	145,264,767	134,968,977
Loans, net	147,475,110	147,795,305	134,467,786
Stockholders' equity	21,088,585	20,398,216	19,601,680
For the year			
Net interest income	\$ 7,457,711	\$ 6,785,915	\$ 6,941,770
Net income	1,256,168	896,066	1,443,732
Cash dividends declared	751,761	815,241	804,897
Per share data			
Net income-basic	\$ 1.58	\$ 1.14	\$ 1.87
Cash dividends declared	0.95	1.05	1.05
Book value	26.74	26.13	25.97
Ratios			
Return on average assets	0.68%	0.52%	0.90%
Return on average equity	5.96%	4.39%	7.37%
Average equity to average assets	11.37%	11.73%	12.16%

Report of Independent Auditors

The Board of Directors and Stockholders
County First Bank
La Plata, Maryland

We have audited the accompanying balance sheets of County First Bank as of December 31, 2010, 2009, and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 financial statements referred to above present fairly, in all material respects, the financial position of County First Bank as of December 31, 2010, 2009, and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 18, 2011

County First Bank

Balance Sheets

December 31,	2010	2009	2008
Assets			
Cash and due from banks	\$ 2,835,370	\$ 3,367,992	\$ 2,444,328
Federal funds sold	<u>3,817,056</u>	<u>7,896,952</u>	<u>1,334,257</u>
Cash and cash equivalents	6,652,426	11,264,944	3,778,585
Certificate of deposit in other financial institution	100,000	100,000	100,000
Securities held to maturity (fair value of \$20,964,060, \$6,013,914, and \$5,115,753)	20,977,545	6,000,000	5,097,615
Restricted equity securities at cost	712,400	770,700	873,900
Loans, less allowance for loan losses of \$1,515,862, \$1,120,442, and \$1,146,507	142,890,933	148,969,131	145,808,242
Bank premises and equipment	4,308,468	4,559,679	4,793,311
Foreclosed real estate	825,041	825,532	-
Cash surrender value of life insurance	4,378,059	4,193,482	4,002,966
Accrued interest receivable	422,771	432,883	487,947
Deferred income taxes	494,564	327,169	204,325
Prepaid income taxes	-	15,622	63,845
Other assets	<u>756,919</u>	<u>991,585</u>	<u>331,483</u>
	<u>\$ 182,519,126</u>	<u>\$ 178,450,727</u>	<u>\$ 165,542,219</u>
Liabilities and Stockholders' Equity			
Deposits			
Noninterest-bearing	\$ 32,303,872	\$ 31,924,194	\$ 29,134,343
Interest-bearing	<u>122,837,826</u>	<u>119,829,964</u>	<u>104,901,431</u>
Total deposits	155,141,698	151,754,158	134,035,774
Securities sold under repurchase agreements	891,381	1,299,439	2,597,096
Federal Home Loan Bank advances	4,000,000	4,000,000	8,000,000
Accrued interest payable	186,600	258,644	311,249
Income taxes payable	224,345	-	-
Other liabilities	<u>658,332</u>	<u>550,677</u>	<u>438,109</u>
	<u>161,102,356</u>	<u>157,862,918</u>	<u>145,382,228</u>
Stockholders' equity			
Common stock, par value \$1 per share, authorized 5,000,000 shares; issued and outstanding 800,801 in 2010, 787,819 in 2009, and 776,420 in 2008	800,801	787,819	776,420
Surplus	13,325,200	13,013,628	12,678,034
Undivided profits	<u>7,290,769</u>	<u>6,786,362</u>	<u>6,705,537</u>
	<u>21,416,770</u>	<u>20,587,809</u>	<u>20,159,991</u>
	<u>\$ 182,519,126</u>	<u>\$ 178,450,727</u>	<u>\$ 165,542,219</u>
Book value per share	<u>\$ 26.74</u>	<u>\$ 26.13</u>	<u>\$ 25.97</u>

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

County First Bank

Statements of Income

Years Ended December 31,	2010	2009	2008
Interest revenue			
Loans, including fees	\$ 8,827,516	\$ 8,631,495	\$ 8,955,260
U.S. government agency securities	62,818	90,780	357,208
Federal funds sold	31,845	12,503	74,543
U.S. Treasury securities	-	2,936	56,749
Other	2,345	2,232	15,416
Total interest revenue	<u>8,924,524</u>	<u>8,739,946</u>	<u>9,459,176</u>
Interest expense			
Deposits	1,341,108	1,825,021	2,407,616
Borrowed funds	125,705	129,010	109,790
Total interest expense	<u>1,466,813</u>	<u>1,954,031</u>	<u>2,517,406</u>
Net interest income before provision for loan losses	7,457,711	6,785,915	6,941,770
Provision for loan losses	<u>600,000</u>	542,300	60,000
Net interest income after provision for loan losses	<u>6,857,711</u>	<u>6,243,615</u>	<u>6,881,770</u>
Noninterest revenue			
Service charges on deposit accounts	268,736	271,680	265,559
Bank-owned life insurance income	191,708	202,736	160,376
Merchant credit card income	122,144	113,183	127,790
Other fees and commissions	282,982	218,476	195,640
Total noninterest revenue	<u>865,570</u>	<u>806,075</u>	<u>749,365</u>
Noninterest expenses			
Salaries	2,397,384	2,355,950	2,364,163
Employee benefits	692,164	700,789	690,032
Occupancy	450,703	449,627	425,277
Furniture and equipment	297,644	313,920	319,697
Other operating	1,941,908	1,921,785	1,617,616
Total noninterest expenses	<u>5,779,803</u>	<u>5,742,071</u>	<u>5,416,785</u>
Income before income taxes	1,943,478	1,307,619	2,214,350
Income taxes	<u>687,310</u>	411,553	770,618
Net income	<u>\$ 1,256,168</u>	<u>\$ 896,066</u>	<u>\$ 1,443,732</u>
Basic earnings per share	\$ 1.58	\$ 1.14	\$ 1.87
Diluted earnings per share	\$ 1.58	\$ 1.14	\$ 1.83

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

County First Bank

Statements of Changes in Stockholders' Equity

	Common stock		Surplus	Undivided profits	Accumulated other comprehensive income	Comprehensive income
	Shares	Par value				
Balance, December 31, 2007	765,369	\$ 765,369	\$ 12,252,444	\$ 6,066,702	\$ (378)	
Net income	-	-	-	1,443,732	-	\$ 1,443,732
Unrealized gain on investment securities available for sale, net of income taxes of \$246	-	-	-	-	378	<u>378</u>
Comprehensive income						<u>\$ 1,444,110</u>
Cash dividends, \$1.05 per share	-	-	-	(804,897)	-	
Dividends reinvested	9,851	9,851	349,685	-	-	
Shares sold upon exercise of options including tax benefit of \$3,353	1,200	1,200	36,353	-	-	
Stock-based compensation	-	-	<u>39,552</u>	-	-	
Balance, December 31, 2008	776,420	776,420	12,678,034	6,705,537	-	
Net income	-	-	-	896,066	-	<u>\$ 896,066</u>
Cash dividends, \$1.05 per share	-	-	-	(815,241)	-	
Dividends reinvested	12,384	12,384	346,749	-	-	
Shares sold upon exercise of options including tax benefit of \$986	2,500	2,500	68,486	-	-	
Shares repurchased	(3,485)	(3,485)	(108,045)	-	-	
Stock-based compensation	-	-	<u>28,404</u>	-	-	
Balance, December 31, 2009	787,819	787,819	13,013,628	6,786,362	-	
Net income	-	-	-	1,256,168	-	<u>\$ 1,256,168</u>
Cash dividends, \$0.95 per share	-	-	-	(751,761)	-	
Dividends reinvested	12,982	12,982	292,072	-	-	
Stock-based compensation	-	-	<u>19,500</u>	-	-	
Balance, December 31, 2010	<u>800,801</u>	<u>\$ 800,801</u>	<u>\$ 13,325,200</u>	<u>\$ 7,290,769</u>	<u>\$ -</u>	

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

County First Bank

Statements of Cash Flows

Years Ended December 31,	2010	2009	2008
Cash flows from operating activities			
Interest received	\$ 8,928,316	\$ 8,816,518	\$ 9,594,608
Fees and commissions received	680,993	615,559	587,431
Interest paid	(1,538,857)	(2,006,636)	(2,838,292)
Cash paid to suppliers and employees	(5,050,332)	(5,918,755)	(4,968,444)
Income taxes paid	(614,738)	(486,174)	(690,216)
	<u>2,405,382</u>	<u>1,020,512</u>	<u>1,685,087</u>
Cash flows from investing activities			
Purchase of investment securities held to maturity	(21,977,420)	(10,000,000)	(7,472,242)
Proceeds from maturity and call of investment securities			
Held to maturity	7,000,000	9,100,000	17,750,000
Available for sale	-	-	1,000,000
(Purchase) redemption of restricted stock	58,300	103,200	(368,800)
Loans made, net of principal collected	4,957,708	(4,552,614)	(17,861,162)
Purchase of premises and equipment	(55,747)	(90,898)	(283,202)
Purchase of software	(41,089)	(17,916)	(20,905)
Proceeds from sale of foreclosed real estate	541,363	-	-
Improvements to foreclosed real estate	(33,790)	-	-
	<u>(9,550,675)</u>	<u>(5,458,228)</u>	<u>(7,256,311)</u>
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	8,285,892	10,722,381	(6,115,130)
Other deposits	(4,898,352)	6,996,003	3,086,292
Securities sold under repurchase agreements	(408,058)	(1,297,657)	(676,624)
Advances from (repayments to)			
Federal Home Loan Bank, net	-	(4,000,000)	8,000,000
Proceeds from sale of stock	305,054	430,119	397,089
Repurchase of stock	-	(111,530)	-
Dividends paid	(751,761)	(815,241)	(804,897)
	<u>2,532,775</u>	<u>11,924,075</u>	<u>3,886,730</u>
Net increase (decrease) in cash and cash equivalents	(4,612,518)	7,486,359	(1,684,494)
Cash and cash equivalents at beginning of year	<u>11,264,944</u>	<u>3,778,585</u>	<u>5,463,079</u>
Cash and cash equivalents at end of year	<u>\$ 6,652,426</u>	<u>\$ 11,264,944</u>	<u>\$ 3,778,585</u>

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

County First Bank

Statements of Cash Flows (Continued)

Years Ended December 31,	2010	2009	2008
Reconciliation of net income to net cash provided by operating activities			
Net income	\$ 1,256,168	\$ 896,066	\$ 1,443,732
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	347,471	366,207	350,363
Provision for loan losses	600,000	542,300	60,000
Accretion of discounts, net of amortization	(125)	(2,385)	(53,420)
Stock-based compensation	19,500	28,404	39,552
Gain on disposal of foreclosed real estate	(897)	-	-
Write-down of foreclosed real estate	20,500	-	-
Deferred income taxes	(167,395)	(122,844)	21,468
Increase (decrease) in			
Deferred loan fees and costs, net	(6,195)	23,893	30,338
Accrued interest payable	(72,044)	(52,605)	(320,886)
Income taxes payable	224,345	-	-
Other liabilities	107,655	112,568	101,688
Decrease (increase) in			
Accrued interest receivable	10,112	55,064	158,514
Cash surrender value of life insurance	(184,577)	(190,516)	(161,934)
Prepaid income taxes	15,622	48,223	58,934
Other assets	235,242	(683,863)	(43,262)
	<u>\$ 2,405,382</u>	<u>\$ 1,020,512</u>	<u>\$ 1,685,087</u>
Noncash investing activity			
Real estate acquired through foreclosure	<u>\$ 526,685</u>	<u>\$ 825,532</u>	<u>\$ -</u>

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

County First Bank

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

The accounting and reporting policies reflected in the financial statements conform to generally accepted accounting principles and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of commitments and contingent liabilities at the date of the financial statements and revenue and expenses during the year. Actual results could differ from those estimates.

Business

The Bank provides credit and deposit services to individuals and businesses located primarily in Charles, St. Mary's, and Calvert Counties and surrounding areas of Southern Maryland.

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized and discounts are accreted using the interest method.

Gains and losses on disposal are determined using the specific-identification method.

Loans and the allowance for loan losses

Loans are stated at face value, plus deferred origination costs, less deferred origination fees and the allowance for loan losses.

Interest on loans is accrued based on the principal amounts outstanding. Origination fees and costs are amortized to income over the terms of the loans using an approximate-interest method. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full.

Loans are considered impaired when, based on current information, management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued. If collection of principal is evaluated as doubtful, all payments are applied to principal.

The allowance for loan losses represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans and other extensions of credit that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers pools of nonclassified loans and is based on historical loss experience adjusted for qualitative factors. There may be an unallocated component of the allowance, which reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Actual loan performance may differ from management's estimates. Loan losses are charged to the allowance when management believes that collectability is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

County First Bank

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Certificate of deposit in other financial institution

The certificate of deposit in other financial institution matures within one year and is carried at cost.

Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related property. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is less. Expenditures for maintenance, repairs, and minor replacements are charged to operating expenses as incurred.

Foreclosed real estate

Real estate acquired through foreclosure is recorded at the lower of cost or fair value on the date acquired. In general, cost equals the Bank's investment in the property at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated value of the property are included in other operating expense.

Intangible assets

Computer software is recorded at cost and amortized over three to five years using the straight-line method.

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities 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.

Comprehensive income

Comprehensive income includes net income and the unrealized gain or loss net of related income taxes on investment securities available for sale.

Earnings per share

Earnings per share are computed by dividing net income by the weighted average number of shares outstanding, after giving retroactive effect to stock dividends. The number of shares used to compute basic and diluted earnings per share is reconciled as follows:

	2010	2009	2008
Average shares outstanding	794,398	786,399	773,789
Dilutive effect of options	<u>-</u>	<u>-</u>	<u>15,292</u>
Diluted shares	<u>794,398</u>	<u>786,399</u>	<u>789,081</u>
Anti-dilutive shares	<u>111,000</u>	<u>112,103</u>	<u>-</u>

County First Bank

Notes to Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the amounts reported for 2009 and 2008 to conform to the current year presentation.

Stock options

The Bank accounts for employee and director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. The Bank is required to recognize compensation expense related to stock-based compensation awards in its income statements over the period during which an individual is required to provide service in exchange for such award. For the years ended December 31, 2010, 2009, and 2008, the Bank recorded stock-based compensation expense of **\$19,500**, \$28,404, and \$39,552, respectively.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2010 through March 18, 2011, the date these financial statements were issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. Cash and Cash Equivalents

At times, the Bank carries balances with other banks that exceed the federally insured limit. The average balances did not exceed the federally insured limit in 2010, 2009, or 2008. The Bank also sells federal funds on an unsecured basis to the same banks. Average balances sold were **\$14,625,759** in 2010, \$7,155,537 in 2009, and \$3,362,130 in 2008.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

3. Investment Securities

Investment securities are summarized as follows:

December 31, 2010	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<i>Held to maturity</i>				
U.S. government agency	<u>\$20,977,545</u>	<u>\$ 6,607</u>	<u>\$ 20,092</u>	<u>\$20,964,060</u>
December 31, 2009				
<i>Held to maturity</i>				
U.S. government agency	<u>\$ 6,000,000</u>	<u>\$ 14,384</u>	<u>\$ 470</u>	<u>\$ 6,013,914</u>
December 31, 2008				
<i>Held to maturity</i>				
U.S. Treasury	\$ 1,597,615	\$ 2,938	\$ -	\$ 1,600,553
U.S. government agency	<u>3,500,000</u>	<u>15,200</u>	<u>-</u>	<u>3,515,200</u>
	<u>\$ 5,097,615</u>	<u>\$ 18,138</u>	<u>\$ -</u>	<u>\$ 5,115,753</u>

County First Bank

Notes to Financial Statements (Continued)

3. Investment Securities (Continued)

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer are as follows:

	Less than 12 months		12 months or longer		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
U. S. government agency	\$ 20,092	\$ 16,957,536	\$ -	\$ -	\$ 20,092	\$ 16,957,536

Management has the ability and intends to hold these investment securities until maturity. The decline in fair value is the result of rising interest rates, not a deterioration of the credit standing of the issuers. Since no loss is expected on these securities, no impairment has been recorded.

Contractual maturities at December 31, 2010, 2009, and 2008, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to maturity	
	Amortized cost	Fair value
December 31, 2010		
<i>Maturing</i>		
Within one year	\$15,000,999	\$15,002,060
Over one to five years	<u>5,976,546</u>	<u>5,962,000</u>
	<u>\$20,977,545</u>	<u>\$20,964,060</u>
December 31, 2009		
<i>Maturing</i>		
Within one year	\$ 1,500,000	\$ 1,503,903
Over one to five years	<u>4,500,000</u>	<u>4,510,011</u>
	<u>\$ 6,000,000</u>	<u>\$ 6,013,914</u>
December 31, 2008		
<i>Maturing</i>		
Within one year	\$ 1,597,615	\$ 1,600,553
Over one to five years	<u>3,500,000</u>	<u>3,515,200</u>
	<u>\$ 5,097,615</u>	<u>\$ 5,115,753</u>

No investment securities were sold prior to maturity in 2010, 2009, or 2008.

At December 31, 2010, 2009, and 2008, securities with an amortized cost of **\$1,999,917**, \$3,000,000, and \$5,097,615, and fair value of **\$2,003,985**, \$3,005,961, and \$5,115,753, respectively, are pledged as collateral for government deposits, securities sold under repurchase agreements, and Federal Home Loan Bank advances.

County First Bank

Notes to Financial Statements (Continued)

4. Loans

Major classifications of loans are as follows:

	2010	2009	2008
Real estate			
Commercial	\$ 69,881,675	\$ 73,162,639	\$ 66,026,913
Residential	1,929,240	2,242,045	2,576,363
Construction and land development	24,807,845	24,088,231	25,437,308
Commercial	27,090,710	30,027,885	33,729,675
Home equity	20,224,442	20,111,018	18,726,053
Consumer	<u>472,883</u>	<u>457,755</u>	<u>458,437</u>
	144,406,795	150,089,573	146,954,749
Allowance for loan losses	<u>1,515,862</u>	<u>1,120,442</u>	<u>1,146,507</u>
	<u>\$142,890,933</u>	<u>\$ 148,969,131</u>	<u>\$145,808,242</u>

The maturity and rate repricing distribution of the loan portfolio follows:

Variable rate	\$ 26,373,566	\$ 32,334,891	\$ 53,755,207
Within one year	23,680,043	19,524,123	5,819,367
Over one to five years	51,961,627	55,437,344	41,182,334
Over five years	<u>42,463,786</u>	<u>42,871,637</u>	<u>46,252,370</u>
	144,479,022	150,167,995	147,009,278
Deferred loan origination fees, net of costs	<u>(72,227)</u>	<u>(78,422)</u>	<u>(54,529)</u>
	<u>\$144,406,795</u>	<u>\$ 150,089,573</u>	<u>\$ 146,954,749</u>

The loan agreements for most loans in the Bank's portfolio with maturities in excess of five years include a provision that allows the Bank to review the interest rate at various intervals during the terms of the loans and adjust the interest rate at the Bank's option.

County First Bank

Notes to Financial Statements (Continued)

4. Loans (Continued)

Transactions in the allowance for loan losses were as follows:

	2010	2009	2008
Beginning of year	\$ 1,120,443	\$ 1,146,507	\$ 1,185,586
Provision charged to operations	600,000	542,300	60,000
Recoveries	<u>20,074</u>	<u>700</u>	<u>-</u>
	1,740,517	1,689,507	1,245,586
Loans charged off	<u>224,655</u>	<u>569,065</u>	<u>99,079</u>
End of year	<u>\$ 1,515,862</u>	<u>\$ 1,120,442</u>	<u>\$ 1,146,507</u>
Nonaccrual loans	\$ 3,387,095	\$ 725,404	\$ 292,325
Accruing loan with specific reserve	<u>1,712,945</u>	<u>1,016,329</u>	<u>2,245,621</u>
Impaired loans	<u>\$ 5,100,040</u>	<u>\$ 1,741,733</u>	<u>\$ 2,537,946</u>
Interest not accrued on nonaccrual loans	\$ 42,607	\$ 22,992	\$ 41,122
Specific reserve for impaired loans	229,731	177,399	240,521
Loans past due 90 days or more and accruing interest	78,738	168,908	68,547

The Bank makes loans to customers located primarily in the Southern Maryland counties of Charles, St. Mary's, and Calvert Counties. Although the loan portfolio is diversified, its performance will be influenced by the regional economy.

5. Credit Commitments

Outstanding loan commitments, unused lines of credit, and letters of credit were as follows:

	2010	2009	2008
Unused lines of credit			
Commercial lines	\$ 9,364,363	\$ 8,451,834	\$ 11,588,674
Home equity lines	15,876,866	15,970,277	25,439,411
Unsecured consumer credit	<u>231,116</u>	<u>236,932</u>	<u>233,417</u>
	<u>\$ 25,472,345</u>	<u>\$ 24,659,043</u>	<u>\$ 37,261,502</u>
Loan commitments			
Construction and land development	<u>\$ 5,580,267</u>	<u>\$ 7,560,959</u>	<u>\$ 10,024,315</u>
Letters of credit	<u>\$ 5,264,511</u>	<u>\$ 4,390,677</u>	<u>\$ 4,196,993</u>

County First Bank

Notes to Financial Statements (Continued)

5. Credit Commitments (Continued)

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

6. Related Party Transactions

The officers and directors of the Bank enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. At December 31, 2010, 2009, and 2008, the total amounts of loans outstanding to officers and directors, including loans to their related interests, were **\$2,072,760**, \$2,602,913, and \$3,509,419, respectively.

Activity in these loans during the years ended December 31, 2010, 2009, and 2008 was as follows:

	2010	2009	2008
Beginning balance	\$2,602,913	\$3,509,419	\$2,340,208
Advances	420,151	750,219	1,837,390
Payments	(950,304)	(1,656,725)	(668,179)
Ending balance	<u>\$2,072,760</u>	<u>\$2,602,913</u>	<u>\$3,509,419</u>

Deposits from executive officers and directors, including their related interests, were **\$8,827,921**, \$7,461,091, and \$7,586,255, as of December 31, 2010, 2009, and 2008.

County First Bank

Notes to Financial Statements (Continued)

7. Bank Premises and Equipment

A summary of bank premises and equipment and the related depreciation and amortization follows:

	Useful lives	2010	2009	2008
Land and improvements	15 - 40 years	\$1,869,239	\$1,869,239	\$1,852,949
Building and improvements	5 - 40 years	2,558,339	2,558,339	2,556,314
Furniture and equipment	3 - 25 years	2,057,633	2,055,506	2,084,285
Leasehold improvements	5 - 20 years	<u>207,198</u>	<u>207,198</u>	<u>205,780</u>
		6,692,409	6,690,282	6,699,328
Accumulated depreciation and amortization		<u>2,383,941</u>	<u>2,130,603</u>	<u>1,906,017</u>
Net bank premises and equipment		<u>\$4,308,468</u>	<u>\$4,559,679</u>	<u>\$4,793,311</u>
Depreciation and amortization expense		<u>\$ 306,958</u>	<u>\$ 324,530</u>	<u>\$ 312,598</u>

Included in other assets at December 31, 2010, 2009, and 2008, is computer software carried at an amortized cost of **\$68,805**, \$68,229, and \$91,990, respectively. Software amortization expense was **\$40,513**, \$41,677, and \$37,765 in 2010, 2009, and 2008, respectively.

8. Borrowings

The Bank sells securities under repurchase agreements to provide cash management services to commercial account customers. These overnight borrowings are summarized as follows:

	2010	2009	2008
Average amount outstanding	\$1,066,632	\$2,650,424	\$4,064,344
Maximum amount outstanding	1,969,663	4,178,508	5,069,721
Average rate paid during the year	0.19%	0.15%	1.53%
Investment securities underlying the agreement at year-end			
Amortized cost	\$1,999,917	\$3,000,000	\$3,500,000
Estimated fair value	2,003,985	3,005,961	3,515,200

County First Bank

Notes to Financial Statements (Continued)

8. Borrowings (Continued)

The Bank's borrowings from the Federal Home Loan Bank are summarized as follows:

Maturity date	Interest rate	2010	2009	2008
September 6, 2011	2.87%	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
September 6, 2011	3.23%	2,000,000	2,000,000	2,000,000
January 2, 2009	Variable	-	-	4,000,000
		<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ 8,000,000</u>

As of December 31, 2010, the Bank had pledged loans in its portfolio totaling **\$40,769,610** as collateral for the advances from the Federal Home Loan Bank (FHLB). Average advances during 2010, 2009, and 2008 totaled **\$4,000,000**, \$4,673,973, and \$1,718,579, respectively.

The Bank has available lines of credit of \$1,500,000 in overnight federal funds and \$5,000,000 in a secured federal funds facility from other banks. The Bank may also borrow up to 20% of its assets from the Federal Home Loan Bank, however, the amount the Bank could borrow would be limited by the balance of qualified loans it could pledge to the FHLB.

As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on outstanding Federal Home Loan Bank advances to the Bank.

9. Deposits

Major classifications of interest-bearing deposits are as follows:

	2010	2009	2008
Checking	\$ 15,199,384	\$ 14,964,844	\$ 12,422,764
Money market	32,008,613	24,970,316	25,376,748
Savings	11,036,142	10,402,765	8,332,261
Certificates of deposit, \$100,000 or more	32,513,914	37,053,267	29,896,455
Other time deposits	<u>32,079,773</u>	<u>32,438,772</u>	<u>28,873,203</u>
	<u>\$ 122,837,826</u>	<u>\$ 119,829,964</u>	<u>\$ 104,901,431</u>

Interest on deposits for the years ended December 31, 2010, 2009, and 2008, consisted of the following:

Checking	\$ 22,356	\$ 24,986	\$ 42,574
Savings	45,339	40,173	44,247
Money market	224,003	235,668	275,016
Other time deposits	<u>1,049,410</u>	<u>1,524,194</u>	<u>2,045,779</u>
	<u>\$ 1,341,108</u>	<u>\$ 1,825,021</u>	<u>\$ 2,407,616</u>

County First Bank

Notes to Financial Statements (Continued)

9. Deposits (Continued)

Certificates of deposit mature as follows:

	2010	2009	2008
Three months or less	\$ 18,501,977	\$ 20,681,954	\$ 17,881,735
Over three through twelve months	31,596,162	36,024,133	31,530,774
Over one year to three years	10,458,821	10,185,592	6,912,139
Over three years to five years	<u>4,036,727</u>	<u>2,600,360</u>	<u>2,445,010</u>
	<u>\$ 64,593,687</u>	<u>\$ 69,492,039</u>	<u>\$ 58,769,658</u>

As of December 31, 2008, securities with an amortized cost of \$1,597,615, and an estimated fair value of \$1,600,553 were pledged for governmental deposits. There were no securities pledged for governmental deposits as of December 31, 2010 or 2009.

10. Lease Commitments

The Bank entered into a lease dated August 24, 1998, for its operations center. The lease, which has been extended through August 31, 2013, includes an additional five-year renewal option.

The Bank entered a lease agreement dated December 16, 2005, for its branch location in Lusby, Maryland. The lease, which has been extended through April 30, 2013, includes two additional five-year renewal options.

The Bank entered into a lease dated January 31, 2007, for its branch location in Prince Frederick, Maryland. The lease, which has been extended through April 30, 2013, includes four additional three-year renewal options.

The leases require the following minimum payments:

Year	Payments
2011	129,922
2012	137,299
2013	<u>68,966</u>
	<u><u>\$336,187</u></u>

Rent expense was **\$117,574**, \$111,952, and \$109,722 for 2010, 2009, and 2008, respectively.

A director of the Bank owns an interest in the entity from which the Bank leases its operations center.

County First Bank

Notes to Financial Statements (Continued)

11. Other Noninterest Expenses

A summary of other noninterest expenses follows:

	2010	2009	2008
Data processing services	\$ 332,858	\$ 312,274	\$ 268,465
FDIC assessment	219,379	268,696	107,569
Telephone, postage, and freight	218,991	199,405	175,944
Professional services	208,309	188,285	136,699
ATM and credit card processing	203,294	197,999	196,017
Directors fees	143,537	147,426	142,281
Stationery, printing, and supplies	109,487	105,289	82,513
Meals and entertainment	73,834	64,885	87,728
Advertising and promotion	45,994	52,162	67,537
Amortization of software	40,513	41,677	37,765
Security	39,060	39,445	49,789
Liability insurance	37,949	32,953	32,030
Correspondent bank charges	36,220	36,455	32,605
Armored carrier and courier	35,600	51,244	51,087
Foreclosed real estate expense	33,301	39,059	-
Dues and meetings	20,289	19,874	28,829
Education and training	16,140	20,527	11,865
Publications and subscriptions	12,435	7,191	9,122
Other	114,718	96,939	99,771
	<u>\$1,941,908</u>	<u>\$1,921,785</u>	<u>\$1,617,616</u>

County First Bank

Notes to Financial Statements (Continued)

12. Income Taxes

The components of income tax expense are as follows:

	2010	2009	2008
Current			
Federal	\$ 683,832	\$ 434,789	\$611,094
State	<u>170,873</u>	<u>99,608</u>	<u>138,056</u>
	854,705	534,397	749,150
Deferred	<u>(167,395)</u>	<u>(122,844)</u>	<u>21,468</u>
	<u>\$ 687,310</u>	<u>\$ 411,553</u>	<u>\$770,618</u>

The components of the deferred tax (benefits) are as follows:

Provision for loan losses	\$ (77,103)	\$ (26,159)	\$ 21,838
Nonaccrual interest	(7,737)	7,152	(10,779)
Deferred compensation plan	(45,097)	(45,948)	(41,489)
Foreclosed real estate expense	5,418	(15,407)	-
Depreciation and amortization	(42,668)	(45,422)	55,668
Recognized casualty gain	-	3,286	(3,286)
Loan origination costs	<u>(208)</u>	<u>(346)</u>	<u>(484)</u>
	<u>\$(167,395)</u>	<u>\$(122,844)</u>	<u>\$ 21,468</u>

The components of the net deferred tax assets are as follows:

Deferred tax assets			
Allowance for loan losses	\$ 533,614	\$ 456,511	\$430,352
Nonaccrual interest	16,806	9,069	16,221
Deferred compensation plan	213,349	168,252	122,304
Foreclosed real estate expense	<u>9,989</u>	<u>15,407</u>	<u>-</u>
	<u>773,758</u>	<u>649,239</u>	<u>568,877</u>
Deferred tax liabilities			
Accumulated depreciation and amortization	164,021	206,689	252,111
Deferred casualty gain	115,105	115,105	111,819
Deferred loan origination costs	<u>68</u>	<u>276</u>	<u>622</u>
	<u>279,194</u>	<u>322,070</u>	<u>364,552</u>
Net deferred tax asset	<u>\$ 494,564</u>	<u>\$ 327,169</u>	<u>\$204,325</u>

County First Bank

Notes to Financial Statements (Continued)

12. Income Taxes (Continued)

The differences between the federal income tax rate of 34 percent and the effective tax rate for the Bank are reconciled as follows:

	2010	2009	2008
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
Increase (decrease) resulting from			
State income taxes, net of federal income tax benefit	4.7	4.0	3.9
Nondeductible expenses	0.6	1.3	0.9
Tax-exempt income	(3.9)	(7.8)	(4.0)
Change in State income tax rate	-	-	-
	35.4 %	31.5 %	34.8 %

13. Stock Options

During the year ended December 31, 2005, the Bank granted stock options to directors and officers of the Bank, in accordance with a stock option plan. The options granted to the directors vested immediately upon grant. The options granted to officers contain a serial feature whereby one tenth of the options vested at the grant date, and each year thereafter. Any unvested options become immediately vested on the date the optionee reaches 65 years of age. The exercise price of the options is equal to the estimated fair value of the common stock at the date of grant. The options expire ten years after the date of grant.

Information with respect to options outstanding, which have been adjusted retroactively for stock dividends, is as follows for the years ended December 31, 2010, 2009, and 2008:

	2010		2009		2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	111,000	\$ 28.15	113,500	\$ 28.15	116,700	\$ 28.15
Granted	-	-	-	-	-	-
Exercised	-	-	(2,500)	28.00	(1,200)	28.50
Expired and forfeited	-	-	-	-	(2,000)	28.00
Outstanding at end of year	<u>111,000</u>	<u>\$ 28.15</u>	<u>111,000</u>	\$ 28.15	<u>113,500</u>	\$ 28.15
Exercisable at December 31	<u>92,200</u>	<u>\$ 28.08</u>	<u>82,650</u>	<u>\$ 28.07</u>	<u>79,600</u>	<u>\$ 28.05</u>

There were no stock options granted in 2010, 2009, or 2008.

County First Bank

Notes to Financial Statements (Continued)

13. Stock Options (Continued)

A summary of information about stock options outstanding is as follows at December 31, 2010:

Weighted average exercise price	Total shares	Average remaining life (years)	Exercisable shares
\$ 28.00	105,500	4.9	80,750
31.00	<u>5,500</u>	5.3	<u>1,900</u>
28.15	<u>111,000</u>	4.9	<u>82,650</u>
Intrinsic value on December 31, 2010	<u>\$ -</u>		<u>\$ -</u>

At December 31, 2010, there was **\$38,545** of total unrecognized compensation expense related to nonvested stock options to be recognized over the next six years.

The intrinsic value of stock options exercised was \$2,500 and \$10,320 during the years ended December 31, 2009 and 2008, respectively. No stock options were exercised during the year ended December 31, 2010.

14. Retirement Plan

The Bank has a retirement plan qualifying under section 401(k) of the Internal Revenue Code. The plan covers all full-time employees with one year of service who have reached 21 years of age. The Bank's contributions to the plan, approved by the Board of Directors, were **\$76,200**, \$73,503, and \$76,480 in 2010, 2009, and 2008, respectively.

In 2005, the Bank offered Supplemental Executive Retirement Plans (SERPs) to its executive officers providing for retirement income benefits as well as pre-retirement death benefits. The Bank accrues the present value of these benefits over the remaining number of years to the executives' retirement dates. The Bank's expenses for the SERPs were **\$114,328**, \$116,486, and \$105,182 in 2010, 2009, and 2008, respectively.

County First Bank

Notes to Financial Statements (Continued)

15. Capital Standards

The Federal Reserve Board and The Federal Deposit Insurance Corporation have adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. The capital ratios and minimum capital requirements are as follows:

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2010	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 22,933	13.7%	\$ 13,355	8.0%	\$16,693	10.0%
Tier 1 capital (to risk-weighted assets)	21,417	12.8%	6,677	4.0%	10,016	6.0%
Tier 1 capital (to average assets)	21,417	11.5%	7,470	4.0%	9,338	5.0%
<hr/> December 31, 2009 <hr/>						
Total capital (to risk-weighted assets)	\$ 21,708	12.7%	\$ 13,664	8.0%	\$17,080	10.0%
Tier 1 capital (to risk-weighted assets)	20,588	12.1%	6,832	4.0%	10,248	6.0%
Tier 1 capital (to average assets)	20,588	11.5%	7,150	4.0%	8,937	5.0%
<hr/> December 31, 2008 <hr/>						
Total capital (to risk-weighted assets)	\$ 21,307	12.5%	\$ 13,690	8.0%	\$17,113	10.0%
Tier 1 capital (to risk-weighted assets)	20,160	11.8%	6,845	4.0%	10,268	6.0%
Tier 1 capital (to average assets)	20,160	12.3%	6,564	4.0%	8,205	5.0%

Tier 1 capital consists of common stock, surplus, and undivided profits. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance-sheet items.

Failure to meet the capital requirements could affect the Bank's ability to pay dividends and accept deposits and may significantly affect the operations of the Bank.

In the most recent regulatory report, the Bank was categorized as well capitalized under the prompt corrective action regulations. Management knows of no events or conditions that should change this classification.

County First Bank

Notes to Financial Statements (Continued)

16. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, expand disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Bank's foreclosed real estate is measured at fair value less cost to sell on a nonrecurring basis. Fair value is determined based on offers and/or appraisals. Cost to sell the real estate is based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3.

Activity in foreclosed real estate during the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Balance, beginning of year	\$825,532	\$ -
Additions and improvements	560,475	825,532
Write-downs	(20,500)	-
Proceeds from sale	(541,363)	-
Gain on sales	897	-
Balance, end of year	<u>\$825,041</u>	<u>\$825,532</u>

The remaining financial assets and liabilities are not recorded on the balance sheet at fair value on a recurring or nonrecurring basis. The fair value of financial instruments equals the carrying value of the instruments except as noted.

	2010		2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Investment securities	\$ 20,977,545	\$ 20,964,060	\$ 6,000,000	\$ 6,013,914	\$ 5,097,615	\$ 5,115,753
Loans receivable, net	142,890,933	142,156,634	148,969,131	149,812,897	145,808,242	149,276,782
Financial liabilities						
Interest-bearing deposits	\$122,837,826	\$122,581,356	\$ 119,829,964	\$ 120,323,345	\$ 104,901,431	\$ 105,327,007
Federal Home Loan Bank advances	4,000,000	4,044,685	4,000,000	4,112,668	8,000,000	8,087,186

County First Bank

Notes to Financial Statements (Continued)

16. Fair Value Measurements (Continued)

The fair value of the certificate of deposit in other financial institution equals the carrying amount due to the short-term nature of the certificate.

The fair values of investment securities are determined using market quotations, pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect. The fair value of variable-rate loans, including loans with a demand feature, is estimated to equal the carrying amount. The valuation of loans is adjusted for probable loan losses.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

The fair value of Federal Home Loan Bank advances is estimated based on interest rates currently offered for advances of similar remaining maturities.

It is not practicable to estimate the fair value of outstanding loan commitments, unused lines, and letters of credit.