

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For The Fiscal Year December 31, 2009.

or

Transition Report Pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934

For the Transition Period from to

Commission file number: 001-16413

FIRST CENTURY BANCORP.

(Exact name of registrant as specified in its charter)

Georgia

(State of Incorporation)

58-2554464

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

807 Dorsey Street, Gainesville, Georgia

(Address of principal executive offices)

30501

(Zip Code)

(770) 297-8060

(Telephone Number)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant (computed by reference to the price at which the common stock was recently sold) was \$3,528,401 as of the last business day of the registrant's most recently completed second fiscal quarter.

4,998,150 shares of the registrant's common stock were outstanding as of March 25, 2010

DOCUMENTS INCORPORATED BY REFERENCE

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

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

- significant increases in competitive pressure in the banking and financial services industries;
- changes in the interest rates and their effects on the level of composition of deposits, loan demands, and the value of loan collateral, securities and other interest-sensitive assets and liabilities;
- the effects of the current global economic crisis, including, without limitation, the recent and dramatic deterioration of real estate values and credit and liquidity markets, as well as the Federal Reserve Board's actions with respect to interest rates, may lead to a further deterioration in credit quality, thereby requiring increases in our provision for loan losses, or a reduced demand for credit, which would reduce earning assets; the U.S. government's proposed plan to purchase large amounts of illiquid mortgage-backed and other securities from financial institutions may not have the desired impact on the financial markets;
- governmental monetary and fiscal policies, as well as legislative and regulatory changes, including changes in accounting standards and banking, securities and tax laws and regulations and governmental intervention in the U.S. financial system, as well as changes affecting financial institutions' ability to lend and otherwise do business with consumers;
- restrictions or conditions imposed by our regulators on our operations may make it more difficult for us to achieve our goals;
- our ability to control costs, expenses and loan delinquency rates;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- changes occurring in business conditions and inflation;
- changes in technology;
- changes in deposit flow;
- the failure of our assumptions underlying the establishment of allowances for loan losses and other estimates, or dramatic changes in those underlying assumptions or judgments in future periods, that, in either case, render the allowance for loan losses inadequate or require that further provisions for loan losses be made;

- the anticipated rate of loan growth and the lack of seasoning of our loan portfolio;
- the amount of our real estate-based loans, and the weakness in the commercial real estate market;
- the rate of delinquencies and amounts of charge-offs;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- loss of consumer confidence and economic disruptions resulting from terrorist activities;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally, and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the Internet;
- changes in the securities markets; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

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

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

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

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PART I

Item 1. Business

First Century Bancorp.

We are a Georgia corporation organized in 2000 to serve as the holding company for First Century Bank, National Association, with its principal executive offices in Gainesville, Georgia. We opened the Bank in March 2002. The Bank is chartered and regulated by the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation (the "FDIC"). On September 20, 2007, we changed our name from NBOG Bancorporation, Inc. to First Century Bancorp. The Bank's name was also changed from The National Bank of Gainesville to First Century Bank, National Association. Since our inception, we have focused on serving the banking needs of individuals and businesses that prefer community-oriented banking in the Gainesville and Hall County markets. We currently engage in no business other than owning and managing the Bank. As of December 31, 2009, on a consolidated basis, our total assets were \$76.6 million, our total loans were \$36.7 million, our total deposits were \$69.6 million, and our total shareholders' equity was \$4.4 million.

First Century Bank

Since the Bank's opening in March 2002, the Bank has been primarily engaged in the business of accepting deposits insured by the FDIC

and providing commercial, consumer and mortgage loans to the general public. We operate under a traditional banking model, with a particular focus on real estate and small business lending.

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

Our operations are significantly affected by prevailing economic conditions, competition, and the monetary, fiscal, and regulatory policies of governmental agencies. Lending activities are influenced by a number of factors, including the general credit needs of individuals and small and medium-sized businesses in our market areas, competition among lenders, the level of interest rates, and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily the rates paid on competing investments, account maturities, and the levels of personal income and savings in our market areas.

On August 18, 2004, the Bank entered a formal written agreement with the OCC, which set forth a series of actions necessary to correct identified weaknesses. On February 5, 2008, the OCC determined that the protection of the depositors, other customers and shareholders of the Bank as well as the Bank's safe and sound operation did not require the continued existence of the agreement, and the OCC terminated the formal agreement.

Pursuant to the terms of a formal agreement with the OCC, we committed to undertake certain actions, including the maintenance of specified capital levels, retention of senior management and the formulation of strategic and capital plans. Following discussions with the OCC, on January 26, 2006, our Board of Directors passed a resolution to identify, and enter into an agreement with, a strategic partner who would either purchase the entire institution or a significant interest in the institution, and the OCC agreed to a 90 day waiver of certain commitments contained in the formal agreement.

In April 2007, Mr. Blanton purchased 738,008 shares of our common stock in a private placement at \$2.71 per share. We also issued Mr. Blanton a warrant (the "Original Warrant") to purchase up to 738,008 shares at \$2.71 per share. The Original Warrant has no expiration date and contains provisions which provide for automatic adjustments in price and shares purchasable under the Original Warrant in the event additional securities are issued below or have a conversion or exercise price below the current Original Warrant exercise price. We received proceeds of approximately \$2,000,000 less fees and expenses related to the sale of the shares, which we used for working capital purposes. There were no brokerages or underwriting commissions paid in connection with the sale of the shares.

In September 2007, Mr. Blanton transferred a portion of the Original Warrant to purchase 184,502 shares to Silver Hill Enterprises, LP, an entity controlled by William Evans, one of our directors.

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

As a result of the issuance of the B Warrants with an exercise price below the \$2.71 exercise price, the exercise price and number of shares of common stock purchasable under the Original Warrant adjusted as follows: (a) with respect to Mr. Blanton, from 553,506 shares at \$2.71 per share to 1,000,001 shares at \$1.50 per share; and (b) with respect to Silver Hill Enterprises, LP, from 184,502 shares at \$2.71 per share to 333,334 shares at \$1.50 per share.

In June 2008, Mr. Blanton and Silver Hill Enterprises, LP transferred a portion of the Original Warrant to purchase shares to John Allen Nivens, Jr. and Richard Kramer Whitehead, III, each a director of the Company and to Homestead Investment, LLC, which is controlled by the father of one of our directors, William A. Bagwell, Jr.

Following the transfers and the adjustments to the Original Warrant, the following persons hold rights to purchase shares of common stock at the exercise price of \$1.50 under the Original Warrant and the B Warrants: (i) Mr. Blanton holds rights to purchase 850,254 shares; (ii) Silver Hill Enterprises, LP holds rights to purchase 283,418 shares; (iii) Mr. Nivens holds rights to purchase 69,165 shares; (iv) Mr. Whitehead holds rights to purchase 69,165 shares; and (v) Homestead Investment, LLC and Mr. Bagwell collectively hold rights to purchase 136,332 shares.

Products and Services

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

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

Real Estate Loans. One of the primary components of our loan portfolio is loans secured by first or second mortgages on real estate. As of December 31, 2009, loans secured by first or second mortgages on real estate made up approximately \$31.4 million, or 86% of our loan portfolio. These loans generally consist of commercial real estate loans, construction and development loans, and residential real estate loans.

- **Commercial Real Estate Loans.** At December 31, 2009, our individual commercial real estate loans ranged in size from \$13,000 to \$769,000, with an average commercial real estate loan size of approximately \$240,000. Loan terms generally are limited to five years or less, although payments may be structured on a longer amortization basis. Interest rates may be fixed or adjustable, and will more likely be fixed in the case of shorter term loans. We also make a concerted effort to establish rate floors to mitigate interest rate risk and improve margins. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio, established by independent appraisals, does not exceed 80%. In addition, we typically require personal guarantees of the principal owners of the collateral property, combined with our review of the personal financial statements of the principal owners. At December 31, 2009, commercial real estate loans (other than construction loans) totaled \$13.0 million, or approximately 36% of our loan portfolio. Some specific risks associated with commercial real estate loans include tenant vacancy rates and the quality of the borrower's management. As such, we place a heavy emphasis on owner occupied commercial real estate. As of December 31, 2009, owner occupied loans totaled \$11.0 million, and non-owner occupied loans totaled \$2.0 million.
- **Residential Real Estate Loans and Home Equity Loans.** At December 31, 2009, our individual residential real estate loans ranged in size from \$10,000 to \$769,000, with an average loan size of approximately \$98,000. Generally, we limit the loan-to-value ratio on our residential real estate loans to 85%. We also offer home equity lines of credit. Our underwriting criteria for, and the risks associated with, home equity loans and lines of credit are generally the same as those for first mortgage loans. Home equity lines of credit typically have terms of 10 years or less. We limit the extension of credit to 85% of the available equity of each property. At December 31, 2009, residential real estate loans (other than construction loans) totaled \$13.6 million, or 37% of our loan portfolio.
- **Construction and Development Real Estate Loans.** We offer adjustable and fixed rate residential and commercial construction loans to builders and developers and to consumers who wish to build their own homes. At December 31, 2009, our construction and development real estate loans ranged in size from approximately \$2,000 to \$769,000, with an

average loan size of approximately \$140,000. The duration of our construction and development loans generally is limited to 12 months, although payments may be structured on a longer amortization basis. Construction and development loans generally carry a higher degree of risk than long-term financing of existing properties because repayment depends on the ultimate completion of the project and usually on the sale of the property. Specific risks include:

- cost overruns;
- mismanaged construction;
- inferior or improper construction techniques;
- economic changes or downturns during construction;
- a downturn in the real estate market;

- rising interest rates which may prevent sale of the property; and
- failure to sell completed projects in a timely manner.

We attempt to reduce the risk associated with construction and development loans by obtaining personal guarantees and by keeping the loan-to-value ratio of the completed project at or below 80%, as well as analyzing global cash flow of each builder or developer and their personal liquidity. At December 31, 2009, total construction loans amounted to \$4.7 million, or 13% of our total loan portfolio.

Consumer Loans. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured installment and term loans and lines of credit. At December 31, 2009, our individual consumer loans ranged in size from \$1,000 to \$250,000, with an average loan size of approximately \$14,000. These loans typically carry balances of less than \$25,000 and, in the case of non-revolving loans, are amortized over a period not to exceed 60 months. The revolving loans typically bear interest at a fixed rate and require monthly payments of interest and a portion of the principal balance. Consumer loans generally involve more risks than residential mortgage loans because the collateral for defaulted loans may not provide an adequate source of repayment of the principal due to damage to the collateral or other loss of value. In addition, consumer loan performance depends upon the borrower's continued financial stability and is therefore more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. At December 31, 2009, consumer loans amounted to \$1.5 million, or 4% of our loan portfolio.

Commercial Loans. We make loans for commercial purposes in various lines of businesses. At December 31, 2009, our individual commercial business loans ranged in size from approximately \$1,000 to \$750,000, with an average loan size of approximately \$60,000. Equipment loans are typically for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the financed equipment and with a loan-to-value ratio of 80% or less. Working capital loans typically have terms not exceeding one year and are usually secured by accounts receivable, inventory, or personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal is typically repaid as the assets securing the loan are converted into cash, and in other cases principal is typically due at maturity. Margining on accounts receivable is done based on those accounts that are current (60 days or less). The quality of the commercial borrower's management and its ability to both evaluate properly changes in the supply and demand characteristics affecting its markets for products and services and to respond effectively to such changes are significant factors in a commercial borrower's creditworthiness. At December 31, 2009, commercial loans amounted to \$3.7 million, or 10% of our loan portfolio.

Online Mortgage Channel. In January 2008 we launched our online lending division, Century Point Mortgage ("CPM"). CPM is an internet-based lender with offices located in Atlanta, Georgia. CPM serves borrowers in all fifty states and the District of Columbia, offering a full line of mortgage products, including loans for purchase or refinancing of primary residences, second homes and investment property, as well as home equity loans. We offer traditional mortgage services through CPM and generally limit our mortgage originations to conforming Fannie Mae and Freddie Mac loans. CPM does not originate any subprime mortgages. Prior to closing on the loans, which we originate, the Bank has commitments to sell them to various mortgage investors. For the year ended December 31, 2009, CPM originated \$104 million in loans.

Retail Mortgage Channel. Beginning in October, 2009 First Century Bank, NA began originating mortgages through retail loan officers located in a Loan Production Office (LPO) located in Roswell, Georgia and the bank facility located in Gainesville, Georgia. The individual loan officers facilitate these loans by personal interview or phone conversation with the customer to obtain application information. The location of the properties securing the loan is primarily in the north Georgia area and is primarily single family 1-4 family owner occupied. These loans are conforming Fannie Mae and Freddie Mac loans. Prior to the closing of the loans, the Bank has commitments to sell them to various investors. For the three months of origination activity ended December 31, 2009, the Retail Mortgage channel originated \$26.4 million in loans.

Loan Approval and Review. Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. We attempt to mitigate repayment risks by adhering to internal credit policies and procedures. These policies and procedures include officer and customer lending limits, a multi-layered approval process for larger loans, documentation examination, and follow-up procedures for any exceptions to credit policies. Our loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds an individual officer's lending authority, the loan request will be reviewed by an officer with a higher lending authority. We have established a loan

committee of the board of directors that must approve any loan that exceeds the lending limit of the Officer's Loan Committee which consists of the chief executive officer, chief lending officer and the market presidents. We will not make any loans to any director, officer, or employee on terms more favorable to such person than would be available to an unaffiliated person.

Other Services. In addition to deposit and loan services, the Bank offers banking, direct deposit of payroll and social security checks, and automatic drafts for various accounts. The Bank is a member of a network of automated teller machines that may be used by customers in major

cities throughout Georgia, the United States, and in various cities worldwide. The Bank offers merchant credit card processing to the Bank's customers through third party vendors. The Bank offers telephone banking and internet banking services through a third party vendor relationship. These services include cash management, bill pay services, e-Statements, and online item images which allows the customer to view images of their cleared checks via connection to the internet through a secure link in the Bank's website.

Lending Policies

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

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

The Bank complies with the statutory lending limits, as described above. As of December 31, 2009, our legal lending limit to one borrower was approximately \$769,000. We seek to sell loan participations to other financial institutions to meet the needs of customers requiring loans above these limits. Nevertheless, because this amount is substantially lower than the lending limit for most of our competitors, it is difficult for us to compete for many loan relationships. The Bank's legal lending limits will increase or decrease as the Bank's capital increases or decreases as a result of, among other reasons, its earnings or losses.

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

Asset Management Policies

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

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

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

Competition

The Bank primarily serves the northern Georgia market of Hall County. Hall County is located in Northeast Georgia and encompasses 392 square miles. Gainesville, the county seat, is situated 50 miles northeast of Atlanta and 40 miles northwest of

Athens. Bordered on the west by Lake Sidney Lanier, Hall County lies at the southern edge of the Chattahoochee Natural Forest and the foothills of the Blue Ridge Mountains. According to 2008 Census Bureau estimates, the population in Hall County was approximately 185,000 with a median income for a family in Hall County of \$53,083.

The banking business is highly competitive. We compete as a financial intermediary with other lenders and deposit-takers, including other commercial banks, thrift institutions, credit unions, finance companies, mutual funds, insurance companies, and brokerage companies and investment banking firms. The competition among the various financial institutions is based upon a variety of factors, including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities and, in the case of loans to large commercial borrowers, relative lending limits. According to information provided by the FDIC, as of June 30, 2009, there were 56 offices of 18 banks operating in Hall County with a total of approximately \$2.5 billion in deposits. As of June 30, 2009, the Bank had approximately 2.45% of the deposit market share. In addition to competition from large national and regional banks, including Regions Bank, Wachovia Bank, N.A., SunTrust Bank and Bank of America, N.A., the Bank also competes with a number of local competitors, including Community Bank and Trust, United Community Bank and Peach State Bank. Size gives larger banks certain advantages in competing for business from large corporations. These advantages include higher lending limits and the ability to offer services in other areas of Georgia. As a result, we do not generally attempt to compete for the banking relationships of large corporations, but concentrate our efforts on small- to medium-sized businesses and individuals.

Employees

As of December 31, 2009, we had 57 full-time employees. We consider the relationship with our employees to be good.

SUPERVISION AND REGULATION

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

The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

First Century Bancorp.

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

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

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

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

- factoring accounts receivable;

- making, acquiring, brokering or servicing loans and related activities;
- leasing personal or real property;
- operating a non-bank depository institution;
- trust company functions;
- financial and investment advisory activities;
- conducting agency and riskless principal securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- foreign exchange activities;
- engaging in certain derivative and similar contracts as principal;
- providing specified management consulting and counseling activities;
- performing selected data processing, courier and other support services;
- acting as agent or broker, and in some cases principal, in selling credit life insurance and other types of insurance in connection with credit transactions;
- performing selected insurance underwriting activities;
- performing community development activities; and
- issuing and selling money orders, savings bonds and traveler's checks.

As a bank holding company, we also can elect to be treated as a "financial holding company," which would allow us to engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complementary to financial activities, including expanded insurance underwriting, sales and brokerage activities, expanded securities brokerage activities and certain merchant banking activities. We have not sought financial holding company

status, but may elect such status in the future as our business matures. If we were to elect financial holding company status, each insured depository institution we control would have to have and maintain well capitalized and well managed status, and a satisfactory rating under the Community Reinvestment Act (discussed below).

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

Change in Control. In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated thereunder, require Federal Reserve Board approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Following the relaxing of these restrictions by the Federal Reserve Board in September 2008, control will be rebuttably presumed to exist if a person acquires 33% of the total equity of a bank or bank holding company, of which it may own, control or have the power to vote not more than 15% of any class of voting securities.

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

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

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

First Century Bank

The Bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the OCC. Deposits in the Bank are insured by the FDIC up to a maximum amount which is \$100,000 for each non-retirement depositor and \$250,000 for certain retirement-account depositors. However, the FDIC has increased the coverage up to \$250,000 for each non-retirement depositor through December 31, 2013, and the Bank is participating in the FDIC's Temporary Liquidity Guarantee Program (discussed below in greater detail) which, in part, fully insures non-interest bearing transaction accounts. The OCC and the FDIC regulate or monitor virtually all areas of the Bank's operations, including:

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

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- interest rates payable on deposits;
 - interest rates or fees chargeable on loans;
 - establishment of branches;

- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

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

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

Under the terms of the formal agreement, which was terminated by the OCC on February 5, 2008, the Bank was required to maintain a total capital ratio to risk-weighted assets of at least 14% and a Tier 1 Capital to average assets of at least 9%. Since the formal agreement has been terminated, the minimum guideline for the ratio of total capital to risk-weighted assets is 8% and Tier 1 Capital must equal at least 4% of risk-weighted assets. To be eligible to be classified as "well-capitalized," the Bank must generally maintain a total capital ratio of 10% or more, a Tier 1 capital ratio of 6% or more, and a leverage ratio of 5% or more. At December 31, 2009, our ratio of total capital to risk-weighted assets was 10.82%, our ratio of Tier 1 Capital to risk-weighted assets was 9.94% and our ratio of Tier 1 Capital to average assets was 6.22%.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to total assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve Board's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without reliance on intangible assets. The Federal Reserve Board considers the leverage ratio and other indicators of capital strength in evaluating proposals for expansion or new activities.

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

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

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

- Adequately Capitalized — The institution meets the required minimum level for each relevant capital measure. No capital

distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution is one (i) having a total capital ratio of 8% or greater, (ii) having a Tier 1 capital ratio of 4% or greater and (iii) having a leverage capital ratio of 4% or greater or a leverage capital ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.

- Undercapitalized — The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution is one (i) having a total capital ratio of less than 8%, (ii) having a Tier 1 capital ratio of less than 4% or (iii) having a leverage capital ratio of less than 4%, or if the institution is rated a composite 1 under the CAMELS rating system, a leverage capital ratio of less than 3%.
- Significantly Undercapitalized — The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one (i) having a total capital ratio of less than 6%, (ii) having a Tier 1 capital ratio of less than 3% or (iii) having a leverage capital ratio of less than 3%.
- Critically Undercapitalized — The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2%.

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

If the bank is not well capitalized, it cannot accept brokered deposits without prior FDIC approval. In addition, a bank that is undercapitalized cannot offer an effective yield in excess of 75 basis points on interest paid on deposits (including brokered deposits, if approval is granted for the bank to accept them) of comparable size and maturity in either such institution's normal market area or in the market area in which such deposits would otherwise be accepted. Thus, for deposits in its own normal market area, an undercapitalized institution must offer rates that are not in excess of 75 basis points over the average local rates. For non-local deposits, the institution must offer rates that are not in excess of 75 basis points over either (1) the institution's own local rates or (2) the applicable non-local rates. In other words, the institution must adhere to the prevailing rates in its own normal market area for all deposits (whether local or non-local) and also must adhere to the prevailing rates in the non-local area for any non-local deposits. Thus, the institution will be unable to outbid non-local institutions for non-local deposits even if the non-local rates are lower than the rates in the institution's own normal market area.

Moreover, if the bank becomes less than adequately capitalized, it must adopt a capital restoration plan acceptable to the regulator. The bank also would become subject to increased regulatory oversight, and would be increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution also must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate Federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution, would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause the Bank to become undercapitalized, it could not pay a management fee or dividend to us.

As of December 31, 2009, the Bank was "well capitalized."

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

meet any standards prescribed by the guidelines, the agency may require the Bank to submit to the agency an acceptable plan to achieve compliance with the standard. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

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

Under regulations effective January 1, 2007, the FDIC adopted a new risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based upon supervisory and capital evaluations. For deposits held as of March 31, 2009, institutions are assessed at annual rates ranging from 12 to 50 basis points, respectively, depending on each institution's risk of default as measured by regulatory capital ratios and other supervisory measures. Effective April 1, 2009, assessments will take into account each institution's reliance on secured liabilities and brokered deposits. This will result in assessments ranging from 7 to 77.5 basis points. We anticipate our future insurance costs to be higher than in previous periods. However, we are not currently able to accurately determine the amount of additional costs.

FDIC insured institutions are required to pay a Financing Corporation assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the first quarter of 2009, the Financing Corporation assessment equaled 1.14 basis points for each \$100 in domestic deposits. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the bank, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OCC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management of the bank is not aware of any practice, condition or violation that might lead to termination of the bank's deposit insurance.

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

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

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

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

Section 23A of the Federal Reserve Act places limits on the amount of loans or extensions of credit to, of for the benefit of, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the

foregoing limitations as to amount, each covered transaction must meet specified collateral requirements of between 100 and 130% depending on the type of collateral. The Bank is forbidden to purchase low quality assets from an affiliate.

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

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

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

Commercial Real Estate Lending. The Bank's lending operations may be subject to enhanced scrutiny by the OCC based on its concentration of commercial real estate loans. On December 6, 2006, the federal banking regulators issued final guidance to remind financial institutions of the risk posed by commercial real estate ("CRE") lending concentrations. CRE loans generally include land development, construction loans and loans secured by multifamily property, and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for its examiners to help identify institutions that are potentially exposed to significant CRE risk and may warrant greater supervisory scrutiny:

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

Branching. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current Georgia law, the Bank may open branch offices throughout Georgia with the prior approval of the OCC. In addition, with prior regulatory approval, the Bank is able to acquire existing banking operations in Georgia. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks if allowed by state law, and interstate merging by banks. Georgia law, with limited exceptions, currently permits branching across state lines only through interstate mergers.

Anti-Tying Restrictions. Under amendments to the Bank Holding Company Act and Federal Reserve Board regulations, a bank is prohibited from engaging in certain tying or reciprocity arrangements with its customers. In general, a bank may not extend credit, lease, sell property, or furnish any services or fix or vary the consideration for these on the condition that (i) the customer obtain or provide some additional credit, property, or services from or to the bank, the bank holding company or subsidiaries thereof or (ii) the customer may not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended. Certain arrangements are permissible: a bank may offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products; and certain foreign transactions are exempt from the general rule. A bank holding company or any bank affiliate also is subject to anti-tying requirements in connection with electronic benefit transfer services.

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

Finance Subsidiaries. Under the Gramm-Leach-Bliley Act (the “GLBA”), subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form “financial subsidiaries” that may conduct financial or incidental activities, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The GLBA imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank’s equity investment in the financial subsidiary be deducted from the bank’s assets and tangible equity for purposes of calculating the bank’s capital adequacy. In addition, the GLBA imposes new restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and non-bank affiliates.

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

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

The deposit operations of the Bank also are subject to:

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

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

Anti-Money Laundering. Financial institutions must maintain anti-money laundering programs that include established internal policies,

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

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

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

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

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

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

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

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;

- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring the re-crediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

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

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

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crises. The Congress, Treasury Department and the federal banking regulators, including the FDIC, have taken broad action since early September 2008 to address volatility in the U.S. banking system.

In October 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted. The EESA authorizes the Treasury Department to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions

and their holding companies in a troubled asset relief program ("TARP"). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated \$250 billion towards the TARP Capital Purchase Program ("CPP"). Under the CPP, Treasury will purchase debt or equity securities from participating institutions. The TARP also will include direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications.

EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. This increase is in place until the end of 2013 and is not covered by deposit insurance premiums paid by the banking industry.

Following a systemic risk determination, the FDIC established the Temporary Liquidity Guarantee Program ("TLGP") on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program ("TAGP"), which provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. This has been extended until June 30, 2010. Institutions participating in the TLGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of \$250,000, while the extra deposit insurance is in place. The TLGP also includes the Debt Guarantee Program ("DGP"), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than June 30, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. On March 17, 2009, the FDIC adopted an interim rule that extends the DGP and imposes surcharges on existing rates for certain debt issuances. This extension allowed institutions that had issued guaranteed debt before April 1, 2009 to issue guaranteed debt during the extended issuance period that ended on October 31, 2009. For such institutions, the guarantee on debt issued on or after April 1, 2009, will expire no later than December 31, 2012. The DGP coverage limit is generally 125% of the eligible entity's eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2% of their liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 60 to 110 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012 and 75 to 125 basis points (annualized) for covered debt outstanding until after June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. We did not opt out of the TAGP and the DGP.

On February 17, 2009 President Obama signed into law The American Recovery and Reinvestment Act of 2009 (the "Recovery Act"),

more commonly known as the economic stimulus or economic recovery package. The Recovery Act includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, the Recovery Act imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients that are in addition to those previously announced by the Treasury Department, until the TARP recipient has repaid the Treasury Department, which is now permitted under the Recovery Act without penalty and without the need to raise new capital, subject to the Treasury Department's consultation with the recipient's appropriate regulatory agency.

On March 23, 2009, the Treasury Department, in conjunction with the FDIC and the Federal Reserve, announced the Public-Private Partnership Investment Program for Legacy Assets which consists of the following two separate plans, addressing two distinct asset groups.

The first plan is the Legacy Loan Program, which has a primary purpose to facilitate the sale of troubled mortgage loans by eligible institutions, including FDIC-insured federal or state banks and savings associations. Eligible assets are not strictly limited to loans; however, what constitutes an eligible asset will be determined by participating banks, their primary regulators, the FDIC and the Treasury Department. Under the Legacy Loan Program, the FDIC has sold certain troubled assets out of an FDIC receivership in two separate transactions relating to the failed Illinois bank, Corus Bank, NA, and the failed Texas bank, Franklin Bank, S.S.B. These transactions were completed in September 2009 and October 2009, respectively.

The second plan is the Securities Program, which is administered by the Treasury Department and involves the creation of public-private investment funds to target investments in eligible residential mortgage-backed securities and commercial mortgage-backed securities issued before 2009 that originally were rated AAA or the equivalent by two or more nationally recognized statistical rating organizations, without regard to rating enhancements (collectively, "Legacy Securities"). Legacy Securities must be directly secured by actual mortgage loans, leases or other assets, and may be purchased only from financial institutions that meet TARP eligibility requirements. The Treasury Department received over 100 unique applications to participate in the Legacy Securities PPIP and in July 2009 selected nine public-private investment fund managers. As of December 31, 2009, public-private investment funds have completed initial and subsequent closings on approximately \$6.2 billion of private sector equity capital, which was matched 100% by the Treasury Department, representing \$12.4 billion of total equity capital. The Treasury Department has also provided \$12.4 billion of debt capital, representing \$24.8 billion of total purchasing power. As of December 31, 2009, public-private investment funds have drawn-down approximately \$4.3 billion of total capital which has been invested in certain non-agency residential mortgage backed securities and commercial mortgage backed securities and cash equivalents pending investment.

On May 22, 2009, the FDIC levied a one-time special assessment on all banks due on September 30, 2009. In addition, on November 12, 2009, the FDIC issued a final rule to require banks to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 and to increase assessment rates effective on January 1, 2011.

Although it is likely that further regulatory actions will arise as the federal government attempts to address the economic situation, we cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

Formal Agreement

On August 18, 2004, the Bank entered a formal agreement with the OCC. The formal agreement required specific actions to strengthen or correct identified weaknesses. The Bank agreed to maintain a Total Capital to risk-weighted assets ratio of at least 14% and a Tier 1 Capital to adjusted total assets ratio of at least 9%.

In addition, the Bank committed to:

- adopt a written strategic plan covering at least a three-year period;
- review and revise its written loan policy;
- obtain an independent review of its loan program; and
- review the adequacy, and establish a program to maintain the adequacy of, its allowance for loan losses.

On February 5, 2008, the OCC issued a Termination of the Agreement pursuant to which the OCC determined that the protection of the depositors, other customers and shareholders of the Bank as well as the Bank's safe and sound operation do not require the continued existence of the agreement.

Federal Reserve Resolutions

On October 21, 2004, pursuant to the request of the Federal Reserve Bank of Atlanta, the Company's Board of Directors adopted resolutions (the "Resolutions") that provide that the Company shall not (without the prior written approval of the Federal Reserve Bank of Atlanta):

- incur debt (or take any action, such as refinancing) that would cause a change in debt instruments or a change in any of the terms of any existing debt instruments;
- declare or pay dividends to its shareholders; or
- reduce its capital position by purchasing or redeeming treasury stock.

The Resolutions also require quarterly financial information on the parent company, the subsidiary bank and written progress on the financial condition of the organization be provided to the Federal Reserve Bank of Atlanta.

Dividends

The Company is a legal entity separate and distinct from the Bank. The principal sources of the Company's cash flow, including cash flow to pay dividends to its shareholders, are dividends that the Bank pays to its sole shareholder, the Company. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders. The Bank is precluded from paying dividends until it is cumulatively profitable. The Company is currently prohibited from paying dividends without Federal Reserve Bank of Atlanta approval pursuant to the Resolutions.

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

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

Item 1A. Risk Factors.

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

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

Our future performance will depend on our ability to implement our new business plan successfully. We established our online mortgage division, Century Point Mortgage, in the beginning of 2008 and expanded our mortgage division in 2009 to include a significant retail presence in the North Georgia market. The implementation of our new business plan, which more heavily focuses on mortgage operations, will involve a variety of complex tasks, including implementation of new production, operational and reporting systems and recruiting and integrating qualified originators and support staff to adequately handle and manage these operations. Any failure or delay in executing these initiatives, whether due to regulatory delays or for other reasons, which may be beyond our control, is likely to impede, and could ultimately preclude, our successful implementation of our business plan and could materially adversely affect our business, financial condition, and results of operations.

Our continued operations and future growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. To support our continued operations, including any additional growth, we may need to raise additional capital. Our ability to raise additional capital will depend in part on conditions in the capital markets at that time, which are outside our control, and our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to continue our current operations or further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted. We are limited in the amount we can loan a single borrower by the amount of the Bank's capital. Our legal lending limit is 15% of the Bank's capital and surplus, or \$769,000 at December 31, 2009.

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

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

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

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

However, there is no precise method of predicting credit losses, since any estimate of loan losses is necessarily subjective and the accuracy depends on the outcome of future events. Although we believe the allowance for loan losses is a reasonable estimate of known and inherent losses in our loan portfolio, we cannot fully predict such losses or that our loan loss allowance will be adequate in the future. At December 31, 2009, our allowance for probable loan losses represented 1.13% of our total loans, 53% of our total non-performing assets, and 329% of our total non-performing loans. If our loan losses exceed our allowance for probable loan losses, our business, financial condition and profitability will suffer.

In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition. Excessive loan losses could have a material impact on our financial performance. Consistent with

our loan loss reserve methodology, we expect to make additions to our loan loss reserve levels as a result of our loan growth, which may affect our short-term earnings.

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

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

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

These activities would involve a number of risks, including:

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

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

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

Our success depends, in part, on our ability to identify and retain experienced key management members with local expertise and relationships in our market. If any of the market presidents fail to perform their duties satisfactorily or are unable to obtain loan and deposit market share, any investment in these new markets will generate unsatisfactory or even negative returns and could materially adversely affect our business, financial condition, and results of operations.

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

We have previously identified weaknesses in our overall credit risk management process.

In a series of audits conducted during the last quarter of 2003 and first quarter of 2004 by the Bank's internal and external auditors and the OCC, several weaknesses were identified in the overall credit risk management process of the Bank. To address these weaknesses, bank management contracted with an independent loan review company to perform a major review of the Bank's loan portfolio. The purpose of the review was to identify problem loans and ensure proper reserves were allocated and/or the problem loans were charged-off. Significant work was done to reduce loan exceptions which totaled over 1,400 at that time to less than a hundred at the completion of this effort. A substantial number of loans were charged off during the 2003 and 2004 time frame based on the findings of the independent loan audit company and the Bank's internal loan review. The Bank continues to use the services of an external, independent loan review company.

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

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

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes

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

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

Moreover, changes in federal laws regarding the oversight of mortgage brokers and lenders could adversely affect our ability to originate, finance, and sell our residential mortgage loans. The enactment of federal laws, such as licensing requirements for mortgage bankers, applicable to the types of mortgage loans we originate could increase our costs of operations and adversely affect our origination volume, which would negatively impact our business, financial condition, and results of operation.

Recent negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.

Negative developments over the last two and a half years in the global credit and securitization markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing into 2010. As a result of this "credit crunch," commercial as well as consumer loan portfolio performances have deteriorated at many institutions and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Global securities markets, and bank holding company stock prices in particular, have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. As a result, significant new federal laws and regulations relating to financial institutions, including, without limitation, the EESA and the Treasury Department's CPP, have been adopted. Furthermore, the potential exists for additional federal or state laws and regulations regarding, among other matters, lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. We can provide no assurance regarding the manner in which any new laws and regulations will affect us.

There can be no assurance that recently enacted legislation will help stabilize the U.S. financial system.

There can be no assurance that the government actions that have been taken over the last 18 months, including EESA and the Recovery Act, will achieve their purpose. The failure of the financial markets to stabilize, or a continuation or worsening of the current financial market conditions, could have a material adverse affect on our business, our financial condition, the financial condition of our customers, as well as our ability to access credit.

Current adverse market conditions have resulted in a lack of liquidity and reduced business activity.

Dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. To the extent a weak institution in our market merges with or is acquired by a stronger institution, the competition within the market may increase. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers including other financial institutions.

A prolonged lack of available credit with resulting reduced business activity could materially adversely affect our business, financial condition, and results of operations.

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

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

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

The value and liquidity of real estate or other collateral that secures our loans in our market area has been, and may continue to be, adversely affected by the economic downturn. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies or markets. We often secure loans with real estate collateral. As of December 31, 2009, approximately 86%, of our loans had real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during this period of reduced real estate values, our business, financial condition, and results of operations could be negatively affected.

The FDIC Deposit Insurance assessments that we are required to pay may materially increase in the future, which would have an adverse effect on our earnings and our ability to pay our liabilities as they come due.

As a member institution of the FDIC, we are required to pay semi-annual deposit insurance premium assessments to the FDIC. Due to the recent failure of several unaffiliated FDIC insurance depository institutions, and the FDIC's new Temporary Liquidity Guarantee Program, the FDIC adopted a revised risk-based deposit insurance assessment schedule in February 2009, which raised deposit insurance premiums. The FDIC also implemented a five basis point special assessment of each insured depository institution's assets minus Tier 1 capital as of June 30, 2009, which special assessment amount was capped at 10 basis points times the institution's assessment base for the second quarter of 2009. In addition, the FDIC recently announced a rule that requires financial institutions like us to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010 through and including 2012 to re-capitalize the Deposit Insurance Fund. The FDIC may exercise its discretion as supervisor and insurer to exempt an institution from the prepayment requirement if the FDIC determines that the prepayment would adversely affect the safety and soundness of the institution. We were granted an exemption from the prepayment requirement. During 2009, we paid \$125,365 in deposit insurance, which included regular premiums and the special assessment. The rule also provides for increasing the FDIC-assessment rates by three basis points effective January 1, 2011. If FDIC deposit insurance premiums and assessments continue to increase, these higher payments could adversely affect our financial condition.

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

Significant ongoing disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of most mortgage loans other than conforming Fannie Mae and Freddie Mac loans. At December 31, 2009, we held 22 loans for approximately \$2.3 million of loans that were not eligible for purchase by these agencies. These loans were purchased by the bank from the portfolio of another national bank as part of a community outreach program and not originated by the First Century Mortgage Division. Due to the characteristics of these loans it is doubtful that these loans will be eligible for purchase in the future, however they will continue to be held in our loan portfolio as performing loans. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans held for investment. Declining real estate values have caused higher delinquencies and losses on certain mortgage loans, particularly second lien mortgages and home equity lines of credit. These trends could continue. These conditions have resulted in losses, write downs and impairment charges in the mortgage business, which have continued through the fourth quarter of 2009. In response to this trend, we have curtailed various product offerings and limited our mortgage originations generally to Fannie Mae and Freddie Mac eligible mortgages. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of job losses, interest rate resets on adjustable rate mortgage loans or other factors could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which would adversely affect our financial condition and results of operations. In the event the allowance for loan losses is insufficient to cover such losses, earnings, capital and parent company liquidity could be adversely affected.

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

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

Because of the differences in maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Fluctuations in interest rates are not predictable or controllable and therefore, there can be no assurances of our ability to continue to maintain a consistent positive spread between the interest earned on our interest-earning assets and the interest paid on our interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our net interest income and, in turn, our profitability. In addition, loan volumes are affected by market interest rates on loans. Rising interest rates generally are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates will generally decline and in falling interest rate environments, loan repayment rates will likely increase. Interest rates also affect how much money we can lend. When interest rates rise, the cost of borrowing increases. Accordingly, changes in market interest rates could materially and adversely affect our net interest income, asset quality, and loan origination volume.

Industry competition may have an adverse effect on our profitability.

Competition in the banking and financial services industry is intense, and our profitability depends upon our continued ability to compete in our market area. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in our primary market areas and elsewhere.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions, such as Regions Bank, Wachovia Bank, N.A., SunTrust Bank and Bank of America, N.A. These institutions offer some services, such as extensive and established branch networks and trust services that we do not provide. We also compete with local community banks in our market, such as Peach State Bank and Hamilton State Bank. There is a risk that we will not be able to compete successfully with other financial institutions in our market, and that we may have to pay higher interest rates to attract deposits, resulting in reduced profitability.

In addition, because the Gramm-Leach-Bliley Act now permits banks, securities firms and insurance companies to affiliate, a number of larger financial institutions and other corporations offering wider variety of financial services than we currently offer could enter and aggressively compete in the markets we currently serve. Many of these competitors have substantially greater resources, lending limits and operating histories than we do and may offer services that we do not or cannot provide. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

Moreover, we may not be able to compete with our larger competitors for larger customers because our lending limits are lower than theirs. We are limited in the amount we can loan a single borrower by the amount of the Bank's capital. Our legal lending limit is 15% of the Bank's capital and surplus, or \$769,000, at December 31, 2009. These limits are significantly less than the limits for most of our competitors, and as a result we will have difficulty in obtaining business from the larger customers in our market area. We seek to sell loan participations to other financial institutions to meet the needs of customers requiring loans above these limits. Nevertheless, because this amount is substantially lower than the lending limit for most of our competitors, it is difficult for us to compete for many loan relationships.

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

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission that are scheduled to be applicable to us in 2010, have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. We have experienced, and we expect to continue to experience, greater compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act. We expect these rules and regulations to continue to increase our accounting, legal, and other costs, and to make some activities more difficult, time consuming, and costly. In the event that we are unable to maintain or achieve compliance with the Sarbanes-Oxley Act and related rules, we may be adversely affected.

required by Section 404 of the Sarbanes-Oxley Act. If we identify significant deficiencies or material weaknesses in our internal control over financial reporting that we cannot remediate in a timely manner, or if we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal control over financial reporting, the value of our common stock could decline, or our ability to obtain any necessary equity or debt financing could suffer. In this event, the liquidity of our common stock would be severely limited and the market price of our common stock would likely decline significantly.

In addition, the rules adopted as a result of the Sarbanes-Oxley Act could make it more difficult or more costly for us to obtain certain types of insurance, including directors' and officers' liability insurance, which could make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

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

Our directors and executive officers, as a group, beneficially owned approximately 42% of our outstanding common stock as of December 31, 2009. One of our directors, William R. Blanton, who is also our Chief Executive Officer, owns approximately 22% of our outstanding common stock as of December 31, 2009. The directors and executive officers, as a result of their ownership, have the ability, by voting their shares in concert, to influence the outcome of any matter submitted to our shareholders for approval, including the election of directors. The directors and executive officers may vote to cause the company to take actions with which shareholders do not agree or that are not beneficial to our shareholders.

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

William R. Blanton, our Chief Executive Officer, Chairman, and a director of the Company and the Bank, who owns approximately 22% of our common stock, has 35 years of banking experience and holds interest in various banks across North Georgia. As a result of his interest in other banks, Mr. Blanton may vote to cause the Company to take actions with which the shareholders do not agree or that are not beneficial to its shareholders.

Mr. Blanton spends a portion of his time as the Chief Executive Officer, Vice-Chairman and as a director of First Covenant Bank, a bank with \$168 million in assets as of December 31, 2009, headquartered in Commerce, Georgia. Mr. Blanton currently owns approximately 16.6% of the outstanding shares of First Covenant Bank. We currently have a data processing agreement and master services agreement with First Covenant Bank and we may enter into additional agreements with First Covenant Bank in the future. See "Transactions by Directors, Officers and Ten Percent Shareholders."

Mr. Blanton also serves on the board of directors of United Americas Bankshares, Inc. and its subsidiary bank, United Americas Bank, a bank with \$267 million in assets as of December 31, 2009, in Atlanta, Georgia. Mr. Blanton is the largest shareholder of United Americas Bankshares, Inc. and owns approximately 17.4% of United Americas Bankshares, Inc., which consists of 124,500 of outstanding shares and warrants to purchase an additional 100,000 shares which are immediately exercisable. Mr. Blanton's application for a change of control was approved and allows Mr. Blanton to acquire up to 100% of the outstanding shares of United Americas Bankshares, Inc.

We are exposed to the possibility of technology failure.

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

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Description of Property.

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

Item 3. Legal Proceedings.

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

Item 4. (Removed and Reserved).

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PART II

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

As of March 25, 2010, the Company had 4,998,150 shares of common stock outstanding and approximately 940 shareholders of record. There is currently no market for our shares of common stock, and it is not likely that an active trading market will develop for the shares in the future. There are no present plans for the common stock to be traded on any stock exchange or over-the-counter-market. In 2008 and 2009, shares were sold in a private placement at \$1.50 per share. With the exception of the private placement, there is only incomplete information about trades of our shares and the prices at which any shares have traded.

During 2009 and 2008, we issued 1,019,693, and 2,246,669 shares of our common stock, respectively, in consideration of proceeds of \$1,529,541, and \$3,370,006, respectively, before expenses to accredited investors in transactions exempt from registration under Section 4(2) of the Securities Act and Regulation D under the Securities Act relating to sales not involving any public offering. The shares were sold by our officers and directors with the assistance of our sales agents, Commerce Street Capital, LLC and FIG Partners, L.L.C. Our common stock was sold only to investors that we believed were accredited investors. Our directors and officers received no compensation in connection with the sale of shares.

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

Moreover, on October 21, 2004, pursuant to the request of the Federal Reserve Bank of Atlanta, our Board of Director's adopted resolutions that provide that we shall not, without the prior written approval of the Federal Reserve Bank of Atlanta, declare or pay dividends to our shareholders. The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

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

Item 6. Selected Financial Data.

Not applicable.

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

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

Overview

First Century Bancorp. was incorporated in 2000 for the purpose of becoming a bank holding company. We are subject to extensive federal and state banking laws and regulations, including the Bank Holding Company Act, and the bank holding company laws of Georgia. We

have one bank subsidiary, First Century Bank, National Association, which opened for business on March 25, 2002. The Bank is also subject to various federal banking laws and regulations. See the section entitled “First Century Bank” in Item 1 - Business for a description of the history of our Formal Agreement with the OCC.

The following discussion describes our results of operations and assesses our financial condition. Our discussion and analysis for the years ended December 31, 2009 and 2008 is based on our audited financial statements for such periods. Like most community banks, we derive a significant portion of our income from interest we receive on our loans and investments. Our primary sources of funds for making these loans and investments are our deposits and borrowings, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

We have included a number of tables to assist in our description of these measures. For example, the “Average Balances” table shows the average balance during the years ended December 31, 2009 and 2008 of each category of our assets and liabilities, as well as the yield we earned or the rate we paid with respect to each category. A review of this table shows that our loans typically provide higher interest yields than do other types of interest earning assets, which is why we intend to channel a substantial percentage of our earning assets into our loan portfolio. Similarly, the “Rate/Volume Analysis” table helps demonstrate the impact of changing interest rates and changing volume of assets and liabilities during the years shown. We also track the sensitivity of our various categories of assets and liabilities to changes in interest rates, and we have included a “Sensitivity Analysis Table” to help explain this. Finally, we have included a number of tables that provide detail about our investment securities, our loans, and our deposits.

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

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

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crises

Markets in the United States and elsewhere have experienced extreme volatility and disruption for more than 18 months. These circumstances have exerted significant downward pressure on prices of equity securities and virtually all other asset classes, and have resulted in substantially increased market volatility, severely constrained credit and capital markets, particularly for financial institutions, and an overall loss of investor confidence. Loan portfolio performances have deteriorated at many institutions resulting from, among other factors, a weak economy and a decline in the value of the collateral supporting their loans. Dramatic slowdowns in the housing industry, due in part to falling home prices and increasing foreclosures and unemployment, have created strains on financial institutions. Many borrowers are now unable to repay their loans, and the collateral securing these loans has, in some cases, declined below the loan balance. In response to the challenges facing the financial services sector, several regulatory and governmental actions have recently been announced including:

- The Emergency Economic Stabilization Act of 2008 (“EESA”), approved by Congress and signed by President Bush on October 3, 2008, which, among other provisions, allowed the U.S. Treasury to purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. EESA also temporarily raised the basic limit of FDIC deposit insurance from \$100,000 to \$250,000 through December 31, 2013.
- On October 7, 2008, the FDIC approved a plan to increase the rates banks pay for deposit insurance.
- On October 14, 2008, the U.S. Treasury announced the creation of a new program, the Troubled Asset Relief Program (the “TARP”) Capital Purchase Program (the “CPP”) that encourages and allows financial institutions to build capital through the sale of senior preferred shares to the U.S. Treasury on terms that are non-negotiable.
- On October 14, 2008, the FDIC announced the creation of the Temporary Liquidity Guarantee Program (the “TLGP”), which seeks to strengthen confidence and encourage liquidity in the banking system. The TLGP has two primary components that are available on a voluntary basis to financial institutions:
 - The Transaction Account Guarantee Program (“TAGP”), which provides unlimited deposit insurance coverage through

June 30, 2010 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 15 to 25 basis points fee (annualized), according to the institution's risk category on the balance of each covered account in excess of \$250,000, while the extra deposit insurance is in place; and

- The Debt Guarantee Program ("DGP"), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than June 30, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally 125% of the eligible entity's eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2% of their liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 50 to 100 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008.
- On February 17, 2009 President Obama signed into law The American Recovery and Reinvestment Act of 2009 ("ARRA"), more commonly known as the economic stimulus or economic recovery package. ARRA includes a wide

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variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. In addition, ARRA imposes certain executive compensation and corporate expenditure limits on all current and future TARP recipients that are in addition to those previously announced by the U.S. Treasury. These new limits are in place until the institution has repaid the Treasury, which is now permitted under ARRA without penalty and without the need to raise new capital, subject to the Treasury's consultation with the recipient institution's appropriate regulatory agency.

- On March 23, 2009, the U.S. Treasury, in conjunction with the FDIC and the Federal Reserve, announced the Public-Private Partnership Investment Program for Legacy Assets which consists of two separate plans, addressing two distinct asset groups:
 - The first plan is the Legacy Loan Program, which has a primary purpose to facilitate the sale of troubled mortgage loans by eligible institutions, including FDIC-insured federal or state banks and savings associations. Eligible assets are not strictly limited to loans; however, what constitutes an eligible asset will be determined by participating banks, their primary regulators, the FDIC and the Treasury. Under the Legacy Loan Program, the FDIC has sold certain troubled assets out of an FDIC receivership in two separate transactions relating to the failed Illinois bank, Corus Bank, NA, and the failed Texas bank, Franklin Bank, S.S.B. These transactions were completed in September 2009 and October 2009, respectively.
 - The second plan is the Securities Program, which is administered by the Treasury and involves the creation of public-private investment funds to target investments in eligible residential mortgage-backed securities and commercial mortgage-backed securities issued before 2009 that originally were rated AAA or the equivalent by two or more nationally recognized statistical rating organizations, without regard to rating enhancements (collectively, "Legacy Securities"). Legacy Securities must be directly secured by actual mortgage loans, leases or other assets, and may be purchased only from financial institutions that meet TARP eligibility requirements. Treasury received over 100 unique applications to participate in the Legacy Securities PPIP and in July 2009 selected nine public-private investment fund managers. As of December 31, 2009, public-private investment funds have completed initial and subsequent closings on approximately \$6.2 billion of private sector equity capital, which was matched 100% by Treasury, representing \$12.4 billion of total equity capital. Treasury has also provided \$12.4 billion of debt capital, representing \$24.8 billion of total purchasing power. As of December 31, 2009, public-private investment funds have drawn-down approximately \$4.3 billion of total capital which has been invested in certain non-agency residential mortgage backed securities and commercial mortgage backed securities and cash equivalents pending investment.
- On May 22, 2009, the FDIC levied a one-time special assessment on all banks due on September 30, 2009.
- On November 12, 2009, the FDIC issued a final rule to require banks to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 and to increase assessment rates effective on January 1, 2011.

We are participating in the TAGP component of the TLGP. We have not opted out of the DGP. As a result of the enhancements to deposit insurance protection and the expectation that there will be demands on the FDIC's deposit insurance fund, our deposit insurance costs have increased and will continue to increase during 2010.

It is likely that further regulatory actions may arise as the Federal government continues to attempt to address the economic situation. Governmental intervention and new regulations under these programs could materially and adversely affect our business, financial condition and results of operations. The following discussion and analysis describes our performance in this challenging economic environment. We encourage you to read this discussion and analysis in conjunction with our financial statements and the other statistical information included in this report.

Critical Accounting Policies

We have adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America, in the preparation of our consolidated financial statements. Our significant accounting policies are described in note 1 in the footnotes to the consolidated financial statements at December 31, 2009 included elsewhere in this annual report. Management has discussed these critical accounting policies with the audit committee.

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

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

Results of Operations

Net income (loss) for the year ended December 31, 2009 improved \$3.6 million over the same period in 2008. The Company earned \$44,000 for the year ended December 31, 2009 as compared to a net loss of \$3,515,000 for the same period in 2008. Our operational results depend to a large degree on three factors: our net interest income, our provision for loan losses, and our non-interest income and expenses.

Net interest income is the difference between the interest income received on investments (such as loans, investment securities, and federal funds sold) and the interest expense on deposit liabilities and borrowings. Net interest income grew 281%, to \$3,184,000 for the year ended December 31, 2009, compared to \$837,000 for the year ended December 31, 2008.

The provision for loan losses was \$334,000 for the year ended December 31, 2009, compared to \$640,000 for the year ended December 31, 2008. In 2008, the provision for loan losses was larger than 2009 due to significant growth in 2008 of \$18.8 million in our loan portfolio and our response to deteriorating economic conditions, which caused us to apply higher risk weightings to the qualitative factors utilized in determining appropriate levels of reserves. In 2009, we did not have continued loan growth and therefore, the provision for loan losses was maintained at a level that management considers to be adequate to sustain any estimated or potential losses based on the Bank's internal analysis and on external credit review examinations conducted by regulatory authorities and by third-party review services. The Bank continues to demonstrate the improvement in the credit quality of the Bank's loan portfolio and of management's efforts to identify and reduce criticized and classified loans.

Total non-interest income for the year ended December 31, 2009 was \$2,227,000, compared to \$609,000 for the year ended December 31, 2008. Non-interest income includes service charges on deposit accounts, customer service fees, mortgage origination fee income and investment security gains (losses). The increase in non-interest income for 2009 was primarily due to an increase in fees earned on mortgage originations due to the establishment of the mortgage divisions. Non-interest expenses in 2009 were \$5,034,000, compared to \$4,321,000 in 2008. The largest component of non-interest expenses is salaries and employee benefits, which totaled \$2,481,000 for the year ended December 31, 2009, compared to \$2,006,000 for the year ended December 31, 2007.

Net Interest Income

For the years ended December 31, 2009 and 2008, net interest income totaled \$3,184,000 and \$837,000, respectively. Interest income from loans, including fees, was \$2,368,000 and \$1,722,000 for 2009 and 2008, respectively, or an increase of \$646,000. The yield decreased to 5.91% in 2009 from 7.53% in 2008. The falling interest rate environment in 2008 had an immediate negative impact on the Bank's adjustable rate loans, and continued to impact the Bank's loan yield as loans matured and repriced, and new loans were made at the lower current market rates.

Management redirected cash resources to higher yielding investment securities in late 2008 and early 2009 taking advantage of market dislocations that occurred during that time period. Interest income from investment securities was \$2,529,000 and \$562,000 for 2009 and 2008, respectively, which represented a higher yield of 9.15% in 2009, compared to the 5.93% yield earned in 2008. Interest expense totaled \$1,715,000 for the year ended December 31, 2009, compared to \$1,586,000 in 2008. The net interest margin realized on earning assets and the interest rate spread were 4.61% and 4.45%, respectively, for the year ended December 31, 2009, as compared 2.20% and 2.11%, respectively, for the year ended December 31, 2008.

The Bank's growth has been supported by the dual strategy of increasing lower cost wholesale funding in the short-term to allow time for a build up of low cost core funding to be developed over the longer-term. Since December 31, 2008, core deposits have grown approximately \$13.4 million, or 137%. The Bank has been successful implementing this strategy resulting in an increase in net interest margin of 110%. The net interest margin realized on earning assets was 4.61% for the year ended December 31, 2009, as compared to 2.20% for the same period in 2008.

Average Balances and Interest Rates

The table below details the average balances outstanding for each category of interest earning assets and interest-bearing liabilities for 2009 and 2008 and the average rate of interest earned or paid thereon. Average balances have been derived from the daily balances throughout the period indicated.

	For the Year Ended December 31, 2009			For the Year Ended December 31, 2008		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
(Amounts presented in thousands)						
Assets:						
Interest earning assets:						
Loans (including loan fees)	\$ 40,096	\$ 2,368	5.91%	\$ 22,865	\$ 1,723	7.53%
Investment securities and other investments	27,642	2,529	9.15%	9,481	562	5.93%
Interest bearing deposits	1,150	2	0.13%	1,522	39	2.57%
Federal funds sold	129	—	0.14%	4,154	99	2.39%
Total interest earning assets	69,017	4,899	7.10%	38,021	2,423	6.37%
Other non-interest earnings assets	4,025			4,873		
Total assets	\$ 73,042			\$ 42,894		
Liabilities and shareholders' equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	\$ 1,356	\$ 12	0.85%	\$ 1,096	\$ 23	2.08%
Savings and money market	9,130	188	2.06%	3,818	106	2.77%
Time	49,317	1,450	2.94%	29,072	1,354	4.66%
Federal funds purchased	43	—	0.97%	21	1	1.58%
Borrowings	4,916	65	1.33%	3,214	103	3.21%
Total interest-bearing liabilities	64,762	1,715	2.65%	37,221	1,586	4.26%
Other non-interest bearing liabilities	4,036			2,797		
Shareholders' equity	4,244			2,876		
Total liabilities and shareholders' equity	\$ 73,042			\$ 42,894		
Excess of interest-earning assets over interest-bearing liabilities	\$ 4,255			\$ 800		
Ratio of interest-earning assets to interest-bearing liabilities	106.57%			102.15%		

Net interest income	\$ 3,184	\$ 836
Net interest spread	4.45%	2.11%
Net interest margin	4.61%	2.20%

Non-accrual loans are included in average loan balances and totaled \$637,000 and \$729,000 for 2009 and 2008 respectively.

Volume/Rate Analysis

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

Change	2009 Compared to 2008 (Dollars in thousands)		
	Volume	Rate	Net
Interest income on:			
Loans (including loan fees)	\$ 1,018	\$ (372)	\$ 646
Investment securities	1,663	305	1,968
Interest bearing deposits	(1)	(37)	(38)
Federal funds sold	(6)	(93)	(99)
	<u>2,674</u>	<u>(197)</u>	<u>2,477</u>
Interest expense on:			
Deposits:			
Interest-bearing demand	2	(13)	(11)
Savings and money market	109	(27)	82
Time	595	(499)	96
Borrowings	22	(60)	(38)
Federal funds purchased	—	—	—
	<u>728</u>	<u>(599)</u>	<u>129</u>
	<u>\$ 1,946</u>	<u>\$ 402</u>	<u>\$ 2,348</u>

Interest Rate Sensitivity and Asset Liability Management

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

Net interest income is the primary component of net income for financial institutions. Net interest income is affected by the timing and magnitude of repricing of as well as the mix of interest sensitive and non-interest sensitive assets and liabilities. "Gap" is a static measurement of the difference between the contractual maturities or repricing dates of interest sensitive assets and interest sensitive liabilities within the following twelve months. Gap is an attempt to predict the behavior of the Bank's net interest income in general terms during periods of movement in interest rates. In general, if the Bank is liability sensitive, more of its interest sensitive liabilities are expected to reprice within twelve months than its interest sensitive assets over the same period. In a rising interest rate environment, liabilities repricing more quickly is expected to decrease net

interest income. Alternatively, decreasing interest rates would be expected to have the opposite effect on net interest income since liabilities would theoretically be repricing at lower interest rates more quickly than interest sensitive assets. Although it can be used as a general predictor, Gap as a predictor of movements in net interest income has limitations due to the static nature of its definition and due to its inherent assumption that all assets will reprice immediately and fully at the contractually designated time. At December 31, 2009, the Bank, as measured by Gap, is in a liability sensitive position within one year. Management has several tools available to it to evaluate and affect interest rate risk, including deposit pricing policies and changes in the mix of various types of assets and liabilities.

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

The following table summarizes the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2009, that are expected to mature, prepay, or reprice in each of the future time periods shown. Except as stated below, the amount of assets or liabilities that mature or reprice during a particular period was determined in accordance with the contractual

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terms of the asset or liability. Adjustable rate loans are included in the period in which interest rates are next scheduled to adjust rather than in the period in which they are due, and fixed rate loans and mortgage-backed securities are included in the periods in which they are anticipated to be repaid based on scheduled maturities. The Bank's savings accounts and interest-bearing demand accounts, which are generally subject to immediate withdrawal, are included in the "Three Months or Less" category, although historical experience has proven these deposits to be more stable over the course of a year.

	At December 31, 2009 Maturing or Repricing in (dollars in thousands)				
	Three Months or Less	Four Months to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Investment securities	\$ 401	\$ 2,625	\$ 18,534	\$ 3,230	\$ 24,790
Loans	4,996	7,987	18,988	4,537	36,508
Total interest-bearing assets	5,397	10,612	37,522	7,767	61,298
Interest-bearing liabilities:					
Deposits:					
Savings and demand	20,393	—	—	—	20,393
Time deposits	8,515	36,262	1,320	—	46,097
Other Borrowings	—	2,000	—	—	2,000
Total interest-bearing liabilities	28,908	38,262	1,320	—	68,490
Interest sensitive difference per period	\$ (23,511)	\$ (27,650)	\$ 36,202	\$ 7,767	\$ (7,192)
Cumulative interest sensitivity difference	\$ (23,511)	\$ (51,161)	\$ (14,959)	\$ (7,192)	
Cumulative difference to total interest earning assets	(38.36)%	(83.46)%	(24.40)%	(11.73)%	

At December 31, 2009, the difference between the Bank's liabilities and assets repricing within one year was \$51,161,000, therefore the Bank's balance sheet was liability-sensitive in a rising rate environment. A liability-sensitive position means that, for cumulative gap measurement periods of one year or less, there are more liabilities than assets subject to immediate repricing as market rates change. Because rate-sensitive interest-bearing liabilities exceed rate sensitive assets, in a rising rate environment the Bank's earnings position is exposed to declining earnings. Included in interest-bearing liabilities subject to rate changes within 90 days is a portion of the interest-bearing demand, savings and money market deposits. These types of deposits historically have not repriced coincidentally with or in the same proportion as general market indicators.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although particular assets and liabilities may have similar maturities or periods of repricing, they may reflect changes in market interest rates differently. Additionally, some

assets, such as adjustable-rate mortgages, have features that restrict changes in interest rates, both on a short-term basis and over the life of the asset. Other factors which may affect the assumptions made in the table include changes in interest rates, pre-payment rates, early withdrawal levels, and the ability of borrowers to service their debt.

Provision and Allowance for Loan Losses

The provision for loan losses is the charge to operating earnings that management believes is necessary to maintain the allowance for loan losses at an adequate level. The provision charged to expense was \$334,000 for the year ended December 31, 2009, as compared to the \$640,000 that was charged against earnings in 2008. The loan portfolio decreased by approximately \$1.4 million during the year ended December 31, 2009. The allowance for loan losses was \$415,000, or 1.13%, of gross loans at December 31, 2009, compared to \$838,000, or 2.20%, of gross loans at December 31, 2008. The primary reason for the decrease in our allowance for loan losses is the result of the Bank recording specific reserves on certain impaired loans with a balance of \$1,143,000 in 2008. In 2009, three of these impaired loans were partially or fully charged off which reduced the allowance for loan losses by \$450,000.

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

loan, risks resulting from uncertainties about the future value of the collateral. We anticipate maintaining an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Our judgment about the adequacy of the allowance is based upon a number of assumptions, which we believe to be reasonable, but which may not prove to be accurate. Some of the assumptions or estimates made in the determination of the allowance for loan losses consist of the risk ratings for loans, the valuation of the collateral for loans that are classified as impaired loans, the qualitative loss factors, and management's plan for disposition of non-performing loans. In determining an adequate allowance for loan losses, management makes numerous assumptions, estimates, and assessments which are inherently subjective and subject to change. The use of different estimates or assumptions could produce different provisions for losses on loans. We consider the current allowance for loan losses to be adequate to sustain any estimated or potential losses based on the Bank's internal analysis and on credit review examinations conducted by regulatory authorities and third-party review services. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period, especially considering the overall weakness in the commercial real estate market in our market area.

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

	December 31,			
	2009		2008	
Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	
Commercial, financial and agricultural	\$ 84	20%	\$ 215	26%
Real estate - mortgage	199	48%	301	36%
Real estate - construction	85	21%	282	33%
Consumer	47	11%	40	5%
	<u>\$ 415</u>	<u>100%</u>	<u>\$ 838</u>	<u>100%</u>

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

	For the years ended December 31,	
	2009	2008
Balance at the beginning of period	\$ 838	\$ 276

Charge-offs:		
Commercial, financial and agricultural	176	—
Real estate - mortgage	236	48
Real estate - construction	275	—
Consumer	93	79
Total Charged-off	780	127
Recoveries:		
Commercial, financial and agricultural	—	2
Consumer	23	47
Total Recoveries	23	49
Net Charge-offs	757	78
Provision for Loan Loss	334	640
Balance at end of period	\$ 415	\$ 838
Total loans at end of period	\$ 36,631	\$ 38,101
Average loans outstanding	\$ 37,388	\$ 21,749
As a percentage of average loans:		
Net loans charged-off	2.02%	0.36%
Provision for loan losses	0.89%	2.94%
Allowance for loan losses as a percentage of:		
Year end loans	1.13%	2.20%

Non-Performing Assets

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

At December 31, 2009, there were \$122,000 in loans outstanding, which were accounted for as non-accrual loans compared to \$957,000 in outstanding loans accounted for as non-accrual loans at December 31, 2008, a decrease of \$835,000, or 87%. Total non-performing assets were \$779,000 at December 31, 2009, compared to \$1,619,000 at December 31, 2008, a decrease of \$840,000, or 52%. Interest income that would have been reported on the non-accrual loans in 2009 and 2008 was approximately \$70,000 and \$54,000 respectively. Impaired loans approximated \$960,000 and \$1,631,000 as of December 31, 2009 and 2008, respectively. The allowance for loan loss included a specific allowance of \$24,000 and \$489,000 for impaired loans as of December 31, 2009 and 2008, respectively. In 2009, \$450,000 was partially or fully charged off on three impaired loans that held specific reserves at December 31, 2008. In addition, in 2009, one impaired loan, in the amount of \$598,000, that was outstanding at 2008 year end, was foreclosed and is now classified as other real estate owned.

At December 31, 2009, the allowance for loan losses represented 329% of the amount of non-performing loans, compared to 53% at December 31, 2008. All of the nonperforming loans at December 31, 2009 are secured by real estate with the exception \$3,000 which is a unsecured consumer loan. We have evaluated the underlying collateral on these loans and believe that such collateral is sufficient to minimize future losses. However, the downturn in the real estate market has resulted in increased loan delinquencies, defaults and foreclosures, and we believe that these trends are likely to continue. In some cases, this downturn has resulted in a significant impairment to the value of the collateral used to secure these loans and the ability to sell the collateral upon foreclosure. These conditions have adversely affected our loan portfolio. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values continue to decline, it is also more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values we are required to liquidate the property collateralizing a loan to satisfy the debt or to increase the allowance for loan losses, this could materially reduce our profitability and adversely affect our financial condition.

The following table summarizes non-performing assets as of December 31, 2009 and 2008 (amounts are presented in thousands):

	December 31,	
	2009	2008
Other real estate and repossessions	\$ 654	\$ —
Non-accrual loans	122	957
Accruing loans 90 days or more past due	3	662
Total non-performing assets	\$ 779	\$ 1,619
As a percentage of gross loans:	2.13%	4.25%

Non-interest Income and Expense

First Century Bank looks for business opportunities which will enable it to grow and increase its value for all its stakeholders. Due to the regulatory changes in the mortgage industry, First Century Bank has expanded its mortgage operations, to take advantage of the new benefits which now exist when partnering a bank with a mortgage operation. In the last six months, First Century has added a new Retail Production / Operations hub, located in Roswell, Georgia, to our mortgage division previously comprised of the Gainesville mortgage location and the online Mortgage division, Century Point Mortgage. The combined Mortgage Divisions have achieved significant production and growth in 2009. It is the partnership of the banking and mortgage worlds which we anticipate will drive higher earnings and greater shareholder value for the bank in the upcoming year. Revenues from the mortgage divisions are primarily considered non-interest income of fees, and gains on sale of the loans. Interest income is earned on the loans from the time they are closed to the time they are sold which is typically two weeks. Expenses are primarily salaries and commissions, occupancy, and loan origination expenses such as appraisals.

Non-interest income includes service charges on deposit accounts, customer service fees, mortgage origination fee income and investment security gains (losses). For the year ended December 31, 2009, non-interest income grew to \$2,227,000 compared to \$609,000 for the year ended December 31, 2008, an increase of \$1,618,000, or 266%. The increase in non-interest income was primarily due to an increase in fees earned on mortgage originations, due to the establishment of the mortgage divisions. The fees earned are related to the origination of mortgage loans that are sold within 30 days, which investors have committed to purchase before they are funded. The Bank funded \$130.4 million in mortgage loans during 2009, an increase of \$88.7 million, or 213%, from

the same period a year ago. Net gains (losses) on sales of securities were \$(24,984) and \$3,507 for the years ended December 31, 2009 and 2008, respectively. In 2009, we recorded an other-than-temporary impairment charge of \$62,420 with respect to a restricted security, reducing the carrying value of our investment to \$0.

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

Total non-interest expense for the year ended December 31, 2009 was \$5,034,000 compared \$4,321,000 for the year ended December 31, 2008, an increase of \$713,000, or 16%.

Salaries and benefits, the largest component of non-interest expense, were \$2,481,000 for the year ended December 31, 2009, as compared to \$2,006,000 for the year ended December 31, 2008, an increase of \$475,000, or 24%. While salaries and benefits attributable to the growth initiatives increased expenses by \$1,159,000 for the year, the Bank was concurrently creating efficiencies attributable to the data processing and master services agreement initiated in September 2008, which reduced salaries and benefits expense during 2009 by approximately \$685,000, resulting in an overall increase of \$475,000. A portion of this savings is replaced by the master services agreement expenses that are currently reflected in data processing expense below.

Total occupancy and equipment expenses for the year ended December 31, 2009, were \$437,000 as compared to \$486,000 for the year ended December 31, 2008, a decrease of \$49,000, or 10%. Total occupancy expenses for the year ended December 31, 2009 were lower than the same period in 2008, even with the addition of the mortgage divisions and the two LP/DP offices, as a result of management's cost cutting

initiatives, which included savings on building maintenance.

Professional fees for the year ended December 31, 2009, were \$286,000 compared to \$275,000 for the year ended December 31, 2008, an increase of \$11,000, or 4%. The increase in professional fees is primarily attributable to management consulting fees for the mortgage division.

Marketing expenses for the year ended December 31, 2009, were \$260,000 compared to \$430,000 for the year ended December 31, 2008, a decrease of \$170,000, or 40%. The marketing expense decrease of approximately \$225,000 was attributable to the discontinuance of a multimedia marketing campaign that included billboards and various other media advertisements targeted at the Gainesville, Oakwood and Athens, Georgia markets. In addition, the Century Point Mortgage division has heavily invested in internet advertising during its startup phase and increased marketing expense in 2009 by approximately \$50,000. As a national, internet-based lender, the Century Point Mortgage division's business model depends on lead generation to drive a high volume of leads with a lower cost of customer acquisition than traditional mortgage lenders. Key elements of the division's web-based demand generation program are advertising on mortgage rate websites, paid search advertising, search engines optimizations and social media tools. As the division is maturing, the marketing budget is being analyzed and directed to the most successful techniques.

In 2008, the Bank entered into a data processing contract to move its processing from Fidelity Information Systems to Providence, the internal data processing system provided by First Covenant Bank. This change, which was completed in September 2008, has enabled the Bank to decrease its overall costs and increase its flexibility in data processing. Data processing expense for the year ended December 31, 2009, were \$561,000, compared to \$547,000 for the year ended December 31, 2008, an increase of \$14,000, or 3%. The year to date increase includes approximately \$228,000 of master services agreement costs noted under salaries and benefits mentioned above resulting in savings for core data processing expense of approximately \$214,000 for the year ended December 31, 2009.

Telephone expense, postage and delivery services, and office supply expenses for the year ended December 31, 2009 totaled \$112,000, compared to \$182,000 for the year ended December 31, 2008, a decrease of \$70,000, or 38%. These expenses were reduced as a result of management's cost cutting initiatives, eliminating excess capacity and centralized operations.

Insurance, taxes, and regulatory assessment expenses totaled \$253,000 for the year ended December 31, 2009, compared to \$132,000 for the year ended December 31, 2008, an increase of \$121,000, or 92%. During the year ended December 31, 2009, the Bank's FDIC expense increased \$85,000 over the same period in 2008 due to the growth in deposits and the FDIC imposed special assessment. Directors' and officers' liability insurance premiums increased \$33,295 during the year ended December 31, 2009.

Lending related expenses were \$426,000 for the year ended December 31, 2009 compared to \$206,000 for the year ended December 31, 2008, an increase of \$220,000, or 107%. The increase is primarily related to appraisal expenses generated by the mortgage division.

Other non-interest expenses were \$218,000 for the year ended December 31, 2009, compared to \$57,000 for the year ended December 31, 2008, an increase of \$161,000, or 282%. Software licensing fees increased in 2009 approximately \$67,000 due to specialized needs in the mortgage division. In the second quarter 2009 the bank recorded a \$25,000 legal settlement related to

circumstances surrounding the departure of one of our Century Point Mortgage employees from their previous employer. Neither the Company nor the Bank were a party to the lawsuit, however, in the interests of eliminating the tangible and intangible costs involved in the continuing litigation, we decided it was in our best interests to contribute to a settlement amount in order to resolve the pending matter. In the third quarter of 2009, the Bank experienced a loss of approximately \$59,000 due to a check fraud scheme, which was recorded as other non-interest expense.

The following table shows the components of non-interest expense incurred for years ended December 31, 2009 and 2008 and changes attributable to the growth of the Company:

	2009	2008	Increase / (Decrease)	Main Office Bank & Parent	Oakwood	Athens	Century Point Mortgage Division	Retail Mortgage Division
Salaries and employee benefits	\$ 2,480,962	\$ 2,006,318	\$ 474,644	\$ (684,725)	\$ 294,069	\$ 113,291	\$ 292,778	\$ 459,231
Occupancy expenses	436,669	485,775	(49,106)	(150,204)	34,684	17,903	13,789	34,722
Professional fees	285,627	274,953	10,674	(36,435)	(1,665)	800	(723)	48,697
Marketing	259,696	430,260	(170,564)	(225,240)	1,347	(629)	49,822	4,136
Data Processing	560,775	546,596	14,179	(4,352)	3,870	6,040	4,377	4,244
Telephone	55,201	69,148	(13,947)	(22,659)	1,492	2,270	903	4,047
Postage and Delivery Services	29,338	42,407	(13,069)	(20,505)	(6)	97	268	7,077
Insurance, Tax, and Assessment	253,229	131,931	121,298	120,715	(185)	60	(699)	1,407
Office Supplies	27,586	70,231	(42,645)	(45,378)	(2,651)	(516)	(725)	6,625
Lending Related Expense	426,456	206,221	220,235	(114,439)	(3,064)	1,049	246,827	89,862
Other Non-Interest Expense	218,257	57,465	160,792	73,623	15,084	2,155	64,881	5,049

Total Non-Interest Expense	\$ 5,033,796	\$ 4,321,305	\$ 712,491	\$ (1,109,599)	\$ 342,975	\$ 142,520	\$ 671,498	\$ 665,097
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Income Taxes

At December 31, 2009, the Company had federal and state net operating loss carryforwards for tax purposes of approximately \$11,527,000 and \$11,310,000, respectively, which will expire beginning in 2022 if not previously utilized. The utilization of the net operating loss carry forward has been limited as to its use pursuant to the Internal Revenue Code Section 382 due to the recent change in ownership of the Company.

Financial Condition

Total assets increased \$13,687,000, or 22%, from \$62,879,000 December 31, 2008 to \$76,566,000 at December 31, 2009. The primary sources of the increase was in investment securities, which increased by \$6,111,000, or 33%, and loans held for sale which increased by \$7,773,000, or 417%. Total deposits increased by \$12,446,000, or 22%, from December 31, 2008 to December 31, 2009 with a \$13,408,000, or 137%, increase in core deposits. Total shareholders' equity increased \$1,235,000 from \$3,164,000 at December 31, 2008 to \$4,399,000 at December 31, 2009. During 2009, we received proceeds of \$1,529,541 less stock issuance costs of \$206,211 from the sale of 1,019,693 shares in a private placement.

Loans

Gross loans totaled \$36,631,000 at December 31, 2009, a decrease of \$1,470,000, or 3.9%, since December 31, 2008. Management is continuously investigating opportunities to generate loan growth and diversify its loan portfolio. Balances within the major loans receivable categories as of December 31, 2009 and December 31, 2008 are as follows (amounts are presented in thousands):

	2009		2008	
Commercial, financial and agricultural	\$ 3,716	10%	\$ 4,528	12%
Real estate — mortgage	26,643	73%	26,521	70%
Real estate — construction	4,746	13%	5,239	14%
Consumer	1,526	4%	1,813	5%
Total	\$ 36,631	100%	\$ 38,101	100%

As of December 31, 2009, maturities of loans in the indicated classifications were as follows (amounts are presented in thousands):

	Commercial	Real Estate Mortgage	Real Estate Construction	Consumer	Total
Within 1 year	\$ 2,146	\$ 7,172	\$ 3,903	\$ 438	\$ 12,978
1 to 5 years	1,463	15,721	843	1,088	19,115
Over 5 years	788	3,750	—	—	4,538
Totals	\$ 3,716	\$ 26,643	\$ 4,746	\$ 1,526	\$ 36,631

As of December 31, 2009, the interest terms of loans in the indicated classification for the indicated maturity ranges are as follows (amounts are presented in thousands):

	Fixed Interest Rates	Variable Interest Rates	Total
Commercial, financial and agricultural			
Within 1 year	\$ 398	\$ 1,067	\$ 1,465
1 to 5 years	1,234	229	1,463
Over 5 years	788	—	788
Real estate — Mortgage			
Within 1 year	\$ 6,822	\$ 350	\$ 7,172
1 to 5 years	14,033	1,688	15,721
Over 5 years	2,958	792	3,750

Real estate — Construction			
Within 1 year	\$	2,973	\$ 930 \$ 3,903
1 to 5 years		416	427 843
Over 5 years		—	— —
Consumer			
Within 1 year	\$	438	— \$ 438
1 to 5 years		1,069	19 1,088
Over 5 years		—	— —

Investment Securities

Investment securities as of December 31, 2009 and December 31, 2008 are summarized as follows.

Securities Available for Sale	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government Agencies	\$ 983,146	\$ 28,888	\$ —	\$ 1,012,034
Obligations of States and Political Subdivisions	326,855	—	(87,693)	239,162
Mortgage Backed Securities-GNMA	1,435,829	71,850	—	1,507,679
Mortgage Backed Securities-FNMA and FHLMC	794,697	9,750	(1,928)	802,519
Private Label Residential Mortgage Backed Securities	2,720,521	4,331	(288,440)	2,436,412
Private Label Commercial Mortgage Backed Securities	726,226	12,223	—	738,449
Corporate Debt Securities	575,000	6,700	(9,490)	572,210
Equity Securities	298,680	—	(12,720)	285,960
	<u>\$ 7,860,954</u>	<u>\$ 133,742</u>	<u>\$ (400,271)</u>	<u>\$ 7,594,425</u>

Securities Held to Maturity	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Private Label Residential Mortgage Backed Securities	\$ 1,963,140	\$ 255,583	\$ —	\$ 2,218,723
Private Label Commercial Mortgage Backed Securities	14,831,223	1,056,040	(57,627)	15,826,636
	<u>\$ 16,764,363</u>	<u>\$ 1,311,623</u>	<u>\$ (57,627)</u>	<u>\$ 18,048,359</u>

Securities Available for Sale	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government Agencies	\$ 2,381,588	\$ 57,950	\$ —	\$ 2,439,538
Mortgage Backed Securities-GNMA	3,033,535	—	(11,564)	3,021,971
Mortgage Backed Securities-FNMA and FHLMC	1,216,275	1,963	(196)	1,218,042
Private Label Collateralized Mortgage Securities	1,788,390	7,182	—	1,795,572
Private Label Residential Mortgage Backed Securities	1,889,704	18,291	(17,851)	1,890,144
Corporate Debt Securities	575,000	1,100	(19,500)	556,600
Equity Securities	298,680	—	(120,480)	178,200
	<u>\$ 11,183,172</u>	<u>\$ 86,486</u>	<u>\$ (169,591)</u>	<u>\$ 11,100,067</u>

Securities Held to Maturity	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Private Label Residential Mortgage Backed Securities	\$ 1,770,035	\$ —	\$ (5,257)	\$ 1,764,778
Private Label Commercial Mortgage Backed Securities	5,408,005	—	(42,894)	5,365,111
	<u>\$ 7,178,040</u>	<u>\$ —</u>	<u>\$ (48,151)</u>	<u>\$ 7,129,889</u>

The following outlines the unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and December 31, 2008:

	December 31, 2009					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities Available for Sale						
Obligations of States and Political Subdivisions	\$ 239,162	\$ (87,693)	\$ —	\$ —	\$ 239,162	\$ (87,693)
Mortgage Backed Securities-FNMA and FHLMC	—	—	492,889	(1,928)	492,889	(1,928)
Private Label Residential Mortgage Backed Securities	1,463,016	(117,777)	416,654	(170,662)	1,879,670	(288,439)
Corporate Debt Securities	315,510	(9,490)	—	—	315,510	(9,490)
Equity Securities	—	—	285,960	(12,720)	285,960	(12,720)
	<u>\$ 2,017,688</u>	<u>\$ (214,960)</u>	<u>\$ 1,195,503</u>	<u>\$ (185,310)</u>	<u>\$ 3,213,191</u>	<u>\$ (400,270)</u>
Securities Held to Maturity						
Private Label Commercial Mortgage Backed Securities	<u>\$ 887,578</u>	<u>\$ (57,627)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 887,578</u>	<u>\$ (57,627)</u>
December 31, 2008						
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities Available for Sale						
Mortgage Backed Securities-GNMA	\$ 346,339	\$ (3,112)	\$ 200,222	\$ (8,452)	\$ 546,561	\$ (11,564)
Mortgage Backed Securities-FNMA and FHLMC	786,687	(196)	—	—	786,687	(196)
Private Label Residential Mortgage Backed Securities	557,431	(17,851)	—	—	557,431	(17,851)
Corporate Debt Securities	305,500	(19,500)	—	—	305,500	(19,500)
Equity Securities	178,200	(120,480)	—	—	178,200	(120,480)
	<u>\$ 2,174,157</u>	<u>\$ (161,139)</u>	<u>\$ 200,222</u>	<u>\$ (8,452)</u>	<u>\$ 2,374,379</u>	<u>\$ (169,591)</u>
Securities Held to Maturity						
Private Label Residential Mortgage Backed Securities	1,764,778	(5,257)	—	—	1,764,778	(5,257)
Private Label Commercial Mortgage Backed Securities	5,365,111	(42,894)	—	—	5,365,111	(42,894)
	<u>\$ 7,129,889</u>	<u>\$ (48,151)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,129,889</u>	<u>\$ (48,151)</u>

At December 31, 2009, 6 of the 14 debt securities available for sale, 1 of the 1 equity securities available for sale, and 1 of the 20 debt securities held to maturity contained unrealized losses. Because the declines in market value of investments are attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be until maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2009.

Management evaluates investment securities for other-than-temporary impairment on a quarterly basis. The Company's unrealized losses at December 31, 2009 were attributable to changes in market interest rates since the securities were purchased and not in the credit quality of the issuer and, therefore, these losses are not considered other-than-temporary. Management has no specific intent to sell any securities, and it is more likely than not that the Bank will not have to sell any security before recovery of its cost basis.

Gross realized gains on securities totaled \$49,176 and \$3,507 for the years ending December 31, 2009 and 2008, respectively. Gross realized losses on securities totaled \$24,192 and \$0 for the years ending December 31, 2009 and 2008, respectively.

Other investments on the balance sheet at December 31, 2009 and December 31, 2008, respectively include restricted securities consisting of Federal Reserve Bank stock of \$137,300 and \$107,250, Federal Home Loan Bank stock of \$263,500 and \$257,500, and Silverton Bank stock of \$0 and \$62,420. These securities are carried at cost since they do not have readily determinable fair values due to their restricted nature and the Bank does not exercise significant influence. On May 1, 2009, Silverton Bank, a correspondent bank based in Atlanta, Georgia, was closed by the OCC and the FDIC was named Receiver. The FDIC created a bridge bank to take over the operations of Silverton Bank. The creation of the bridge bank allowed Silverton Bank's financial institution clients to transition their correspondent banking needs to other providers with the least amount of disruptions. The bridge bank continued to operate business as usual through July 29, 2009. As a result of this development, we believed that it is highly unlikely that we would recover any portion of our investment in the restricted stock of Silverton Bank's holding company, Silverton Financial Services, Inc. Accordingly, in the second quarter of 2009, we recorded an other-than-temporary impairment charge of \$62,420 with respect to this restricted security, reducing the carrying value of our investment to \$0.

There were no securities required to be pledged to secure public deposits at December 31, 2009 and December 31, 2008. There were \$20,151,000 securities pledged as collateral for lines of credit with the Federal Reserve Bank Discount Window and the Federal Home Loan Bank, see note 9 to the financial statements.

The amortized cost and estimated fair value of investment securities at December 31, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
Obligations of U.S Government Agencies						
5 to 10 Years	\$ 983,146	1,012,034	5.25%	\$ —	—	—
Obligations of States and Political Subdivisions						
1 to 5 Years	326,855	239,162	8.71%	—	—	—
Corporate Debt Securities						
1 to 5 Years	575,000	572,210	7.88%	—	—	—
Equity Securities						
1 to 5 Years	298,680	285,960	7.91%	—	—	—
Mortgage Backed Securities						
Less than 1 Year	2,020,103	2,086,176	6.66%	538,587	548,882	10.62%
1 to 5 Years	3,194,215	2,927,749	9.25%	14,509,031	15,540,677	10.40%
5 to 10 Years	462,955	471,134	2.95%	1,746,745	1,958,800	9.31%
	<u>\$ 7,860,954</u>	<u>7,594,425</u>	<u>7.62%</u>	<u>\$ 16,794,363</u>	<u>18,048,359</u>	<u>10.28%</u>

Deposits

At December 31, 2009, total deposits were \$69,567,000, an increase of \$12,446,000, or 22%, from December 31, 2008. Demand deposits (interest bearing and non-interest bearing) totaled \$11,220,000, an increase of \$7,401,000, or 178%, during 2009. Money Market Deposit Accounts and savings deposits increased \$6,305,000, or 112%, and time deposits decreased \$1,261,000, or 3%, during the same time period. Our success in raising retail time deposits has enabled us to reduce brokered deposits, which are considered less desirable by regulators due to their volatile nature, to \$1,357,000 at December 31, 2009 from \$18,446,000, a decrease of by \$17,089,000, or 93%.

Balances within the major deposit categories as of December 31, 2009 and December 31, 2008 are as follows (amounts are presented in thousands):

	2009		2008	
	Amount	Rate	Amount	Rate
Non-interest-bearing demand deposits	\$ 3,076	N/A	\$ 3,036	N/A
Interest-bearing demand deposits	8,443	0.85%	1,082	2.08%
MMDA and Savings deposits	11,950	2.06%	5,645	2.77%
Time deposits less than \$100,000	28,072	2.81%	35,944	4.67%
Time deposits over \$100,000	18,026	3.27%	11,414	4.54%
	<u>\$ 69,567</u>		<u>\$ 57,121</u>	

Maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 2009 are summarized as follows (amounts are presented in thousands):

Within 3 months	\$ 3,648
After 3 through 6 months	4,804
After 6 through 12 months	9,330
After 12 months	244
Total	<u>\$ 18,026</u>

Capital Resources

Total shareholders' equity increased from \$3,164,000 at December 31, 2008, to \$4,399,000 at December 31, 2009. In July 2008, we commenced a private offering of shares of our common stock. The private offering closed on May 14, 2009. The Company received total net proceeds from the offering of \$4,899,547, from the sale of 3,266,362 shares. During the first and second quarters of 2009, the Company received proceeds of \$1,529,541 from the sale of 1,019,693 shares in the offering, less stock issuance costs of \$206,211. We have used and will continue to use the net proceeds for working capital purposes. The common stock that was sold in the offering has not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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

Banks and bank holding companies are also required to maintain a minimum ratio of Tier 1 capital to adjusted quarterly average total assets of 4.0%. The Bank was considered "well capitalized" at December 31, 2009.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(In Thousands)						
December 31, 2009						
Total Capital to Risk-						

Weighted Assets	\$	5,062	10.82%	\$	3,748	8.00%	\$	4,685	10.00%
Tier I Capital to Risk- Weighted Assets		4,647	9.94		1,874	4.00		2,811	6.00
Tier I Capital to Average Assets		4,647	6.22		2,991	4.00		3,739	5.00

December 31, 2008

Total Capital to Risk- Weighted Assets	\$	3,793	9.29%	\$	3,265	8.00%	\$	4,081	10.00%
Tier I Capital to Risk- Weighted Assets		3,279	8.04		1,632	4.00		2,449	6.00
Tier I Capital to Average Assets		3,279	6.07		2,160	4.00		2,701	5.00

Liquidity

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

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

The Bank maintains relationships with correspondent banks that can provide funds to it on short notice, if needed. The Bank has a line of credit totaling \$14,170,000, representing 20% of the Bank's total assets at September 30, 2009. At December 31, 2009, and 2008, the Bank has one advance from the Federal Home Loan Bank of Atlanta (FHLB) in the amount of \$2,000,000. The advance bears interest at a fixed interest rate of 2.497% and matures on May 1, 2013. The Bank has pledged as collateral investment securities and loans with a carrying amount of \$4,342,000, and eligible residential and commercial real estate loans with a carrying amount of \$12,349,000 at December 31, 2009.

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The Bank has a \$1,000,000 unsecured federal fund line of credit available with Centerstate Bank of Florida. As of December 31, 2009 there were no balances were outstanding. As of December 31, 2008 the Bank had a \$2,000,000 secured federal funds line of credit with Silverton Bank, of which no balances were outstanding, but the Bank had pledged investment securities with a carrying amount of \$1,428,000.

The Bank is approved to borrow from the Federal Reserve Bank discount window program. As of December 31, 2009 the Bank's primary borrowing capacity was \$20,530,000, based on pledged investment securities with a carrying amount of \$15,809,000, and eligible commercial real estate loans with a carrying amount of \$8,310,000 at December 31, 2009. There were \$0 advances outstanding at December 31, 2009 and 2008.

As disclosed in the Company's consolidated statement of cash flows, net cash used by operating activities totaled \$8,187,000 in 2009. The major uses of cash used by operating activities was the origination of \$7,773,000 loans held for sale, and non cash items; depreciation, amortization and accretion, provision for loan losses which totaled \$510,000. Net cash used by investing activities totaled \$5,275,000 in 2009, consisting primarily of purchases of investment securities available-for-sale of \$9,691,000, purchases of securities held-to-maturity of \$11,599,000, offset by principal paydowns, maturities, calls, and sales of investment securities available-for-sale of \$13,220,000, and investment securities held-to-maturity of \$2,769,000. Net cash inflows from financing activities totaled \$13,768,000, which were mainly attributable to net increase in deposits of \$12,446,000, and from the issuance of common stock issuance cash proceeds of \$1,530,000.

The following table outlines our various sources of borrowed funds during the years ended December 31, 2009 and 2008, the amounts outstanding at the end of each period and the weighted-average interest rates paid for each borrowing source.

(Dollars in thousands)	Ending Balance	Period- End Rate	Average Balance	Weighted- Average Rate for Year	Maximum Outstanding at any Month End
December 31, 2009					

Federal Home Loan Bank daily rate advances	\$	—	—%	\$	25	0.58%	\$	—
Federal Home Loan Bank fixed rate advances		2,000	2.50%		2,000	2.50%		2,000
Federal funds purchased		—	—%		43	0.95%		—
Federal reserve discount window		—	—%		2,891	0.50%		8,000

December 31, 2008

Federal Home Loan Bank daily rate advances	\$	—	—%	\$	268	1.28%	\$	2,525
Federal Home Loan Bank fixed rate advances		2,000	2.50%		2,945	2.50%		2,000
Federal funds purchased		—	—%		21	1.58%		140

Off Balance Sheet Arrangements

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

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

The following table summarizes our off-balance-sheet financial instruments whose contract amounts represent credit risk as of December 31, 2009:

Commitments to extend credit	\$	3,238,000
Standby letters of credit	\$	276,000

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Inflation

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

Selected Ratios

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

	2009	2008
Net income (loss) to:		
Average shareholders' equity	1.01%	(121.19)%
Average assets	0.06%	(7.68)%
Dividends to net income (loss)	—	—
Average equity to average assets	5.58%	6.33%

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

Not applicable.

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Item 8. Financial Statements.

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

- Reports of Independent Registered Public Accounting Firms;
- Consolidated Balance Sheets;
- Consolidated Statements of Operations;
- Consolidated Statements of Comprehensive Income (Loss);
- Consolidated Statements of Changes in Shareholders' Equity;
- Consolidated Statements of Cash Flows; and
- Notes to Consolidated Financial Statements.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our current disclosure controls and procedures are effective as of December 31, 2009. There have been no significant changes in our internal controls over financial reporting during the fourth fiscal quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

Management's Annual Report on Internal Controls Over Financial Reporting

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

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

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

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to

Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

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

Name (Age)	Director Since	Position with the Company
William A. Bagwell, Jr. (38)	2007	Director of the Company and Bank
William R. Blanton (62)	2007	Chairman, President, Chief Executive Officer, and Director of the Company and Bank
Lanny W. Dunagan (58)	2002	Director of the Company and Bank
William M. Evans, Jr. (58)	2007	Director of the Company and Bank
Gilbert T. Jones, Sr. (72) (1)	2000	Director of the Company and Bank
J. Allen Nivens, Jr. (34)	2007	Director of the Company and Bank
Dr. Wendell A. Turner (52)	2001	Director of the Company and Bank
R.K. Whitehead III (44)	2007	Director of the Company and Bank

(1) Mr. Jones retired in January 2010

Background of Directors

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

William A. Bagwell, Jr. Mr. Bagwell is the manager of Homestead Investments, LLC, a real estate investment company, since 2005. Mr. Bagwell has served as a director of the Hall County Farm Bureau since 2007. Mr. Bagwell served from 1999 to 2005 as the Vice President of the Greater Hall Chamber of Commerce. Mr. Bagwell holds a bachelor of science degree in political science from Presbyterian College. His extensive personal understanding of the markets that we serve and his professional experience in various real estate development projects are valuable assets to the board.

William R. Blanton. Mr. Blanton has over 40 years of banking experience and serves as the Chairman of our Board of Directors and our Chief Executive Officer. Mr. Blanton currently serves as the Vice Chairman and Chief Executive Officer of First Covenant Bank, and the Vice Chairman of United Americas Bankshares, Inc. Mr. Blanton is also President of CINC Systems, LLC, a software company specializing in software for the banking and non-profit industries, and Accounting Integrators', LLC a software company specializing in integrating non-profit organizations depository accounts with banks. In addition, he is the managing member of Terrazza Realty Advisors, LLC and Terrazza Realty

Investments, LLC, real estate investment companies. Prior to his current positions, Mr. Blanton held several positions at First Capital Bank including President and Chief Financial Officer from August 1989 through November 2005. Mr. Blanton has also held executive positions with Investors Bank & Trust in Duluth, Georgia and several other community banks. In addition, Mr. Blanton previously served as President of Bank Analysts, a bank consulting firm, as an examiner for the Georgia Department of Banking and Finance, as a member of the National Advisory Committee for the Small Business Administration, and as a Director of the Federal Home Loan Bank of Atlanta. Mr. Blanton serves on the board of directors of First Covenant Bank, United Americas Bankshares, Inc., and its subsidiary United Americas Bank. Mr. Blanton holds a degree in

accounting from Georgia State University. Mr. Blanton has extensive banking experience. The breadth of experience and institutional knowledge of the Company is critical to lead the board through the current challenging economic climate.

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

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

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

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

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

Executive Officers

The table below shows the following information for the Company's and the Bank's executive officers: (a) his or her name; (b) his or her age at December 31, 2009; (c) how long he or she has been an executive officer of the Company; and (d) his or her positions with the Company and the Bank:

Name (Age)	Executive Officer Since	Position with the Company and Business Experience
William R. Blanton (62)	2008	Chairman, President and Chief Executive Officer of the Company and the Bank
Denise Smyth (46)	2008	Chief Financial Officer of the Company and the Bank

Background of Executive Officers of the Company

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

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Based on a review of Section 16(a) reports and written representations from our directors and executive officers, we believe that all of our directors, executive officers and 10% shareholders have made all filings required under Section 16(a) in a timely manner with the exception of the following:

Dr. Wendell Turner failed to timely file a Form 4 for his purchase of 70,000 share of common stock on April 1, 2009.

Code of Ethics

The Company has adopted a Code of Ethics that applies to the Company's Chief Executive Officer and Chief Financial and Accounting Officer. The Company will provide a copy of the Code of Ethics free of charge to any person upon written request to the Company. Any such request should be addressed to our principal executive office at 807 Dorsey Street, Gainesville, Georgia 30501.

Audit Committee

The Boards of Directors of the Company and the Bank have established a joint Audit Committee for the purpose of reviewing the Company's annual report and internal audit report of independent public accountants. The Audit Committee members for 2009 were Chairman; William M. Evans, Jr., Lanny W. Dunagan; William A. Bagwell, Jr., and J. Allen Nivens. Each of these members meets the requirement for independence set forth in the NASDAQ Global Market listing standards. Our Board of Directors has determined that Mr. Evans qualifies as audit committee financial experts under the SEC rules.

Item 11. Executive Compensation.

Our principle executive officer, William R. Blanton, did not receive any compensation from us in 2008 or 2009. No other executive officer earned total compensation in excess of \$100,000 in 2009.

Outstanding Equity Awards at December 31, 2009

Option Awards	
Number of Securities	Number of Securities

Name	Underlying Unexercised Warrants (#) Exercisable	Underlying Unexercised Warrants (#) Unexercisable	Warrant Exercise Price (\$)	Warrant Expiration Date
Willam R. Blanton	850,254	—	\$ 1.50	No expiration

Director Compensation

The directors of the Company were not compensated for their services as directors for fiscal year 2009.

Equity Compensation Plan Information

The following table sets forth the equity compensation plans information at December 31, 2009 for the following equity compensation plans or agreements:

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

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

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under the equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	349,834	\$ 1.83	400,166
Equity compensation plans not approved by security holders	253,393	\$ 8.03	—
Total	603,227	\$ 4.43	400,166

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

Warrant Agreements with Certain of the Company's Directors. On March 25, 2002, the Company issued warrants to its directors to purchase an aggregate of 199,736 shares of the Company's common stock at an exercise price of \$10.00 per share. The warrants become exercisable in one-third annual increments beginning on the first anniversary of the issuance date, provided that throughout the period beginning on the date of the initial issuance of the warrants and ending on the particular anniversary, the warrant holder has served continuously as a director of the Company and the Bank and has attended at least 75% of the meetings of the relevant boards of directors. Warrants which fail to vest as provided in the previous sentence will expire and no longer be exercisable. Exercisable warrants will generally remain exercisable for the 10-year period following the date of issuance. The exercise price of

each warrant is subject to adjustment for stock splits, recapitalizations or other similar events. As of December 31, 2009, 153,393 warrants remained outstanding of which 153,393 are exercisable.

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

The following table sets forth the number of shares of the Company's common stock beneficially owned as of March 25, 2010 by (a) each director and the executive officers named in the Summary Compensation Table; (b) the executive officers and all directors, as a group; and (c) owners of more than 5% of our outstanding common stock,. The information shown below is based upon information furnished to the Company by the named persons. Other than the directors, executive officers, and shareholders listed below, we are unaware of any holder of more than 5% of the Company's common stock.

Information relating to beneficial ownership of the Company is based upon "beneficial ownership" concepts set forth in the rules promulgated under the Exchange Act. Under these rules a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of a security, or "investment power," which includes the power to dispose or to direct the disposition of a security. Under the rules, more than one person may be deemed to be a beneficial owner of the same securities. A person is also deemed to be a beneficial owner of any security as to which that person has the right to acquire beneficial ownership within 60 days of March 25, 2010.

Name	Number of Shares	Exercisable Warrants & Options(1)	Total Beneficial Ownership	% of Class (2)	Nature of Beneficial Ownership
Directors:					
William A. Bagwell, Jr.	76,994	136,332	213,326	4.2%	Includes warrants to purchase 136,332 shares held by Homestead Investment, LLC
William R. Blanton	442,806	850,254	1,293,060	22.1%	
William M. Evans, Jr.	484,129	283,418	767,547	14.5%	Includes warrants to purchase 147,602 shares held by Silver Hill Enterprises LP and 333,333 shares held by Mr. Evan's spouse
Lanny Dunagan	42,042	13,334	55,376	1.1%	Includes 500 shares held jointly with Mr. Dunagan's son
J. Allen Nivens, Jr.	37,345	69,165	106,510	2.1%	
Dr. Wendell Turner	147,327	27,067	174,394	3.5%	
R. K. Whitehead, III	37,345	69,165	106,510	2.1%	
All Directors and Executive Officers as a Group (7 persons):					
	<u>1,267,988</u>	<u>1,448,735</u>	<u>2,716,723</u>	<u>42.1%</u>	
5 Percent Shareholders:					
Golden Isles Reinsurance Co. Ltd. (3)	666,668	0	666,668	13.3%	
Joe E. McCart (4)	650,000	0	650,000	13.0%	
J. Clay Newman (5)	333,334	0	333,334	6.7%	
Richard T. Smith (6)	333,334	0	333,334	6.7%	

(1) Certain directors hold warrants which contain provisions for automatic adjustments of the exercise price for shares and the number of shares purchasable under the warrants if subsequent shares or warrants are issued at a price less than the current exercise price. The numbers included in the table include the automatic adjustments to such warrants as a result of the warrants issued in connection with the private placement of Series B Preferred Stock.

(2) Based on 4,998,150 shares of common stock of the company outstanding as of December 31, 2009, plus the number of shares which the named person exercising all options or warrants has the right to acquire within 60 days, but that no other persons exercise any options or warrants.

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

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

(5) J. Clay Newman's address is 5102 Park St. SW, Covington, GA 30014.

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

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

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

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

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

The loan:

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

In September 2008, the Bank entered into a master service agreement and data processing agreement to move its processing from Fidelity Information Systems to Providence, the internal data processing system provided by First Covenant Bank, an entity in which William R. Blanton is a principal owner. For the year ended December 31, 2009 and 2008 the total billed under the data processing agreement with First Covenant Bank was \$186,145 and \$38,865, respectively. For the year ended December 31, 2009 and 2008 the total billed under the master services agreement with First Covenant Bank was \$228,150 and \$39,579, respectively.

The Bank is affiliated with CINC Systems ("CINC"), a software services company. The Bank and CINC are affiliated through common management. The Bank has contracted with CINC to provide them with web and server hosting facilities. For the years ended December 31, 2009 and 2008 the total expense incurred for these services was \$19,200 and \$10,000, respectively.

The Bank has certain mortgage loans with a carrying amount of \$2,268,983 and \$2,742,062 as of December 31, 2009 and 2008, respectively, which were purchased from The Company Americas Bank, an entity in which William R. Blanton is a principal owner..

The Bank has certain loans with a carrying amount of \$842,072 and \$1,741,760 as of December 31, 2009 and 2008, respectively, which were purchased from First Covenant Bank, an entity in which William R. Blanton is a principal owner.

The Bank sold certain loans with a carrying amount of \$7,324,121 and \$10,113,232 as of December 31, 2009 and 2008, respectively, to First Covenant Bank, an entity in which William R. Blanton is a principal owner.

Director Independence

The Board of Directors determines the independence of each director in accordance with guidelines it has adopted, which include all elements of independence set forth in the NASDAQ Global Market listing standards. The Board of Directors determined that each of the following non-employee directors is independent and has no material relationship with the Company, except as a director and shareholder of the Company: William Bagwell, Jr., William Evans, Jr., Lanny W. Dunagan, Gilbert T. Jones, Sr., J. Allen Nivens, Jr., Dr. Wendell A. Turner and R.K. Whitehead, III. In addition, based on such standards, William R. Blanton is not

independent because he serves as our Chief Executive Officer. All of the members of our audit, nominating and compensation committees are independent with the exception of William R. Blanton, who serves on our nominating committee.

Item 14. Principal Accounting Fees and Services

The following table sets forth the fees billed and, as to audit and audit-related fees, expected to be billed to the Company for the fiscal years ended December 31, 2009 by Mauldin and Jenkins, Certified Public Accountants, LLC and 2008 by McNair, McLemore, Middlebrooks & Co., LLP.

	2009	2008
Audit Fees (1)	\$ 64,698	\$ 44,501
Audit-Related Fees(2)	—	12,942
Tax Fees (3)	6,100	3,691
All Other Fees	—	—
Total Fees	<u>\$ 70,798</u>	<u>\$ 61,134</u>

- (1) Represents fees related to the audit and quarterly reviews of consolidated financial statements of the Company and review of regulatory filings.
- (2) Represents fees related to consents and comfort letter related to Private Placement Memorandum.
- (3) Represents fees related to tax compliance, tax advice and tax planning service.

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

PART IV

Item 15. Exhibits List.

Exhibit Number	Description
3.1	Articles of Incorporation of NBOG Bancorporation, Inc. Incorporated by reference to Exhibit 3(i) of the Registration Statement on Form SB-2, File No. 333-47280, filed on October 4, 2000.
3.2	Amendment to Articles of Incorporation of NBOG Bancorporation, Inc. Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 5, 2006.
3.3	Second Amendment to the Articles of Incorporation of NBOG Bancorporation, Inc. Incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 2, 2007.
3.4	Third Amendment to the Articles of Incorporation of First Century Bancorp. Incorporated by reference to Exhibit 3.4 of the Form 10-K filed on March 31, 2009.
3.5	Amended and Restated Bylaws of First Century Bancorp. Incorporated by reference to Exhibit 3.5 of the Form 10-K filed on March 31, 2009.
4.1	See Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 for provisions of the Articles of Incorporation and Bylaws defining the rights of shareholders.
4.2	Form of common stock certificate of First Century Bancorp. Incorporated by reference to Exhibit 4(ii) of the Registration

Statement on Form SB-2, File No. 333-47280, filed on October 4, 2000.

- 10.1* First Century Bancorp. Amended and Restated 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.1 of the Form 10-K filed on March 31, 2009.
- 10.2* Form of Incentive Stock Option Award. Incorporated by reference to Exhibit 10.3 of the Registration Statement on Form SB-2, File No. 333-122567, filed on February 4, 2005.
- 10.3* Form of Nonqualified Stock Option Award. Incorporated by reference to Exhibit 10.4 of the Registration Statement on Form SB-2, File No. 333-122567, filed on February 4, 2005.
- 10.4* Form of First Century Bancorp. Organizer's Warrant Agreement. Incorporated by reference to Exhibit 10(iv) of the Registration Statement on Form SB-2, File No. 333-47280, filed on October 4, 2000.
- 10.5* Stock Purchase Agreement, by and between FCB, First Century Bank and William R. Blanton, dated January 23, 2007. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed January 29, 2007.
- 10.6 Master Services Agreement between First Covenant Bank and First Century Bank dated September 12, 2008.
- 21 Subsidiaries of First Century Bancorp.
- 24 Power of Attorney (contained in Signature Page).
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 200232.1.
- 99.1 Audited Financial Statements.

*Indicates management contract or compensatory plan or arrangement.

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

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SIGNATURES

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

FIRST CENTURY BANCORP.

Date: March 31, 2010

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

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

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

Signature	Title	Date
<u>/s/ William R. Blanton</u> William R. Blanton	Chairman and Principal Executive Officer	March 31, 2010
<u>/s/ Denise Smyth</u> Denise Smyth	Principal Financial and Accounting Officer	March 31, 2010
<u>/s/ William A. Bagwell</u> William A. Bagwell	Director	March 31, 2010
<u>/s/ William M. Evans, Jr.</u> William M. Evans, Jr.	Director	March 31, 2010
<u>/s/ J. Allen Nivens, Jr.</u> J. Allen Nivens, Jr.	Director	March 31, 2010
<u>/s/ Lanny W. Dunagan</u> Lanny W. Dunagan	Director	March 31, 2010
<u>/s/ Wendell A Turner</u> Dr. Wendell A. Turner	Director	March 31, 2010
<u>/s/ R. K. Whitehead, III</u> R. K. Whitehead, III	Director	March 31, 2010

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EXHIBIT INDEX

Exhibit Number	Description
10.6	Master Services Agreement between First Covenant Bank and First Century Bank dated September 12, 2008.
21	Subsidiaries of First Century Bancorp.
24	Power of Attorney (contained in Signature Page).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 200232.1.
99.1	Audited Financial Statements.

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Master Services Agreement

This Master Services Agreement (the "Agreement") is entered into as of September 12, 2008 (the "Effective Date") by and between First Covenant Bank, a Georgia banking association ("Vendor") and First Century Bank, a national banking association ("Client"). In consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

ARTICLE 1

SERVICES

Section 1.1 General. This Agreement establishes the general terms under which Vendor will provide to Client certain services as provided in Schedule 1.1 to this Agreement and any additional schedules for services that may later be agreed to in writing by the parties and attached hereto (the "Services"). The conversion and implementation of the Services will be conducted according to the then current version of the Project Plan, which the parties hereby mutually agree to perform, as it may exist from time to time.

Section 1.2 Schedules. Schedule 1.1 and any additional schedules for services that may later be agreed to by the parties and attached hereto shall: (i) describe the Services, including, but not limited to, the resources to be provided or obligations to be discharged by Vendor under the schedule; (ii) describe any obligations of Client related to the Services; and (iii) specify any other terms appropriate to the Services and the obligations of the parties. Any amendments to this Agreement or to any Schedules (including portion of Schedules that the parties have agreed may be completed at a later time) shall be in writing, signed by the parties, dated and refer to the Schedule or other provision being amended.

Section 1.3 Change Requests.

(a) A party desiring a modification of the Services or Schedule that would affect the scope, pricing or functionality of the Services shall submit a change request ("Change Request") to the other party. The Change Request will set forth in reasonable detail the change requested and impact on pricing, implementation timing, and Services. Neither party is obligated to proceed with any Service changes unless and until such change is reflected in a Change Request that is mutually executed by the parties. The parties shall bear their own expenses associated with the negotiation of any Service changes or Change Request. Client shall bear the cost of changes it requests in systems, applications features, functions or methods that are unique to Client.

(b) If Client requests any services not covered by the fees listed on Schedule 2.1, Vendor shall submit to Client a written estimate of the fees for such additional services before performing such additional services. If Client approves such fee estimate in writing, Client shall pay Vendor fees for such additional services properly performed as set forth in Section 2.1 hereof.

Section 1.4 Delivery System. Vendor shall provide the Delivery System necessary to provide the Services, including telecommunications and electronic data transmissions to and from the location where the care, custody and control of such communications are transferred from Client to Vendor. Vendor shall encrypt all data sent and received electronically as required by Client. Vendor shall notify Client of any security breaches or other intrusions into or breaches of the Delivery system used to perform the Services as soon as possible but in any event within twenty-four hours of such occurrence.

Section 1.5 Service Improvements. In providing the Services, Vendor agrees to use commercially reasonable efforts to (i) meet industry standards; and (ii) continually seek to adopt improvements, enhancements and updates to reduce costs.

Section 1.6 Resource Allocation. The parties agree that Vendor may also provide services similar to the Services to other customers and share communications and facilities, infrastructure and other resources with other customers, but not to the extent a Schedule provides for dedication of such resources to Client.

Section 1.7 Vendor Training. Vendor agrees to provide to Client personnel training regarding the Services, including, but not limited to, implementation, conversion, operations and changes in the Services, in a manner and degree reasonably satisfactory to Client.

Section 1.8 Scheduled Outages. Vendor shall give Client reasonable prior written notice of the times and durations of scheduled

outages for preventative maintenance and shall notify Client of all other outages and interruptions in the Services as soon as practicable.

ARTICLE 2

PAYMENT

Section 2.1 Fees. Client shall pay Vendor the fees set forth in Schedule 2.1 (“Fees”) for Services properly performed and invoiced. All Fees will be computed through the last calendar day of each calendar month and are due and payable by the 20th day of the following month. All fees will be subject to at least annual review for price adjustments; provided, however, such price adjustments shall not exceed a 10% increase at each annual review.

Section 2.2 Invoice Disputes. Client may dispute invoiced amounts or billing errors and/or credits under this Agreement, and withhold the disputed amount while the parties negotiate to resolve the dispute. Client shall not be in default under this Agreement if Client reasonably disputes the fees as provided in this Section 2.2, and if Client pays invoiced amounts which are not in dispute. To do so, Client shall inform Vendor of the basis for such dispute in writing as soon as reasonably practicable after discovering the facts forming the basis for such dispute, and Client and Vendor shall use reasonable efforts to resolve such dispute within ten (10) days. Pending such dispute resolution, the parties shall continue to meet their other obligations under this Agreement. In the event the parties are unable to resolve such dispute within ten (10) days, either party may thereafter refer the matter to arbitration pursuant to Section 12.14 hereof.

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Section 2.3 Taxes. Client agrees to pay Vendor the federal or state sales, use, or excise taxes which are measured directly by payments made under this Agreement and are required by law to be collected by Vendor from Client. If Client pays any tax to Vendor and the tax is later determined not to be due or is subject to a refund, Vendor shall promptly refund the amount thereof to Client.

ARTICLE 3

TERM AND TERMINATION

Section 3.1 Term. This Agreement shall commence as of the Effective Date and, subject to the termination provisions provided in this Agreement, shall continue in effect for 12 months. This Agreement shall automatically renew for successive periods of 12 months unless (i) either party provides written notice of its intent to terminate the Agreement 30 days prior to the end of the then-current term; or (ii) this Agreement has been terminated earlier by one or both of the parties as provided in this Agreement. It being understood that if proper notification is not given, the term will automatically be renewed for one year.

Vendor and Client will meet quarterly to determine appropriate procedural or service changes which need to be made under this contract.

Section 3.2 Termination by Client. Notwithstanding anything to the contrary, Client may terminate this Agreement at any time for any reason by giving notice to Vendor in writing at least 30 days prior to the effective date of termination. Article 9 references the process by which the termination will occur.

Section 3.3 Termination by Vendor. Notwithstanding anything to the contrary, Vendor may terminate this Agreement at any time for any reason by giving notice to the customer in writing at least 30 days prior to the effective date of the termination. If this Agreement is terminated by Vendor, all deconversion data shall be delivered to Client and all deconversion charges will be waived. Article 9 references the process by which the termination will occur.

ARTICLE 4

VENDOR PERSONNEL

Section 4.1 Vendor Key Individual. Vendor shall assign key individuals to oversee and manage the performance of Vendor’s obligations under this Agreement and shall serve as Vendor’s primary point of contact with Client. Client will be notified regarding any replacement of key individuals. The initial key individual for Vendor is Michelle Harold, and the initial key individual for Client is Kurt Hansen.

Section 4.2 Client Policies. Vendor agrees to comply with, and to require its representatives who are assigned to perform the Services to comply with Client’s information security policies, guidelines and standards, as amended from time to time.

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ARTICLE 5

REPRESENTATIONS, WARRANTIES AND COVENANTS OF VENDOR

Vendor represents, warrants and covenants that:

Section 5.1 Vendor is validly organized and existing under the laws of its state of incorporation and has full power and is qualified to do business at the location(s) where Services are provided, and has full power and authority to execute and deliver this Agreement, which constitutes a legal, valid and binding agreement of Vendor enforceable in accordance with its terms, and to perform the Services described herein.

Section 5.2 This Agreement does not conflict, breach or cause a material default of its organizational documents or any agreements or other obligations to which it is a party.

Section 5.3 Vendor is and at all times during the term of this Agreement will be in compliance in all material respects with Laws and Regulations applicable to Vendor and/or Client in connection with the Services; provided, however, if compliance with changes in such Laws and Regulations would materially increase Vendor's costs of providing the Services, the parties shall promptly meet to consider the available options, including sharing of such costs, and if a commercially reasonable, cost-effective solution is not available, Client may terminate this Agreement pursuant to Article 3. Each party shall notify the other of any changes in Laws and Regulations which may adversely impact the Services and Vendor, and subject to the preceding sentence, shall make all changes necessary to the Services to comply with all Laws and Regulation.

Section 5.4 Vendor shall generate, retain and provide Client with such reports, data and files in such formats as Client reasonably requires to comply with requirements of applicable laws and regulations, its regulatory bodies and its auditors and to determine compliance by Vendor and Client with their obligations herein.

Section 5.5 Vendor, its agents and its representatives will at all times comply with Client's policies regarding outsourced system and data security, as they exist from time to time and as such policies are provided in writing to Vendor.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF CLIENT

Client represents and warrants that:

Section 6.1 Client is validly organized and existing under the laws of the United States of America and has full power and authority to execute and deliver this Agreement, which constitutes a legal, valid and binding agreement of Client enforceable in accordance with its terms, and to perform the Services described herein.

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Section 6.2 This Agreement does not conflict, breach or cause a material default of its organizational documents or any agreements or other obligations to which it is a party.

Section 6.3 Client is and at all times during the term of this Agreement will be in compliance with Laws and Regulations applicable to Client a violation of which might have a material adverse effect on Vendor's provision of Services.

ARTICLE 7

RECORDKEEPING AND AUDITS

Section 7.1 Client's Audits. As reasonably requested by Client, or as requested by Client's regulators, Vendor shall cooperate with Client and its internal or external auditors for the purpose of Client's regulatory compliance with respect to the performance of the Services provided by Vendor to Client hereunder. Promptly following any such audit, whether conducted by Client's internal or external auditors, Client will instruct its auditors to conduct an exit conference with Vendor and provide Vendor as soon thereafter as reasonably possible a copy of each report prepared as a result of such audit examination relating to the Services, whether in draft or final form. Vendor shall be given the opportunity

to review and comment on any reports reflecting negatively on the Services before such report(s) are finalized. Vendor shall cause its representatives to cooperate in the same manner as Vendor is required by this Section. Client shall maintain the confidentiality of any report pertaining to Vendor and shall not provide such report to any third party, except as required by any Laws or Regulations.

Section 7.2 Correcting Deficiencies. Should an audit (including any examination by any regulatory authority) reveal unresolved material deficiencies without a management plan to correct them, Client may require Vendor to promptly provide a management plan to cure the deficiency and to provide documentation to demonstrate such cure to Client's reasonable satisfaction. Vendor shall bear the costs of the management plan and of any required remedial action.

Section 7.3 Reimbursement for Modifications. Client shall reimburse Vendor for any pre-approved, written agreed upon costs incurred by Vendor in developing customized programs or modifications to programs to satisfy the requirements of Client or Client's independent auditors, including the cost of the computer time to run said programs. It is further agreed that such customized programs or modifications become the property of Client, but Vendor shall have the right to use said programs or modifications in its own business.

ARTICLE 8

CONFIDENTIALITY

Section 8.1 Confidentiality of Data. All records transmitted to Vendor by Client shall remain the property of Client. Vendor shall consider all information transmitted to it by Client to be of a confidential nature and Vendor shall use its best efforts to keep such information confidential, including the use of reasonable care to prevent unauthorized access to information transmitted by Client pursuant to this Agreement.

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ARTICLE 9

DECONVERSION AND TERMINATION PROCESS

Section 9.1 Continued Performance. If either party terminates this Agreement or any of the Services, Vendor shall (i) continue to perform the applicable Services until Client completes the transfer of the terminated Services from Vendor for up to 3 months after the termination date; provided, however, Client has the option to extend the 3 month period for an additional period of 3 months by providing written notice to Vendor; and (ii) cooperate with Client in arranging for said transfer of Services. All obligations and restrictions under this Agreement shall continue until the deconversion services end or as otherwise agreed by the parties.

Section 9.2 Return of Client Files. Before expiration or termination of this Agreement, Vendor shall return Client's information and other property, including, but not limited to, data in a machine readable format requested by Client and files as Client may request along with such information and assistance as is reasonable and customary to enable Client to transfer the Services.

ARTICLE 10

INDEMNIFICATION; DUTY OF CARE; LIMITATIONS OF LIABILITY; RESTRICTIVE COVENANTS

Section 10.1 Vendor's Duty of Care. Vendor shall exercise reasonable care in performing its duties under this Agreement and Vendor shall be liable for loss, destruction or damage of materials supplied by Client only if due to the negligence of, or breach by, Vendor, and then only to the extent of restoring the loss, destroyed or damaged materials; provided such restoration can reasonably be performed by Vendor and Client furnishes Vendor with all source data necessary for such restoration.

Section 10.2 Mutual Indemnification. Client and Vendor shall respectively fully indemnify and hold the other harmless from and against any and all losses, claims, demands, actions, damages, liability, costs, or expenses, including reasonable attorney fees actually incurred, arising from, out of, or in connection with, the acts or omissions of such indemnifying party, and the indemnifying party's employees, representatives and agents, and the operation of the indemnifying party's business, in connection with such indemnifying party's performance of this Agreement. This mutual indemnity shall survive the expiration or earlier termination of the term of this Agreement, regardless of the reason for, manner or method of same.

Section 10.3 Calamities and Delays. Vendor shall not be held liable for any loss, destruction, mutilation of records, or any expense, damage or liability resulting from any delay in performance of its duties under this agreement, caused by or attributable to failure or destruction of equipment, fire, hurricanes, flood, theft, Act of God, labor strike, work stoppage or slowdown, civil or military authority, riots, epidemics, war, governmental regulations, or any event beyond its reasonable control or occurring without gross negligence or willful misconduct on the part of

Vendor, except as may be provided in this Article.

Section 10.4 LIMITATIONS OF LIABILITY. NEITHER PARTY'S TOTAL LIABILITY TO THE OTHER ARISING OUT OF OR IN ANY WAY CONNECTED TO SUCH PARTY'S PERFORMANCE UNDER THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, MALFUNCTION OF SUCH PARTY'S EQUIPMENT, FAILURE OR NEGLIGENCE OF SUCH PARTY'S EMPLOYEES AND AGENTS, OR DEFECTIVE PROGRAMS SHALL EXCEED THE TOTAL CHARGES PAID OR PAYABLE BY CLIENT FOR SERVICES PERFORMED BY VENDOR DURING THE TERM OF THIS AGREEMENT.

THE REMEDIES FOR BREACH OF ANY AND ALL WARRANTIES AND FOR VENDOR'S LIABILITY OF ANY KIND WITH RESPECT TO THE PRODUCTS OR SERVICES PROVIDED HEREUNDER AND ANY OTHER PERFORMANCE BY VENDOR UNDER OR PURSUANT TO THIS AGREEMENT SHALL BE LIMITED AS SET FORTH HEREIN. THE EXPRESS WARRANTIES SET FORTH IN THIS AGREEMENT ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. VENDOR SHALL NOT BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES OF ANY NATURE WHATSOEVER, SUCH AS, BUT NOT LIMITED TO, LOSS OF ANTICIPATED PROFITS, REVENUE, DATA, INCREASED BUSINESS EXPENSES, OR OTHER ECONOMIC LOSS, EVEN THOUGH VENDOR MAY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH POTENTIAL LOSS OR DAMAGE, IN CONNECTION WITH, OR ARISING OUT OF THE EXISTENCE OF, THE FURNISHING, FUNCTIONING OR CLIENT'S USE OF ANY ITEM OF EQUIPMENT OR SERVICES PROVIDED FOR IN THIS AGREEMENT, OR FOR THE SPECIFIC PERFORMANCE; PROVIDED, HOWEVER, IN THE EVENT OF VENDOR'S BREACH, CLIENT SHALL HAVE THE RIGHT TO "COVER" AS PROVIDED UNDER THE UNIFORM COMMERCIAL CODE.

Section 10.5 NON-DISCLOSURE During the term of the Agreement and during the two (2) year period following the expiration or termination of the term, regardless of the reason for, manner or method of same (the "Non-Disclosure Period"), Client and Vendor shall respectively maintain the other party's Confidential Information in strict confidence and shall use its best efforts to prevent the unauthorized use, exploitation, release, dissemination, transfer, or disclosure of such other party's Confidential Information by implementing management and technological security safeguards (including, for illustration purposes, audit trails, controlled access user menus, use of encryption software and confidentiality agreements with employees that have access to such information). In addition, Client and Vendor respectively agree that it shall not, except with the prior written consent of the disclosing party, directly or indirectly, divulge, report, publish, reveal, transfer or disclose any of the disclosing party's Confidential Information to any other person or entity, nor shall it use, exploit or permit others within its reasonable control to use or exploit such disclosing party's Confidential Information in a way which would be detrimental to the disclosing party. "Confidential Information" means information, data and materials which relate to the business, operations, finances, research, developments, or activities of a party: (i) which has been or are disclosed to the non-disclosing party or of which the non-disclosing has become or becomes aware through the performance of this Agreement; (ii) which has value to the non-disclosing party and is not generally known to its competitors; and (iii) which is treated by the non-disclosing party as confidential, whether or not

marked "confidential." Notwithstanding the above, "Confidential Information" excludes information: (t) required to be disclosed by court order, provided the non-disclosing party gives the disclosing party reasonable prior written notice so that it may seek a protective order, (u) that was publicly known or available to receiving party on a non-confidential basis at the time disclosed to the non-disclosing party by the disclosing party, (v) becomes generally available to the public other than as a result of a disclosure by the receiving party, (w) becomes available to receiving party from a source other than the disclosing party, without such source being to the receiving party's knowledge in breach of an applicable confidentiality agreement, if any, (x) is already in receiving party's possession or in the possession of any of its affiliates or representatives, (y) is independently developed by the receiving party, its affiliates or representatives without reference to the confidential material, or (z) that both parties agree in writing is not confidential.

Section 10.6 NON-SOLICITATION OF EMPLOYEES. Unless the Client or Vendor consents in writing, during the term of this Agreement and for a period of one (1) year following the expiration or termination of the term of this Agreement, regardless of the reason for or manner or method of same, neither party shall, directly or indirectly, on such party's own behalf or on behalf of any other person, firm or entity, solicit, induce, or divert away from the other party (or attempt to solicit, induce, or divert away from the other party) any person who is at that time, and was, at any time during the term of this Agreement: (i) an employee, agent, or independent contractor of such other party; and (ii) with whom such party had material contact during the term of this Agreement, for the purpose of performing for such other party any services which are identical or substantially similar to the services which such person performed for the other party. As used in the previous sentence, the term "solicit," "induce," or "divert away" shall not include (a) general advertising for applicants for a position (so long as such advertising does not

specifically target officers or employees of the other party), or (b) engaging a recruiting firm to search for and screen prospects for a position (so long as such recruiting firm is not instructed to seek officers or employees of the other party).

ARTICLE 11

INSURANCE

Section 11.1 Client Insurance. Client shall procure and maintain insurance in the form of its Financial Institution Bond, its Directors and Officers' Liability Policy and its Financial Institutions Reimbursement and Indemnity Policy which shall contain adequate protection to the Client against internal and external computer theft, losses and liabilities. The Client will provide copies of such insurance policies to Vendor if so requested.

Section 11.2 Vendor Insurance. Vendor will maintain insurance in the form of Financial Bond, Directors and Officers' Liability Policy and Financial Institution Reimbursement and Indemnity Policy extending coverage on its employees and operations. Vendor will provide copies of such insurance policies to Client if so requested.

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ARTICLE 12

MISCELLANEOUS

Section 12.1 Disaster Recovery. Vendor agrees to provide a back-up site and make necessary arrangements for appropriate systems and equipment to be used in the event Vendor's computer systems or primary location is inaccessible for an extended period of time. The Vendor will provide Client with its disaster recovery policy documentation and testing results on an annual basis.

Section 12.2 Vendor Ownership of Documentation and Processes. All specifications, programs, documentation (including manuals, routines, sub-routines or techniques) and original ideas or formulae relating to the Services utilized or developed by Vendor in connection with this Agreement are and shall remain the sole property of Vendor, unless specifically provided herein. It is agreed that Client will not copy related materials or divulge the contents of said programs or ideas to any third party without permission for such disclosure or use being granted in writing by Vendor.

Section 12.3 Laws and Regulations. "Laws and Regulations" shall mean all federal, state and local laws, rules, regulations, guidelines, statutes, codes, ordinances, case law, judgments, orders, decrees and/or consent orders applicable to the parties or to the Services.

Section 12.4 Notices. Any written notice required or permitted to be given hereunder shall be given in person or upon receipt, as evidenced by a return receipt or undeliverable of notice, sent via the United States Mail, registered or certified mail return receipt requested, with proper postage prepaid and addressed to the respective party at the address below, or such other address as such party shall designate, in writing, hereafter:

If to Client:

First Century Bank, N.A.
807 Dorsey Street
Gainesville, GA 30501
Attn: Kurt Hansen

If to Vendor:

First Covenant Bank
680 Engineering Drive, Suite 100
Norcross, GA 30092
Attn: Michelle Harold

Section 12.5 Applicable Law; Jury Trial Waiver. This Agreement shall be governed by the laws of the State of Georgia without regard to its principles of conflicts of laws. Each of the parties to this Agreement hereby irrevocably waives all right to a trial by jury in any action, proceeding or counterclaim between them arising out of or relating to this Agreement or the transactions contemplated hereby.

Section 12.6 Assignment. This Agreement and all the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and

permitted assigns but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assignable or transferable by either party without the prior written consent of the other party hereto, and any such unauthorized transfer will be void.

Section 12.7 Subcontractors. Vendor may not utilize third party subcontractors in the performance of services unless pre-approved by Client (which approval shall not be unreasonably withheld), provided, Vendor may hire temporary employees without Client's approval. All such subcontractors will be comply with all elements of this agreement including but not limited to the confidentiality of client data, and the standards of care in providing such services to Client.

Section 12.8 Amendments. This Agreement may be amended at any time by the mutual written agreement of the parties. Time is of the essence of each and every provision of this Agreement.

Section 12.9 Entire Agreement. This Agreement and the Schedules attached hereto constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede all previous negotiation, commitments and writings with respect to the Services. No representation or statement not expressly contained in this Agreement, or incorporated herein by reference, shall be binding upon Vendor as a warranty or otherwise.

Section 12.10 Severability. The provisions of this Agreement are severable, and in the event that any one or more provisions are deemed illegal or unenforceable the remaining provisions shall remain in full force and effect.

Section 12.11 Title and Headings: Titles and headings to sections herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 12.12 Execution in Counterparts. This Agreement may be executed in any number of counterparts via facsimile or other electronic transmission, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 12.13 Resolution by Board of Directors. A resolution must be passed by the Board of Directors giving the officers of Client authority to enter into this Agreement as well as any other agreements with Vendor. This resolution must give Vendor the authority to permit Regulatory Authorities to examine any records, reports and entries which they may desire to examine, or as prescribed by law, in connection with periodic examinations of Client.

Section 12.14 Jurisdiction; Service of Process. Each party (a) consents to the personal jurisdiction of any state or federal court located in Hall County, Georgia (and any corresponding appellate court) in any proceeding arising out of or relating to this Agreement, (b) waives any venue or inconvenient forum defense to any proceeding maintained in such courts, and (c) agrees not to initiate any proceeding arising out of or relating to this Agreement in any other court or forum. Process in any such proceeding may be served on any party anywhere in the world.

[signatures on next page]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as of the date first above written.

CLIENT:

FIRST CENTURY BANK, N.A.

By: /s/ William Blanton

Name: William Blanton

Title: Chairman & CEO

VENDOR:

FIRST COVENANT BANK

By: /s/ Joe E. McCart

Name: Joe E. McCart

Title: Chairman of Board

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Schedule 1.1 Services

Data Processing

Item 1: Data Processing Services Billing

Item 2: Network Support Services Billing

Operational Support

Item 3: Accounting/Treasury Bookkeeping Services Billing

Item 4: Human Resources Services Billing

Item 5: Loan Processing Services Billing

Item 6: Operations Management Services

Management & Advisory

Item 7: Compliance Services

Item 8: Accounting Management & Advisory Services

Item 9: Human Resource Management & Advisory Services

Item 10: Treasury/Investment Management & Advisory Services

Item 11: Mortgage Division Management & Oversight Services

Item 12: CEO Administrative Assistant

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First Century Bank

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of First Century Bancorp.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2010

/s/ William R. Blanton

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

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of First Century Bancorp.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2010

/s/ Denise Smyth

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

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

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

1. The annual report of the company for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on this date (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the company.

This 31st day of March, 2010.

/s/ William R. Blanton

William R. Blanton
Chief Executive Officer

/s/ Denise Smyth

Denise Smyth
Principal Financial and Accounting Officer

FIRST CENTURY BANCORP. AND SUBSIDIARY
GAINESVILLE, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2009 AND 2008 AND
REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

FIRST CENTURY BANCORP. AND SUBSIDIARY

CONTENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated balance sheet of First Century Bancorp and Subsidiary as of December 31, 2009, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of First Century Bancorp and Subsidiary for the year ended December 31, 2008 were audited by other auditors whose report, dated March 31, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provides a reasonable basis for our opinion.

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

We were not engaged to examine management's assertion about the effectiveness of First Century Bancorp and Subsidiary's internal control over financial reporting as of December 31, 2009 included under Item 9A "Controls and Procedures" in First Century Bancorp and subsidiary's Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

Mauldin & Jenkins, LLC

Atlanta, Georgia
March 31, 2010

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MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
389 Mulberry Street • Post Office Box One • Macon, GA 31202
Telephone (478) 746-6277 • Facsimile (478) 743-6858
www.mmmcpa.com

March 31, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
First Century Bancorp.

We have audited the accompanying consolidated balance sheets of First Century Bancorp. and Subsidiary as of December 31, 2008, and 2007 and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 First Century Bancorp. and Subsidiary as of December 31, 2008 and 2007, 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.

We were not engaged to examine management's assertion about the effectiveness of First Century Bancorp's internal control over financial reporting as of December 31, 2008 included in the Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

McNair, McLeMORE, Middlebrooks & Co., LLP
MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLP

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**FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008**

ASSETS

	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 2,531,126	\$ 1,525,027
Federal Funds Sold	—	700,000
	<u>2,531,126</u>	<u>2,225,027</u>
Investment Securities		
Available for Sale, at Fair Value	7,594,425	11,100,067
Held to Maturity, at Cost (Fair Value of \$18,048,359, and \$7,129,889 as of December 31, 2009 and 2008, Respectively)	16,794,363	7,178,040
	<u>24,388,788</u>	<u>18,278,107</u>
Other Investments	<u>400,800</u>	427,170
Loans Held for Sale	<u>9,637,123</u>	1,863,750
Loans	<u>36,630,587</u>	38,101,070
Allowance for Loan Losses	(414,670)	(838,234)
	<u>36,215,917</u>	<u>37,262,836</u>
Premises and Equipment	<u>2,276,681</u>	2,425,568
Other Real Estate	<u>653,501</u>	—
Other Assets	<u>462,021</u>	396,053
Total Assets	<u>\$ 76,565,957</u>	<u>\$ 62,878,510</u>

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

**FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008**

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2009</u>	<u>2008</u>
Deposits		
Noninterest-Bearing	\$ 3,076,222	\$ 3,036,337
Interest-Bearing	66,490,456	54,084,517
	<u>69,566,678</u>	<u>57,120,854</u>
Borrowings	<u>2,000,000</u>	2,000,000
Other Liabilities	<u>600,370</u>	593,755
Stockholders' Equity		
Preferred Stock, Non-voting; Non-participating; Variable Rate Cumulative; No Par Value;		

10,000,000 Shares Authorized; 75,000 Shares Issued and Outstanding; Liquidation Preference of \$10 Per Share Plus Accumulated Undeclared Dividends;	750,000	750,000
Common Stock, No Par Value; 50,000,000 Shares Authorized; 4,998,820 and 3,979,129 Shares Issued and Outstanding in 2009 and 2008, Respectively	14,948,028	13,572,151
Accumulated Deficit	(11,031,585)	(11,075,145)
Treasury Stock, 670 shares, at cost	(1,005)	—
Accumulated Other Comprehensive Loss	(266,529)	(83,105)
	<u>4,398,909</u>	<u>3,163,901</u>
Total Liabilities and Stockholders' Equity	\$ 76,565,957	\$ 62,878,510

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

**FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Interest Income		
Loans, Including Fees	\$ 2,367,833	\$ 1,722,303
Investments	2,529,228	562,050
Federal Funds Sold	176	99,156
Interest Bearing Deposits	1,475	39,167
	<u>4,898,712</u>	<u>2,422,676</u>
Interest Expense		
Deposits	1,649,373	1,482,529
Borrowings	65,591	103,420
	<u>1,714,964</u>	<u>1,585,949</u>
Net Interest Income	3,183,748	836,726
Provision for Loan Losses	333,673	639,760
Net Interest Income After Provision for Loan Losses	2,850,075	196,966
Noninterest Income		
Service Charges on Deposits	61,521	55,312
Mortgage Origination and Processing Fees	2,175,625	543,679
Securities Gains	24,984	3,507
Impairment loss on other investments	(62,420)	—
Other	27,571	6,569
	<u>2,227,281</u>	<u>609,067</u>
Noninterest Expense		
Salaries and Employee Benefits	2,480,962	2,006,318
Occupancy and Equipment	436,669	485,775
Professional Fees	285,627	274,953
Advertising and Marketing	259,696	430,260
Data Processing	560,775	546,596
Telephone	55,201	69,148
Postage and Delivery Services	29,338	42,407

Office Supplies	27,586	70,231
Insurance, Tax, and Regulatory Assessments	253,229	131,931
Lending Related Expense	426,456	206,221
Other Noninterest Expense	218,257	57,465
Total Noninterest Expense	5,033,796	4,321,305
Income (Loss) Before Income Taxes	43,560	(3,515,272)
Provision for Income Taxes	—	—
Net Income (Loss)	\$ 43,560	\$ (3,515,272)
Earnings (Loss) Per Share		
Basic	\$.00	\$ (1.47)
Diluted	\$.00	\$ (1.47)
Weighted Average Shares Outstanding	4,744,478	2,391,229

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

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**FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
DECEMBER 31, 2009 AND 2008**

	2009	2008
Net Income (Loss)	\$ 43,560	\$ (3,515,272)
Other Comprehensive Loss		
Unrealized Losses on Securities Arising During the Year	(158,440)	(71,953)
Reclassification Adjustment	(24,984)	(3,507)
Net Change in Unrealized Losses on Securities	(183,424)	(75,460)
Comprehensive Loss	\$ (139,864)	\$ (3,590,732)

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

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**FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Preferred Stock		Common Stock		Accumulated Deficit	Treasury Stock	Accumulated Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2007	75,000	\$ 750,000	1,732,458	\$ 10,311,206	\$ (7,559,873)		\$ (7,645)	\$ 3,493,688
Issuance of Common								

Stock	—	—	2,246,669	3,370,006	—	—	3,370,006
Common Stock Issuance Costs	—	—	—	(140,333)	—	—	(140,333)
Stock Compensation Costs	—	—	—	31,272	—	—	31,272
Net Change in Unrealized Losses on Securities Available for Sale	—	—	—	—	—	(75,460)	(75,460)
Net Loss	—	—	—	—	(3,515,272)	—	(3,515,272)
Balance, December 31, 2008	75,000	\$ 750,000	3,979,127	\$ 13,572,151	\$ (11,075,145)	\$ —	\$ (83,105)
Issuance of Common Stock	—	—	1,019,693	1,529,541	—	—	1,529,541
Common Stock Issuance Costs	—	—	—	(206,211)	—	—	(206,211)
Stock Compensation Costs	—	—	—	52,547	—	—	52,547
Purchase of Treasury Stock	—	—	—	—	—	(1,005)	(1,005)
Net Change in Unrealized Losses on Securities Available for Sale	—	—	—	—	—	(183,424)	(183,424)
Net Income	—	—	—	—	43,560	—	43,560
Balance, December 31, 2009	75,000	\$ 750,000	4,998,820	\$ 14,948,028	\$ (11,031,585)	\$ (1,005)	\$ (266,529)

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

**FIRST CENTURY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
Cash Flows from Operating Activities		
Net Income (Loss)	\$ 43,560	\$ (3,515,272)
Adjustments to Reconcile Net Income (Loss) to Net Cash Used by Operating Activities		
Provision for Loan Losses	333,673	639,760
Depreciation	201,255	190,279
Amortization and Accretion	(968,310)	(43,054)
Loss on Sale of Repossessed Assets	11,665	20,897
Loss on Sale of Other Real Estate	—	24,832
Impairment Loss on Other Investments	62,420	—
Gains on Sale of Securities	(24,984)	(3,507)
Stock Compensation Expense	52,547	31,272
Change In		
Loans Held for Sale	(7,773,373)	(1,863,750)
Other Assets	(131,988)	(172,229)
Other Liabilities	6,615	441,938
	(8,186,920)	(4,248,834)

Cash Flows from Investing Activities		
Purchases of Investment Securities Available for Sale	(9,691,104)	(8,287,843)
Proceeds from Maturities, Calls and Pay downs of Investment Securities Available for Sale	6,577,621	5,538,398
Proceeds from the Sale of Investment Securities Available for Sale	6,642,492	—
Purchases of Investment Securities Held to Maturity	(11,599,251)	(7,166,192)
Proceeds from Maturities, Calls and Pay downs of Investment Securities Held to Maturity	2,769,432	12,869
Purchases of Other Investments	(73,750)	(311,850)
Proceeds from the Sale of Other Investments	37,700	287,450
Net Change in Loans	59,744	(18,958,672)
Proceeds from the Sale of Other Real Estate	54,353	158,768
Purchases of Premises and Equipment	(52,368)	(493,082)
	<u>(5,275,131)</u>	<u>(29,220,154)</u>
Cash Flows from Financing Activities		
Net Change in Deposits	12,445,824	26,114,896
Repayments of Borrowings	—	(2,000,000)
Purchase of Treasury Stock	(1,005)	—
Payment of Stock Issuance Costs	(206,211)	(140,333)
Proceeds from the Issuance of Common Stock	1,529,541	3,370,006
	<u>13,768,150</u>	<u>27,344,569</u>
Net Increase (Decrease) in Cash and Cash Equivalents	306,099	(6,124,419)
Cash and Cash Equivalents, Beginning	<u>2,225,027</u>	<u>8,349,446</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 2,531,126</u></u>	<u><u>\$ 2,225,027</u></u>

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

FIRST CENTURY BANCORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

The Bank provides a variety of retail and commercial banking services for consumers and businesses located in the northern Georgia market, with its main branch office located in Gainesville, Georgia. In 2008, the Bank opened an Oakwood loan and deposit production (LP/DP) office in south Hall County, Georgia, and an Athens LP/DP office in Athens-Clarke County, Georgia. Lending and investing activities are funded primarily by deposits gathered through its banking offices.

Principles of Consolidation

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

Use of Estimates

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

Concentrations of Credit Risk

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

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

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

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Investment Securities

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

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

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

Other Investments

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

Loans Held For Sale

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

Loans

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

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A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

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

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of general and specific reserves. The general reserve applies to groups of loans with similar risk characteristics and is based on historical loss experience, adjusted for environmental and qualitative factors. The specific reserves relate to individual loans that are identified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The need for specific reserves is evaluated on impaired loans greater than \$100,000. The specific reserves are determined on an individual loan basis based on management's evaluation of the circumstances and the value of any underlying collateral. Impaired loans are measured based on either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Loans that have been identified as impaired are excluded from the calculation of general reserves.

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

Off-Balance Sheet Credit Related Financial Instruments

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

Premises and Equipment

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

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

Other Real Estate

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

Transfers of Financial Assets

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

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, *Income Taxes*). On January 1, 2009, the Company adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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

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

judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Comprehensive Income (Loss)

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

Earnings (Loss) Per Share

Net income (loss) per common share is based on the weighted average number of common shares outstanding during the year. The effects of potential common shares outstanding are included in diluted earnings (loss) per share. No common stock equivalents were considered in 2008 as the effects of such would be antidilutive to the loss per share calculation. Dividends accumulated on cumulative preferred stock, which totaled \$ 70,266 and \$45,891 for the years ended December 31, 2009 and 2008, respectively, reduced the earnings available to common stockholders in the computation.

Stock Compensation Plans

The Company uses the fair value method of recognizing expense for stock based compensation based on the fair value of options at the date of grant as prescribed by Accounting Standards Codification Topic 718-10, *Compensation-Stock Compensation*.

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

Statements of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from demand deposits, NOW accounts, savings accounts, loans and certificates of deposit are reported net.

	2009	2008
Supplementary Cash Flow Information:		
Cash Paid During the Year for:		
Interest	\$ 1,649,150	\$ 1,493,325
Income Taxes	\$ —	\$ —
Noncash Investing and Financing Activities:		
Transfer of Loans to Other Real Estate	\$ 653,501	\$ 98,000
Change in Unrealized Loss on Securities Available for Sale	\$ 183,424	\$ 75,460

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Effective July 1, 2009, the Company adopted a new accounting guidance related to U.S. GAAP (FASB ASC 105, *Generally Accepted Accounting Principles*). This guidance establishes FASB ASC as the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB ASC supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in FASB ASC has become nonauthoritative. FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASUs), which will serve to update FASB ASC, provide background information about the guidance, and provide the basis for conclusions on the changes to FASB ASC. FASB ASC is not intended to change U.S. GAAP or any requirements of the SEC. This guidance is effective for the Company as of December 31, 2009.

In December 2009, the FASB issued Accounting Standards Update No. 2009-16 (“ASU 2009-16”), *Accounting for Transfers of Financial Assets*. ASU No. 2009-16 formally incorporates into the FASB Codification amendments to primarily 1) eliminate the concept of a qualifying special-purpose entity, 2) limit the circumstances under which a financial asset should be derecognized when the entire financial asset has not been transferred to a non-consolidated entity, 3) requires additional disclosures concerning a transferor’s continuing involvement with transferred financial assets, and 4) requires that all servicing assets and liabilities be initially measured at fair value. This guidance is effective as of the start of the first annual reporting period beginning after November 15, 2009, for interim periods within the first annual reporting period, and for all subsequent annual and interim reporting periods. ASU No. 2009-19 is not expected to have a material impact on the Company’s results of operations, financial position or disclosures; however, the Company will need to review future loan participation agreements and other transfers of financial assets for compliance with the new standard.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* (“ASU No. 2010-06”). ASU No. 2010-06 amends FASB ASC Topic 820-10-50, *Fair Value Measurements and Disclosures*, to require additional information to be disclosed principally regarding Level 3 measurements and transfers to and from Level 1 and 2. In addition, enhanced disclosure is required concerning inputs and valuation techniques used to determine Level 2 and Level 3 measurements. This guidance is generally effective for interim and annual reporting periods beginning after December 15, 2009; however, requirements to disclose separately purchases, sales, issuances, and settlements in the Level 3 reconciliation are effective for fiscal years beginning after December 15, 2010 (and for interim periods within such years). ASU No. 2010-06 is not expected to have a material impact on The Company’s results of operations or financial position, and will have a minimal impact on its disclosures.

FASB issued accounting guidance which modifies certain guidance contained in the *Transfers and Servicing* topic of FASB ASC (FASB ASC 860). This standard eliminates the concept of qualifying special purpose entities, provides guidance as to when a portion of a transferred financial asset can be evaluated for sale accounting, provides additional guidance with regard to accounting for transfers of financial assets, and requires additional disclosures. This guidance is effective for the Company as of January 1, 2010, with adoption applied prospectively for transfers that occur on or after the effective date.

NOTE 2 - Management's Plan of Action

For the year ended December 31, 2009 the Company is reporting net income of \$43,560 as compared to a net loss in 2008 of \$3,515,272. This is the first year since the inception of the Company that it has reported net income. As a result of the losses reported prior to 2009 the Company reports an accumulated deficit of \$11,031,585, and total equity of \$4,398,909.

The Company has experienced many changes in the past three years, most notably the injection of new capital through the issuance of common and preferred stock in the amount of \$7,135,960. In addition to the investment of new capital, a new management team was put in place that brought significant banking experience to the Company. The new management team has been successful in generating a net income; restructuring the operations, allocating resources towards initiatives which maximize net income; implementing processes and

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procedures that through performance and adherence to regulatory requirements resulted in the lifting of previously existing regulatory orders; and regained stockholder support.

In prior years, the Bank operated under various regulator orders issued by its primary regulator and there were times when their continued existence was unknown. Management believes that it has turned the corner and with the strategic plans, cost cutting initiatives, expansion of business lines that have already proven to be profitable, and the commitment of senior management and its board of directors.

The Bank currently maintains capital ratios which are considered well capitalized at 10.82% and 6.22% total risk-based capital and leverage capital, respectively. However the banking industry in the state of Georgia has experienced significant losses in recent years and there remains pressure on banks to maintain capital levels at times in excess of required minimums. Although there currently is no requirement to maintain excess capital, changes in Company performance and the banking industry may cause regulators to take action to protect the depositors. If any such requirement is instituted to maintain additional levels of capital or if our current capital levels drop below required levels, the Company may once again be in the position of raising capital. Failure to maintain required levels of capital could result in regulatory oversight including restrictions or modifications to the Company's current strategic plans.

NOTE 3 - Investment Securities

Investment securities as of December 31, 2009 and 2008 are summarized as follows.

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

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	December 31, 2008			
	Amortized	Gross Unrealized	Gross Unrealized	Fair

	Cost	Gains	Losses	Value
Securities Available for Sale				
Obligations of U.S. Government Agencies	\$ 2,381,588	\$ 57,950	\$ —	\$ 2,439,538
Mortgage Backed Securities-GNMA	3,033,535	—	(11,564)	3,021,971
Mortgage Backed Securities-FNMA and FHLMC	1,216,275	1,963	(196)	1,218,042
Private Label Collateralized Mortgage Securities	1,788,390	7,182	—	1,795,572
Private Label Residential Mortgage Backed Securities	1,889,704	18,291	(17,851)	1,890,144
Corporate Debt Securities	575,000	1,100	(19,500)	556,600
Equity Securities	298,680	—	(120,480)	178,200
	<u>\$ 11,183,172</u>	<u>\$ 86,486</u>	<u>\$ (169,591)</u>	<u>\$ 11,100,067</u>

Securities Held to Maturity

Private Label Residential Mortgage Backed Securities	\$ 1,770,035	\$ —	\$ (5,257)	\$ 1,764,778
Private Label Commercial Mortgage Backed Securities	5,408,005	—	(42,894)	5,365,111
	<u>\$ 7,178,040</u>	<u>\$ —</u>	<u>\$ (48,151)</u>	<u>\$ 7,129,889</u>

Securities with a carrying value of \$20,150,917 at December 31, 2009 were pledged to institutions which the Company has available lines of credit outstanding. There were no securities required to be pledged to secure public deposits at December 31, 2008.

The following outlines the unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008:

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

	December 31, 2008					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities Available for Sale						
Mortgage Backed Securities-GNMA	\$ 346,339	\$ (3,112)	\$ 200,222	\$ (8,452)	\$ 546,561	\$ (11,564)
Mortgage Backed Securities-FNMA and FHLMC	786,687	(196)	—	—	786,687	(196)
Private Label Residential Mortgage Backed Securities	557,431	(17,851)	—	—	557,431	(17,851)
Corporate Debt Securities	305,500	(19,500)	—	—	305,500	(19,500)
Equity Securities	178,200	(120,480)	—	—	178,200	(120,480)
	<u>\$ 2,174,157</u>	<u>\$ (161,139)</u>	<u>\$ 200,222</u>	<u>\$ (8,452)</u>	<u>\$ 2,374,379</u>	<u>\$ (169,591)</u>

Securities Held to Maturity

Private Label Residential Mortgage Backed Securities	\$ 1,764,778	\$ (5,257)	\$ —	\$ —	\$ 1,764,778	\$ (5,257)
Private Label Commercial Mortgage Backed Securities	5,365,111	(42,894)	—	—	5,365,111	(42,894)
	<u>\$ 7,129,889</u>	<u>\$ (48,151)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,129,889</u>	<u>\$ (48,151)</u>

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

At December 31, 2009, 6 of the 14 debt securities available for sale, 1 of the 1 equity securities available for sale, and 1 of the 20 debt securities held to maturity contained unrealized losses with an aggregate depreciation of 10.04% from the Company's amortized cost basis.

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

Government-Sponsored Enterprises (GSE) debt securities. The unrealized loss on one investment in GSEs was caused by interest rate increases. The contractual terms of this investment does not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost bases, which may be maturity, the Company does not consider that investment to be other-than-temporarily impaired at December 31, 2009.

Obligations of States and Political Subdivisions. The unrealized loss on the one investment in obligations of states and political subdivisions was caused by interest rate increases. The contractual terms of this investment does not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost bases, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2009.

Corporate Bonds. The Company's unrealized loss on investment in one corporate bond relates to an investment in a company within the financial services sector. The unrealized loss is primarily caused by recent decreases in profitability and profit forecasts by industry analysts resulting from the sub-prime mortgage market and a recent sector downgrade by several industry analysts. The contractual terms of this investment does not permit the Company to settle the security at a price less than the par value of the investments. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investments before recovery of its par value, which may be maturity, it does not consider this investment to be other-than-temporarily impaired at December 31, 2009.

GSE Residential Mortgage-backed Securities. The unrealized loss on the Company's investment in one GSE mortgage-backed security was caused by interest rate increases. The Company purchased this investment at a discount relative to its face amount, and the contractual cash flows of this investment is guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the security would not be settled at a price less than the amortized cost bases of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of their amortized cost bases, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2009.

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

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

Gross realized gains on securities totaled \$49,176 and \$3,507 for the years ending December 31, 2009 and 2008, respectively. Gross realized losses on securities totaled \$24,192 and \$0 for the years ending December 31, 2009 and 2008, respectively.

Other investments on the balance sheet at December 31, 2009 and December 31, 2008, respectively include restricted securities consisting of Federal Reserve Bank stock of \$137,300 and \$107,250, Federal Home Loan Bank stock of \$263,500 and \$257,500, and Silverton Bank stock of \$0 and \$62,420. These securities are carried at cost since they do not have readily determinable fair values due to their restricted nature and the Bank does not exercise significant influence.

On May 1, 2009, Silverton Bank, a correspondent bank based in Atlanta, Georgia, was closed by the Office of the Comptroller of the Currency and the FDIC was named Receiver. As a result of this development, we believed that it was highly unlikely that we would recover any portion of our investment in the restricted stock of Silverton Bank's holding company, Silverton Financial Services, Inc. Accordingly, in the second quarter of 2009, we recorded an other-than-temporary impairment charge of \$62,420 with respect to this restricted security, reducing the carrying value of our investment to \$0.

The amortized cost, estimated fair value, and weighted average yield of investment securities at December 31, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
Obligations of U.S.						
Government Agencies						
5 to 10 Years	\$ 983,146	\$ 1,012,034	5.25%	\$ —	\$ —	—
Obligations of States and Political Subdivisions						
1 to 5 Years	326,855	239,162	8.71%	—	—	—
Corporate Debt Securities						
1 to 5 Years	575,000	572,210	7.88%	—	—	—
Equity Securities						
1 to 5 Years	298,680	285,960	7.91%	—	—	—
Mortgage Backed Securities						
Less than 1 Year	2,020,103	2,086,176	6.66%	538,587	548,882	10.62%
1 to 5 Years	3,194,215	2,927,749	9.25%	14,509,031	15,540,677	10.40%
5 to 10 Years	462,955	471,134	2.95%	1,746,745	1,958,800	9.31%
	<u>\$ 7,860,954</u>	<u>\$ 7,594,425</u>	<u>7.62%</u>	<u>\$ 16,794,363</u>	<u>\$ 18,048,359</u>	<u>10.28%</u>

NOTE 4 - Loans

The composition of loans as of December 31 are:

	2009	2008
Commercial, Financial and Agricultural	\$ 3,698,597	\$ 4,495,355
Real Estate-Mortgage	26,564,533	26,411,116
Real Estate-Construction	4,744,401	5,236,464
Consumer	1,526,295	1,800,667
Unearned fees	96,761	157,468
	<u>\$ 36,630,587</u>	<u>\$ 38,101,070</u>

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

Included in loans above are \$9,924,000 and \$11,690,000 of interest only loans at December 31, 2009 and 2008. These loans present greater risk to the Company, especially considering the current decline in the real estate markets in and around the Metro Atlanta area.

NOTE 5 - Allowance for Loan Losses

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

	<u>2009</u>	<u>2008</u>
Balance, Beginning	\$ 838,234	\$ 275,920
Provision Charged to Operating Expenses	333,673	639,760
Loans Charged Off	(780,090)	(127,311)
Loan Recoveries	22,853	49,865
Balance, Ending	\$ 414,670	\$ 838,234

The following is a summary of information pertaining to impaired loans, nonaccrual loans, and loans past due ninety days or more. This summary excludes purchased impaired loans and performing troubled debt restructurings.

	As of and for the Years Ended December 31,	
	<u>2009</u>	<u>2008</u>
Impaired loans with a valuation allowance	\$ 608,000	\$ 1,033,000
Impaired loans without a valuation allowance	352,000	598,000
Total impaired loans	\$ 960,000	\$ 1,631,000
Valuation allowance related to impaired loans	\$ 24,000	\$ 489,000
Total nonaccrual loans	122,000	957,000
Total loans past due ninety days or more and still accruing	3,200	662,000
Average investment in impaired loans	776,000	940,000
Interest income recognized on impaired loans	37,474	15,900
Interest income recognized on a cash basis on impaired loans	34,618	—

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

For the years ended December 31, 2009 and 2008 troubled debt restructurings were \$141,000 and \$0. At December 31, 2009 and 2008, the Company had loans totaling \$118,000 and \$0 that were modified in troubled debt restructuring and impaired. In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of \$23,000 and \$0 at December 31, 2009 and 2008. In years subsequent to a modification, loans that are performing in accordance with their modified terms are not reported as impaired loans.

NOTE 6 - Premises and Equipment

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

	<u>2009</u>	<u>2008</u>
Land and Land Improvements	\$ 409,442	\$ 409,442
Building	1,693,776	1,693,776
Leasehold Improvements	18,820	18,820

Furniture and Equipment	1,252,296	1,212,604
Bank Vehicles	<u>88,904</u>	<u>88,904</u>
	3,463,238	3,423,546
Accumulated Depreciation	<u>(1,186,557)</u>	<u>(997,978)</u>
	\$ 2,276,681	\$ 2,425,568

Depreciation charged to operations totaled \$201,255 and \$190,280 for the years ended December 31, 2009 and 2008, respectively.

Certain bank facilities are leased under various short-term operating leases. Lease expense was \$109,186 and \$82,532 for the years ended December 31, 2009 and 2008, respectively.

NOTE 7 - Deposits

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

	<u>2009</u>	<u>2008</u>
Interest-Bearing Demand	\$ 8,443,141	\$ 1,081,609
MMDA and Savings	11,950,003	5,644,624
Time, \$100,000 and Over	18,025,985	11,414,255
Other Time	<u>28,071,327</u>	<u>35,944,029</u>
	\$ 66,490,456	\$ 54,084,517

The aggregate amount of certificates of deposit, each with a minimum denomination of \$100,000, was \$18,025,985 and \$11,414,255 as of December 31, 2009 and 2008, respectively.

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$1,427 and \$4,323 as of December 31, 2009 and 2008, respectively.

As of December 31, 2009, the scheduled maturities of certificates of deposit are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 44,777,328
2011	1,039,524
2012	255,418
2014	<u>25,042</u>
	\$ 46,097,312

Brokered deposits are third-party deposits placed by or through the assistance of a deposit broker. As of December 31, 2009 and 2008, the Bank had \$1,357,000 and \$18,446,000, respectively, in brokered deposits.

NOTE 8 - Income Taxes

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

2009	2008
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	<u> </u>	<u> </u>
Deferred Expense	\$ 42,245	\$ (1,194,044)
Change in Valuation Allowance	(42,245)	1,194,044
	<u> </u>	<u> </u>
	<u>\$ —</u>	<u>\$ —</u>

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