EMCLAIRE FINANCIAL CORP
Form 10-K
March 23, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One):

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

For the fiscal year ended: December 31, 2010

¨ 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: 000-18464

EMCLAIRE FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	25-1606091 (I.R.S. Employer Identification No.)
612 Main Street, Emlenton, PA (Address of principal executive office)	16373 (Zip Code)

Registrant's telephone number: (724) 867-2311

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $1.25 per share (Title of Class)	NASDAQ Capital Markets (NASDAQ) (Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ¨ NO x.

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 x NO ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 month (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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x.

As of June 30, 2010, the aggregate value of the 1,284,121 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 173,283 shares held by the directors and officers of the Registrant as a group, was approximately $20.4 million. This figure is based on the last sales price of $15.85 per share of the Registrant's Common Stock on June 30, 2010. The number of outstanding shares of common stock as of March 17, 2011, was 1,457,404.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

EMCLAIRE FINANCIAL CORP.

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Discussions of certain matters in this Form 10-K and other related year end documents may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “project”, “forecast”, “may increase”, “may fluctuate”, “may improve” and similar expre future or conditional verbs such as “will”, “should”, “would”, and “could”. These forward-looking statements relate to, amon other things, expectations of the business environment in which the Corporation operates, projections of future performance, potential future credit experience, perceived opportunities in the market and statements regarding the Corporation’s mission and vision. The Corporation’s actual results, performance and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the local economy, the demand for the Corporation’s products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, U.S. Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies and other risks detailed in the Corporation’s reports filed with the Securities and Exchange Commission (SEC) from time to time. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

PART I

Item 1. Business

General

Emclaire Financial Corp. (the Corporation) is a Pennsylvania corporation and financial holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through its wholly owned subsidiary bank, The Farmers National Bank of Emlenton (the Bank). The Corporation also provides real estate settlement services through its subsidiary, Emclaire Settlement Services, LLC (the Title Company). In addition, the Bank provides investment advisory services through its Farmers National Financial Services division.

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank operates through a network of thirteen retail branch offices in Venango, Butler, Clarion, Clearfield, Crawford, Elk, Jefferson and Mercer counties, Pennsylvania. The Corporation and the Bank are headquartered in Emlenton, Pennsylvania.

The Bank is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC), which is the Bank’s chartering authority, and the Federal Deposit Insurance Corporation (FDIC), which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland (FRB) and the Federal Home Loan Bank of Pittsburgh (FHLB). The Corporation is a registered financial holding company pursuant to the Bank Holding Company Act of 1956, as amended (BHCA).

At December 31, 2010, the Corporation had $481.9 million in total assets, $39.1 million in stockholders’ equity, $306.2 million in loans and $409.7 million in deposits.

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Lending Activities

General. The principal lending activities of the Bank are the origination of residential mortgage, commercial mortgage, commercial business and consumer loans. Nearly all of the Bank's loans are originated in and secured by property within the Bank's primary market area.

One-to-Four Family Mortgage Loans. The Bank offers first mortgage loans secured by one-to-four family residences located in the Bank's primary lending area. Typically such residences are single-family owner occupied units. The Bank is an approved, qualified lender for the Federal Home Loan Mortgage Corporation (FHLMC). As a result, the Bank may sell loans to and service loans for the FHLMC in market conditions and circumstances where this is advantageous in managing interest rate risk.

Home Equity Loans. The Bank originates home equity loans secured by single-family residences. These loans may be either a single advance fixed-rate loan with a term of up to 20 years, or a variable rate revolving line of credit. These loans are made only on owner-occupied single-family residences.

Commercial Business and Commercial Real Estate Loans. Commercial lending constitutes a significant portion of the Bank's lending activities. Commercial business and commercial real estate loans amounted to 44.1% of the total loan portfolio at December 31, 2010. Commercial real estate loans generally consist of loans granted for commercial purposes secured by commercial or other nonresidential real estate. Commercial loans consist of secured and unsecured loans for such items as capital assets, inventory, operations and other commercial purposes.

Consumer Loans. Consumer loans generally consist of fixed-rate term loans for automobile purchases, home improvements not secured by real estate, capital and other personal expenditures. The Bank also offers unsecured revolving personal lines of credit and overdraft protection.

Loans to One Borrower. National banks are subject to limits on the amount of credit that they can extend to one borrower. Under current law, loans to one borrower are limited to an amount equal to 15% of unimpaired capital and surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral. At December 31, 2010, the Bank's loans to one borrower limit based upon 15% of unimpaired capital was $6.2 million. At December 31, 2010, the Bank's largest single lending relationship had an outstanding balance of $7.0 million. The Bank's next largest single lending relationship had an outstanding balance of $6.8 million. Credit granted to these borrowers in excess of the legal lending limit is part of the Legal Lending Limit Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of $5.9 million at December 31, 2010. These loans were performing in accordance with their loan terms at December 31, 2010.

Loan Portfolio. The following table sets forth the composition and percentage of the Corporation's loans receivable in dollar amounts and in percentages of the portfolio as of December 31:

(Dollar amounts in thousands)	2010 Dollar Amount	%	2009 Dollar Amount	%	2008 Dollar Amount	%	2007 Dollar Amount	%	2006 Dollar Amount	%
Mortgage loans on real estate:										
Residential first mortgages	$84,575	27.3 %	$74,099	25.0 %	$74,130	27.7 %	$65,706	28.3 %	$64,662	30.0 %
Home equity loans and lines of credit	75,458	24.3 %	77,284	26.1 %	57,454	21.5 %	49,426	21.3 %	47,330	22.0 %
Commercial	93,028	30.0 %	89,952	30.4 %	85,689	32.1 %	71,599	30.9 %	61,128	28.4 %
Total real estate loans	253,061	81.6 %	241,335	81.5 %	217,273	81.3 %	186,731	80.5 %	173,120	80.4 %
Other loans:										
Commercial business	43,780	14.1 %	41,588	14.1 %	40,787	15.2 %	35,566	15.3 %	34,588	16.0 %
Consumer	13,443	4.3 %	12,894	4.4 %	9,429	3.5 %	9,679	4.2 %	7,671	3.6 %
Total other loans	57,223	18.4 %	54,482	18.5 %	50,216	18.7 %	45,245	19.5 %	42,259	19.6 %
Total loans receivable	310,284	100.0%	295,817	100.0%	267,489	100.0%	231,976	100.0%	215,379	100.0%
Less:										
Allowance for loan losses	4,132		3,202		2,651		2,157		2,035	
Net loans receivable	$306,152		$292,615		$264,838		$229,819		$213,344	

The following table sets forth the final maturity of loans in the Corporation's portfolio as of December 31, 2010. Demand loans having no stated schedule of repayment and no stated maturity are reported as due within one year.

(Dollar amounts in thousands)	Due in one year or less	Due from one to five years	Due from five to ten years	Due after ten years	Total
Residential mortgages	$3,590	$ 2,444	$ 12,002	$66,539	$84,575

Home equity loans and lines of credit	923	6,033	24,948	43,554	75,458
Commercial mortgages	2,231	5,030	17,975	67,792	93,028
Commercial business	1,945	7,144	5,883	28,808	43,780
Consumer	315	6,977	1,357	4,794	13,443
	$9,004	$ 27,628	$ 62,165	$211,487	$310,284

The following table sets forth the dollar amount of the Corporation's fixed and adjustable rate loans with maturities greater than one year as of December 31, 2010:

(Dollar amounts in thousands)	Fixed rates	Adjustable rates
Residential mortgage	$67,480	$13,505
Home equity loans and lines of credit	60,852	13,683
Commercial mortgage	17,874	72,923
Commercial business	19,073	22,762
Consumer	8,199	4,929
	$173,479	$127,802

Contractual maturities of loans do not reflect the actual term of the Corporation's loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and enforcement of due-on-sale clauses, which give the Corporation the right to declare a loan immediately payable in the event, among other things, that the borrower sells the real property subject to the mortgage. Scheduled principal amortization also reduces the average life of the loan portfolio. The average life of mortgage loans tends to increase when current market mortgage rates substantially exceed rates on existing mortgages and conversely, decrease when rates on existing mortgages substantially exceed current market interest rates.

Delinquencies and Classified Assets

Delinquent Loans and Real Estate Acquired Through Foreclosure (REO). Typically, a loan is considered past due and a late charge is assessed when the borrower has not made a payment within fifteen days from the payment due date. When a borrower fails to make a required payment on a loan, the Corporation attempts to cure the deficiency by contacting the borrower. The initial contact with the borrower is made shortly after the seventeenth day following the due date for which a payment was not received. In most cases, delinquencies are cured promptly.

If the delinquency exceeds 60 days, the Corporation works with the borrower to set up a satisfactory repayment schedule. Typically, loans are considered non-accruing upon reaching 90 days delinquent, although the Corporation may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed in non-accrual status, previously accrued but unpaid interest is deducted from interest income. The Corporation institutes foreclosure action on secured loans only if all other remedies have been exhausted. If an action to foreclose is instituted and the loan is not reinstated or paid in full, the property is sold at a judicial or trustee's sale at which the Corporation may be the buyer.

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less costs to sell, thereby establishing a new cost basis. After foreclosure, management periodically performs valuations and the real estate is carried at the lower of carrying amount or fair value less the cost to sell the property. Revenue and expenses from operations and changes in the valuation allowance are included in loss on foreclosed real estate. The Corporation generally attempts to sell its REO properties as soon as practical upon receipt of clear title.

As of December 31, 2010, the Corporation's non-performing assets amounted to $7.0 million or 1.45% of the Corporation's total assets compared to $2.6 million or 0.56% of the Corporation's total assets at December 31, 2009. Non-performing assets at December 31, 2010 included non-accrual loans, loans past due 90 days and REO of $6.6 million, $41,000 and $373,000, respectively. Included in non-accrual loans at December 31, 2010 were six loans totaling $774,000 considered to be troubled debt restructures. Interest income of $491,000 would have been recorded in 2010 if the nonaccrual loans had been current and performing during the entire period. Interest of $409,000 on these loans was included in income during 2010.

The increase in non-performing assets resulted primarily from the addition of four separate credit relationships which were placed on non-accrual status during the year due to deterioration in the financial condition of the borrowers, as a result of poor economic conditions, and a general decline in their ability to comply with contractual repayment terms on a timely basis. These four loan relationships comprised $4.5 million or approximately 68.0% of the Corporation's non-performing assets at December 31, 2010.

Classified Assets. Regulations applicable to insured institutions require the classification of problem assets as "substandard," "doubtful," or "loss" depending upon the existence of certain characteristics as discussed below. A category designated "special mention" must also be maintained for assets currently not requiring the above classifications but having potential weakness or risk characteristics that could result in future problems. An asset is classified as substandard if not adequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset is characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified as substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as assets is not warranted.

The Corporation's classification of assets policy requires the establishment of valuation allowances for loan losses in an amount deemed prudent by management. Valuation allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities. When the Corporation classifies a problem asset as a loss, the portion of the asset deemed uncollectible is charged off immediately.

The Corporation regularly reviews the problem loans and other assets in its portfolio to determine whether any require classification in accordance with the Corporation's policy and applicable regulations. As of December 31, 2010, the Corporation's classified and criticized assets amounted to $12.4 million or 2.6% of total assets, with $8.3 million classified as substandard, $44,000 classified as doubtful and $4.1 million identified as special mention.

Included in classified and criticized assets at December 31, 2010 are three separate large relationships which have certain credit problems currently or potentially impacting the ability of the borrowers to comply with their present loan repayment terms on a timely basis.

The first loan relationship, with an outstanding balance of $2.9 million at December 31, 2010, was originated for the construction of a hotel, restaurant and retail plaza secured by such property, the borrower's personal residence, a separate residence and a separate farm. The hotel, restaurant and retail plaza are complete and operational. However, cash flows from operations have not been constant and are impacted by the seasonal nature of the hotel. In addition, the borrower does not have other liquid sources of cash flow. As a result, the borrower has listed substantial real estate holdings for sale. At December 31, 2010, the loan was current but identified as special mention. Ultimately, due to the estimated value of the borrower's significant real estate holdings, the Bank does not currently expect to incur a loss on this loan.

The second loan relationship, with an outstanding balance of $2.1 million at December 31, 2010, is a consumer installment loan for the purpose of consolidating various personal debts. This loan is secured by a lien on the primary residence of the first borrower discussed above, an assigned life insurance policy and the assignment of patent royalty income. Due to business difficulties and decreased royalty income, payments on the loan have not always been timely. At December 31, 2010, the loan was non-performing and classified as substandard. As a result of the estimated value of the lien on the property owned by the first borrower, the estimated cash flow of royalty income and the borrower's business prospects, the Bank does not currently expect to incur a loss on this loan.

The third loan relationship, with an outstanding balance of $1.3 million at December 31, 2010, consists of two commercial loans. The loans were originated for the purpose of funding business operations and are secured by real estate, accounts receivable, inventory and equipment. The loans are also supported by the personal guarantees of the principal business owners. The borrower has ceased operations and the principals are in the process of liquidating the business assets. The Corporation is working with the principals during the liquidation process and currently expects to be paid in full from the proceeds of the liquidation and the support of the guarantors.

The following table sets forth information regarding the Corporation's non-performing assets as of December 31:

(Dollar amounts in thousands)	2010		2009		2008		2007		2006	
Non-performing loans	$6,611		$2,418		$1,011		$952		$1,841	
Total as a percentage of gross loans	2.13	%	0.82	%	0.38	%	0.41	%	0.85	%
Repossessions	-		40		-		-		-	
Real estate acquired through foreclosure	373		173		50		129		98	
Total as a percentage of total assets	0.08	%	0.05	%	0.01	%	0.04	%	0.03	%
Total non-performing assets	$6,984		$2,631		$1,061		$1,081		$1,939	
Total non-performing assets as a percentage of total assets	1.45	%	0.56	%	0.28	%	0.35	%	0.65	%

Allowance for loan losses as a percentage of non-performing loans	62.50	%	132.42	%	262.22	%	226.58	%	110.54	%

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Allowance for Loan Losses. Management establishes allowances for estimated losses on loans based upon its evaluation of the pertinent factors underlying the types and quality of loans; historical loss experience based on volume and types of loans; trend in portfolio volume and composition; level and trend on non-performing assets; detailed analysis of individual loans for which full collectibility may not be assured; determination of the existence and realizable value of the collateral and guarantees securing such loans and the current economic conditions affecting the collectibility of loans in the portfolio. The Corporation analyzes its loan portfolio at least quarterly for valuation purposes and to determine the adequacy of its allowance for losses. Based upon the factors discussed above, management believes that the Corporation's allowance for losses as of December 31, 2010 of $4.1 million was adequate to cover probable incurred losses in the portfolio at such time.

The following table sets forth an analysis of the allowance for losses on loans receivable for the years ended December 31:

(Dollar amounts in thousands)	2010	2009	2008	2007	2006
Balance at beginning of period	$3,202	$2,651	$2,157	$2,035	$1,869
Provision for loan losses	1,306	1,367	500	256	358
Allowance for loan losses of ECSLA	-	-	206	-	-
Charge-offs:					
Residential mortgage loans	(40)	(35)	(10)	(48)	(71)
Home equity loans and lines of credit	(45)	-	-	-	-
Commercial mortgage loans	(61)	(477)	(82)	(34)	(83)
Commercial business loans	(216)	(264)	-	(22)	(18)
Consumer loans	(190)	(83)	(160)	(60)	(49)
	(552)	(859)	(252)	(164)	(221)
Recoveries:					
Residential mortgage loans	2	-	-	1	-
Home equity loans and lines of credit	2	-	-	-	-
Commercial mortgage loans	147	-	-	-	-
Commercial business loans	5	7	15	16	19
Consumer loans	20	36	25	13	10
	176	43	40	30	29
Net charge-offs	(376)	(816)	(212)	(134)	(192)
Balance at end of period	$4,132	$3,202	$2,651	$2,157	$2,035
Ratio of net charge-offs to average loans outstanding	0.12%	0.29%	0.08%	0.06%	0.09%
Ratio of allowance to total loans at end of period	1.33%	1.08%	0.99%	0.93%	0.94%

The following table provides a breakdown of the allowance for loan losses by major loan category for the years ended December 31:

(Dollar amounts in thousands)	2010		2009		2008		2007		2006	
Loan Categories:	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans	Dollar Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	$1,323	14.1%	$448	14.1%	$431	15.2%	$387	15.3%	$532	16.0%
Commercial mortgages	1,707	30.0%	1,891	30.4%	1,369	32.1%	1,068	30.9%	820	28.4%
Residential mortgages	398	27.3%	356	25.0%	363	27.7%	309	28.3%	239	30.0%
Home equity loans	572	24.3%	452	26.1%	467	21.5%	368	21.3%	339	22.0%
Consumer loans	132	4.3 %	51	4.4 %	73	3.5 %	79	4.2 %	83	3.6 %
Unallocated	-	-	4	-	(52)	-	(54)	-	22	-
	$4,132	100 %	$3,202	100 %	$2,651	100 %	$2,157	100 %	$2,035	100 %

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Investment Activities

General. The Corporation maintains an investment portfolio of securities such as U.S. government agencies, mortgage-backed securities, municipal and corporate securities and equity securities.

Investment decisions are made within policy guidelines established by the Board of Directors. This policy is aimed at maintaining a diversified investment portfolio, which complements the overall asset/liability and liquidity objectives of the Bank, while limiting the related credit risk to an acceptable level.

The following table sets forth certain information regarding the fair value, weighted average yields and contractual maturities of the Corporation's securities as of December 31, 2010:

(Dollar amounts in thousands)	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years	Due from 5 to 10 years	Due after 10 years	No scheduled maturity	Total
U.S. Treasury and federal agency	$ -	$ 499	$ 1,458	$ 4,280	$ 492	$ -	$ 6,729
U.S. government sponsored entities and agencies	-	3,993	39,625	18,744	-	-	62,362
Mortgage-backed securities: residential	147	-	307	1,735	17,191	-	19,380
Collateralized mortgage obligations	-	-	-	-	922	-	922
State and political subdivision	-	-	1,494	20,561	11,847	-	33,902
Equity securities	-	-	-	-	-	2,525	2,525
Estimated fair value	$ 147	$ 4,492	$ 42,884	$ 45,320	$ 30,452	$ 2,525	$ 125,820
Weighted average yield (1)	4.06 %	1.07 %	1.91 %	3.91 %	4.83 %	2.58 %	3.32 %

(1) Taxable equivalent adjustments have been made in calculating yields on state and political subdivision securities.

The following table sets forth the fair value of the Corporation's investment securities as of December 31:

(Dollar amounts in thousands)	2010	2009	2008
U.S. Treasury and federal agency	$6,729	$3,001	$-
U.S. government sponsored entities and agencies	62,362	50,797	20,077
Mortgage-backed securities: residential	19,380	16,530	17,218
Collateralized mortgage obligations	922	5,130	13,162
State and political subdivision	33,902	26,967	13,808
Corporate securities	-	-	3,984
Equity securities	2,525	2,818	3,194
	$125,820	$105,243	$71,443

For additional information regarding the Corporation's investment portfolio see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in item 7 and "Notes to Consolidated Financial Statements" beginning on page F-8.

Sources of Funds

General. Deposits are the primary source of the Bank's funds for lending and investing activities. Secondary sources of funds are derived from loan repayments, investment maturities and borrowed funds. Loan repayments can be considered a relatively stable funding source, while deposit activity is greatly influenced by interest rates and general market conditions. The Bank also has access to funds through other various sources. For a description of the Bank's sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in item 7.

Deposits. The Bank offers a wide variety of retail deposit account products to both consumer and commercial deposit customers, including time deposits, non-interest bearing and interest bearing demand deposit accounts, savings deposits and money market accounts.

Deposit products are promoted in periodic newspaper and radio advertisements, along with notices provided in customer account statements. The Bank's marketing strategy is based on its reputation as a community bank that provides quality products and personal customer service.

The Bank pays interest rates on its interest bearing deposit products that are competitive with rates offered by other financial institutions in its market area. Management reviews interest rates on deposits weekly and considers a number of factors, including: (1) the Bank's internal cost of funds; (2) rates offered by competing financial institutions; (3) investing and lending opportunities; and (4) the Bank's liquidity position.

The following table summarizes the Corporation's deposits as of December 31:

(Dollar amounts in thousands)	2010					2009				
Type of accounts	Weighted average rate		Amount	%		Weighted average rate		Amount	%	
Non-interest bearing deposits	-		$75,941	18.5	%	-		$67,033	17.4	%
Interest bearing demand deposits	0.28	%	188,910	46.1	%	0.56	%	154,085	40.0	%
Time deposits	3.25	%	144,807	35.4	%	3.25	%	164,207	42.6	%
	1.28	%	$409,658	100.0	%	1.61	%	$385,325	100.0	%

The following table sets forth maturities of the Corporation's certificates of deposit of $100,000 or more at December 31, 2010 by time remaining to maturity:

(Dollar amounts in thousands)	Amount
Less than three months	$7,720
Over three months to six months	3,553
Over six months to twelve months	6,267
Over twelve months	30,982
	$48,522

Borrowings. Borrowings may be used to compensate for reductions in deposit inflows or net deposit outflows, or to support lending and investment activities. These borrowings include FHLB advances, federal funds, repurchase agreements, advances from the Federal Reserve Discount Window and lines of credit at the Bank and the Corporation with other correspondent banks. The following table summarizes information with respect to borrowings at or for the years ending December 31:

(Dollar amounts in thousands)	2010		2009	
Ending balance	$30,000		$40,000	
Average balance	36,488		50,611	
Maximum balance	40,000		75,000	
Average rate	4.56	%	3.34	%

For additional information regarding the Corporation's deposit base and borrowed funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in item 7 and "Notes to Consolidated Financial Statements" beginning on page F-8.

Subsidiary Activity

The Corporation has two wholly owned subsidiaries, the Bank, a national association and the Title Company. As of December 31, 2010, the Bank and the Title Company had no subsidiaries.

Personnel

At December 31, 2010, the Bank had 115 full time equivalent employees. There is no collective bargaining agreement between the Bank and its employees, and the Bank believes its relationship with its employees to be satisfactory.

Competition

The Bank competes for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers.

Supervision and Regulation

General. Bank holding companies and banks are extensively regulated under both federal and state law. Set forth below is a summary description of certain provisions of certain laws that relate to the regulation of the Corporation and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The Corporation. The Corporation is a registered financial holding company, and subject to regulation and examination by the FRB under the BHCA. The Corporation is required to file with the FRB periodic reports and such additional information as the FRB may require. Recent changes to the Bank Holding Company rating system emphasizes risk management and evaluation of the potential impact of non-depository entities on safety and soundness.

The FRB may require the Corporation to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments when the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries. The FRB also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, the Corporation must file written notice and obtain FRB approval prior to purchasing or redeeming its equity securities.

Further, the Corporation is required by the FRB to maintain certain levels of capital. See “Capital Standards.”

The Corporation is required to obtain prior FRB approval for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior FRB approval is also required for the merger or consolidation of the Corporation and another bank holding company.

The Corporation is prohibited by the BHCA, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, subject to the prior FRB approval, the Corporation may engage in any, or acquire shares of companies engaged in, activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under FRB regulations, the Corporation is required to serve as a source of financial and managerial strength to the Bank and may not conduct operations in an unsafe or unsound manner. In addition, it is the FRB’s policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both.

The Corporation is also a bank holding company within the meaning of the Pennsylvania Banking Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the Pennsylvania Department of Banking.

The Corporation's securities are registered with the SEC under the Exchange Act. As such, the Corporation is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act. The public may obtain all forms and information filed with the SEC through their website http://www.sec.gov.

The Bank. As a national banking association, the Bank is subject to primary supervision, examination and regulation by the OCC. The Bank is also subject to regulations of the FDIC as administrator of the Deposit Insurance Fund (DIF) and the FRB. If, as a result of an examination of the Bank, the OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank is violating or has violated any law or regulation, various remedies are available to the OCC. Such remedies include the power to enjoin "unsafe or unsound practices," to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the Bank's growth, to assess civil monetary penalties, and to remove officers and directors. The FDIC has similar enforcement authority, in addition to its authority to terminate the Bank's deposit insurance in the absence of action by the OCC and upon a finding that the Bank is operating in an unsafe or unsound condition, is engaging in unsafe or unsound activities, or that the Bank's conduct poses a risk to the deposit insurance fund or may prejudice the interest of its depositors.

A national bank may have a financial subsidiary engaged in any activity authorized for national banks directly or certain permissible activities. Generally, a financial subsidiary is permitted to engage in activities that are "financial in nature" or incidental thereto, even though they are not permissible for the national bank itself. The definition of "financial in nature" includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance, issue annuities or engage in real estate development or investment or merchant banking.

The Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, including:

- The prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;
- Increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances;
- Required executive certification of financial presentations;
- Increased requirements for board audit committees and their members;
- Enhanced disclosure of controls and procedures and internal control over financial reporting;
- Enhanced controls on, and reporting of, insider trading; and
- Statutory separations between investment bankers and analysts.

The new legislation and its implementing regulations have resulted in increased costs of compliance, including certain outside professional costs. To date these costs have not had a material impact on the Corporation's operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. The financial reform and consumer protection act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions, and changes the jurisdictions of existing bank regulatory agencies. The new law also establishes an independent federal consumer protection bureau within the Federal Reserve. The following discussion summarizes significant aspects of the new law that may affect the Corporation and the Bank. Because the regulations implementing these changes are still being developed, we cannot determine the full impact on our business and operations at this time.

The following aspects of the financial reform and consumer protection act are related to the operations of the Bank:

- A new independent consumer financial protection bureau will be established within the Federal Reserve, empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. Smaller financial institutions, like the Bank, will be subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.
- The Federal Deposit Insurance Act was amended to direct federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.
- Tier 1 capital treatment for "hybrid" capital items like trust preferred securities is eliminated subject to various grandfathering and transition rules.
- The current prohibition on payment of interest on demand deposits was repealed, effective July 21, 2011.
- State law is preempted only if it would have a discriminatory effect on a federal savings association or is preempted by any other federal law. The OCC must make a preemption determination on a case-by-case basis with respect to a particular state law or other state law with substantively equivalent terms.
- Deposit insurance is permanently increased to $250,000 and unlimited deposit insurance for noninterest-bearing transaction accounts extended through the end of 2012.
- Deposit insurance assessment base calculation will equal the depository institution's total assets minus the sum of its average tangible equity during the assessment period.
- The minimum reserve ratio of the DIF increased to 1.35 percent of estimated annual insured deposits or assessment base; however, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than $10 billion.

The following aspects of the financial reform and consumer protection act are related to the operations of the Corporation:

- The SEC is authorized to adopt rules requiring public companies to make their proxy materials available to shareholders for nomination of their own candidates for election to the board of directors.
- Public companies will be required to provide their shareholders with a non-binding vote: (i) at least once every three years on the compensation paid to executive officers, and (ii) at least once every six years on whether they should have a "say on pay" vote every one, two or three years.
- A separate, non-binding shareholder vote will be required regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments.
- Securities exchanges will be required to prohibit brokers from using their own discretion to vote shares not beneficially owned by them for certain "significant" matters, which include votes on the election of directors, executive compensation matters, and any other matter determined to be significant.

- Stock exchanges will be prohibited from listing the securities of any issuer that does not have a policy providing for (i) disclosure of its policy on incentive compensation payable on the basis of financial information reportable under the securities laws, and (ii) the recovery from current or former executive officers, following an accounting restatement triggered by material noncompliance with securities law reporting requirements, of any incentive compensation paid erroneously during the three-year period preceding the date on which the restatement was required that exceeds the amount that would have been paid on the basis of the restated financial information.
- Disclosure in annual proxy materials will be required concerning the relationship between the executive compensation paid and the financial performance of the issuer.
- Item 402 of Regulation S-K will be amended to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees.
- Smaller reporting companies are exempt from complying with the internal control auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act.

Anti-Money Laundering. All financial institutions, including national banks, are subject to federal laws that are designed to prevent the use of the U.S. financial system to fund terrorist activities. Financial institutions operating in the United States must develop anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. The Bank has established policies and procedures to ensure compliance with these provisions.

Privacy. Federal banking rules limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules, financial institutions must provide:

- Initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- Annual notices of their privacy policies to current customers; and
- A reasonable method for customers to “opt out” of disclosures to nonaffiliated third parties.

These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Corporation’s privacy policies have been implemented in accordance with the law.

Dividends and Other Transfers of Funds. Dividends from the Bank constitute the principal source of income to the Corporation. The Corporation is a legal entity separate and distinct from the Bank. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Corporation. In addition, the Bank’s regulators have the authority to prohibit the Bank from paying dividends, depending upon the Bank’s financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

The Corporation entered into a Securities Purchase Agreement (the Agreement) on December 23, 2008 with the U.S. Treasury in association with its participation in the Capital Purchase Program (CPP) of the Emergency Economic Stabilization Act of 2008 (EESA). As a result of the Corporation’s participation in the CPP, the Corporation may not pay a quarterly dividend in excess of $0.32 per share until the earlier of December 23, 2011 or the date the preferred shares have been redeemed in whole or transferred to a non-affiliated party, without the consent of the U.S. Treasury.

Transactions with Affiliates. The Bank is subject to certain restrictions imposed by federal law on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Such restrictions prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by the Bank to or in any affiliate are limited, individually, to 10% of the Bank's capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20% of the Bank's capital and surplus. Some of the entities included in the definition of an affiliate are parent companies, sister banks, sponsored and advised companies, investment companies whereby the Bank or its affiliate serves as investment advisor, and financial subsidiaries of the bank. Additional restrictions on transactions with affiliates may be imposed on the Bank under the prompt corrective action provisions of federal law. See "Prompt Corrective Action and Other Enforcement Mechanisms."

Loans to One Borrower Limitations. With certain limited exceptions, the maximum amount that a national bank may lend to any borrower (including certain related entities of the borrower) at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. At December 31, 2010, the Bank's loans-to-one-borrower limit was $6.2 million based upon the 15% of unimpaired capital and surplus measurement. At December 31, 2010, the Bank's largest single lending relationship had an outstanding balance of $7.0 million. The Bank's next largest single lending relationship had an outstanding balance of $6.8 million at December 31, 2010. Credit granted to these borrowers in excess of the legal lending limit is part of the Legal Lending Limit Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. The Bank's next largest single lending relationship had an outstanding balance of $5.9 million at December 31, 2010.

Capital Standards. The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as federal banking agencies, to 100% for assets with relatively high credit risk.

The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Not more than 25% of qualifying Tier I capital may consist of trust-preferred securities. "Tier II capital" consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock that does not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. "Tier III capital" consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

The guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

In addition, federal banking regulators may set capital requirements higher than the minimums described above for financial institutions whose circumstances warrant it. For example, a financial institution experiencing or anticipating significant growth may be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets.

The following table sets forth certain information concerning regulatory capital ratios of the consolidated Corporation and the Bank as of the dates presented:

	December 31, 2010				December 31, 2009			
	Consolidated		Bank		Consolidated		Bank	
(Dollar amounts in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:								
Actual	$ 37,912	13.34 %	$ 40,850	14.52 %	$ 34,838	12.53 %	$ 37,224	13.54 %
For capital adequacy purposes	22,738	8.00 %	22,504	8.00 %	22,242	8.00 %	21,987	8.00 %
To be well capitalized	N/A	N/A	28,130	10.00 %	N/A	N/A	27,484	10.00 %
Tier 1 capital to risk-weighted assets:								
Actual	$ 34,388	12.10 %	$ 37,326	13.27 %	$ 31,636	11.38 %	$ 34,022	12.38 %
For capital adequacy purposes	11,369	4.00 %	11,252	4.00 %	11,121	4.00 %	10,994	4.00 %
To be well capitalized	N/A	N/A	16,878	6.00 %	N/A	N/A	16,491	6.00 %
Tier 1 capital to average assets:								
Actual	$ 34,388	7.23 %	$ 37,326	7.92 %	$ 31,636	6.91 %	$ 34,022	7.48 %
For capital adequacy purposes	19,034	4.00 %	18,858	4.00 %	18,320	4.00 %	18,186	4.00 %
To be well capitalized	N/A	N/A	23,572	5.00 %	N/A	N/A	22,732	5.00 %

Prompt Corrective Action and Other Enforcement Mechanisms. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At December 31, 2010, the Bank exceeded the required ratios for classification as “well capitalized.”

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized – without the express permission of the institution's primary regulator.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Insurance of Accounts. The Bank's deposits are insured to the maximum extent permitted by the DIF and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions, after giving the OCC an opportunity to take such action.

The recently enacted financial institution reform legislation permanently increased deposit insurance on most accounts from $100,000 to $250,000. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC has implemented two temporary programs to provide deposit insurance for the full amount of most noninterest bearing transaction deposit accounts and to guarantee certain unsecured debt of financial institutions and their holding companies. Under the unsecured debt program, the FDIC's guarantee expires on the earlier of the maturity date of the debt or December 31, 2012. The unlimited deposit insurance for noninterest-bearing transaction accounts was extended by the recently enacted legislation through the end of 2012 for all insured institutions without a separate insurance assessment (but the cost of the additional insurance coverage will be considered under the risk-based assessment system).

The FDIC's risk-based premium system provides for quarterly assessments. Each insured institution is placed in one of four risk categories depending on supervisory and capital considerations. Within its risk category, an institution is assigned to an initial base assessment rate which is then adjusted to determine its final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. Assessment rates range from seven to 77.5 basis points, with less risky institutions paying lower assessments. The FDIC recently amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. The amendments will become effective for the quarter beginning April 1, 2011 with the new assessment methodology being reflected in the premium invoices due September 30, 2011.

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In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the DIF. These assessments will continue until the Financing Corporation bonds mature in 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 or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. 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 is aware of no existing circumstances which would result in termination of the Bank’s deposit insurance.

On May 22, 2009, the FDIC announced a five basis point special assessment on each insured depository institution’s assets minus its Tier 1 capital as of June 30, 2009. The FDIC collected the special assessment on September 30, 2009. Based on our assets and Tier 1 capital at June 30, 2009, the impact of the special assessment was $178,000 which was expensed in the second quarter of fiscal 2009.

On November 12, 2009, the FDIC approved a requirement for insured deposit institutions to prepay 13 quarters of estimated insurance assessments. Prepayment of the assessment was included with the December 30, 2009 invoice and totaled approximately $2.1 million. Unlike a special assessment, this prepayment will not immediately affect bank earnings. Banks will book the prepaid assessment as a non-earning asset and record the actual risk-based premium payments at the end of each quarter.

Interstate Banking and Branching. Banks have the ability, subject to certain State restrictions, to acquire, by acquisition or merger, branches outside its home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Consumer Protection Laws and Regulations. The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act (CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank’s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution’s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of “outstanding” to a low of “substantial noncompliance.” In its last examination for CRA compliance, as of April 21, 2008, the Bank was rated “satisfactory.”

On September 1, 2005, the federal banking agencies amended the CRA regulations to:

- Establish the definition of "Intermediate Small Bank" as an institution with total assets of $250 million to $1 billion, without regard to any holding company; and
- Take into account abusive lending practices by a bank or its affiliates in determining a bank's CRA rating.

The Fair Credit Reporting Act (FCRA), as amended by the Fair and Accurate Credit Transactions Act of 2003 (FACTA), requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and give consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with the FACTA, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer's election to opt out would be applicable for at least five years.

The Federal Trade Commission (FTC), the federal bank regulatory agencies and the National Credit Union Administration (NCUA) have issued regulations (the Red Flag Rules) requiring financial institutions and creditors to develop and implement written identity theft prevention programs as part of the FACTA. The programs were required be in place by May 1, 2009 and must provide for the identification, detection and response to patterns, practices or specific activities – known as red flags – that could indicate identity theft. These red flags may include unusual account activity, fraud alerts on a consumer report or attempted use of suspicious account application documents. The program must also describe appropriate responses that would prevent and mitigate the crime and detail a plan to update the program. The program must be managed by the Board of Directors or senior employees of the institution or creditor, include appropriate staff training and provide oversight of any service providers.

The Check Clearing for the 21st Century Act (Check 21) facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a "substitute check," which is the legal equivalent of an original check. Check 21, effective October 28, 2004, does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original.

The Equal Credit Opportunity Act (ECOA) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act (FHA) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FHA, including some that are not specifically mentioned in the FHA itself.

The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. But typically predatory lending involves at least one, and perhaps all three, of the following elements:

- Making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation ("asset-based lending")
- Inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping")
- Engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

FRB regulations aimed at curbing such lending significantly widen the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

Effective April 8, 2005, OCC guidelines require national banks and their operating subsidiaries to comply with certain standards when making or purchasing loans to avoid predatory or abusive residential mortgage lending practices. Failure to comply with the guidelines could be deemed an unsafe and unsound or unfair or deceptive practice, subjecting the bank to supervisory enforcement actions.

Finally, the Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the CRA, FACTA, TILA, FHA, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Federal Home Loan Bank System. The Bank is a member of the FHLB. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2010, the Bank was in compliance with the stock requirements.

Federal Reserve System. The FRB requires all depository institutions to maintain noninterest bearing reserves at specified levels against their transaction accounts (primarily checking) and non-personal time deposits. At December 31, 2010, the Bank was in compliance with these requirements.

Item 1A. Risk Factors

The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.

We are operating in a challenging and uncertain economic environment. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. Dramatic declines in the housing market over the past several years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. Continued declines in real estate values, home sales volumes, and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects on us and others in the financial institutions industry. For example, further deterioration in local economic conditions in our market could drive losses beyond that which is provided for in our allowance for loan losses. We may also face the following risks in connection with these events:

- Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in a deterioration in credit quality of our loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on our business;
- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities;
- The methodologies we use to establish our allowance for loan losses may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation;
- Continued turmoil in the market, and loss of confidence in the banking system, could require the Bank to pay higher interest rates to obtain deposits to meet the needs of its depositors and borrowers, resulting in reduced margin and net interest income; and
- Compliance with increased regulation of the banking industry may increase our costs, limit our ability to pursue business opportunities, and divert management efforts.

As these conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on our financial condition.

Deterioration of economic conditions in our geographic market area could hurt our business.

We are located in western Pennsylvania and our loans are concentrated in Butler, Clarion, Crawford, Jefferson and Venango Counties, Pennsylvania. Although we have diversified our loan portfolio into other Pennsylvania counties, and to a very limited extent, into other states, the vast majority of our loans remain concentrated in the three primary counties. As a result of this geographic concentration, our financial results depend largely upon economic and real estate market conditions in these areas. Deterioration in economic or real estate market conditions in our primary market areas could have a material adverse impact on the quality of our loan portfolio, the demand for our products and services, and our financial condition and results of operations. Non-performing assets increased from $2.6 million or 0.56% of total assets at December 31, 2009 to $7.0 million or 1.45% of total assets at December 31, 2010.

Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance for loan losses.

We have established an allowance for loan losses that we believe is adequate to offset probable incurred losses on our existing loans. However, experience in the banking industry indicates that a portion of our loans will become delinquent, that some of our loans may only be partially repaid or may never be repaid and we may experience other losses for reasons beyond our control. Despite our underwriting criteria and historical experience, we may be particularly susceptible to losses due to: (1) the geographic concentration of our loans; (2) the concentration of higher risk loans, such as commercial real estate and commercial business loans; and (3) our lack of experience with the loans acquired in the Titusville branch acquisition. As a result, we may not be able to maintain our current levels of nonperforming assets and charge-offs. Although we believe that our allowance for loan losses is maintained at a level adequate to absorb any inherent losses in our loan portfolio, these estimates of loan losses are necessarily subjective and their accuracy depends on the outcome of future events. If we need to make significant and unanticipated increases in our loss allowance in the future, our results of operations and financial condition would be materially adversely affected at that time.

Economic conditions and increased uncertainty in the financial markets could adversely affect our ability to accurately assess the allowance for credit losses. Our ability to assess the creditworthiness of our customers or to estimate the values of our assets and collateral for loans will be reduced if the models and approaches we use become less predictive of future behaviors, valuations, assumptions or estimates. We estimate probable incurred losses in our loan portfolio, the adequacy of our allowance for loan losses and the values of certain assets by using estimates based on difficult, subjective, and complex judgments, including estimates as to the effects of economic conditions and how these economic conditions might affect the ability of our borrowers to repay their loans or the value of assets.

Further declines in the value of certain investment securities could require write-downs, which would reduce our earnings.

At December 31, 2010, our investment portfolio included eight equity securities totaling $2.5 million, primarily consisting of financial institutions. After our fourth quarter 2010 evaluation of our investment portfolio, we determined that other-than-temporary impairments existed on three equity securities. The impairment of these securities, one financial institution and two government-sponsored enterprises (GSE’s), was considered to be other-than-temporary due to continued concerns related to the financial condition and near-term prospects of the entities, economic conditions of the financial services industry and deteriorating market values. These securities were written down to their fair market values as of December 31, 2010 and resulted in impairment losses of $55,000. A number of factors or combinations of factors could cause us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to one or more of these securities or other equity securities will constitute an impairment that is other-than temporary. These factors include, but are not limited to, failure to make scheduled interest or dividend payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. Additional other-than-temporary impairment write-downs could reduce our earnings.

We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease.

We are required to test our goodwill and core deposit intangible assets for impairment on an annual basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. It is possible that future impairment testing could result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, and other sources, could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us, such a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and the unstable credit markets.

Our continued growth depends on our ability to meet minimum regulatory capital levels. Growth and shareholder returns may be adversely affected if sources of capital are not available to help us meet them.

As we grow, we will have to maintain our regulatory capital levels at or above the required minimum levels. If earnings do not meet our current estimates, if we incur unanticipated losses or expenses, or if we grow faster than expected, we may need to obtain additional capital sooner than expected, through borrowing, additional issuances of debt or equity securities, or otherwise. If we do not have continued access to sufficient capital, we may be required to reduce our level of assets or reduce our rate of growth in order to maintain regulatory compliance. Under those circumstances net income and the rate of growth of net income may be adversely affected. Additional issuances of equity securities could have a dilutive effect on existing stockholders.

We cannot predict the actual effects of EESA, the American Recovery and Reinvestment Act (ARRA), the proposed regulatory reform measures and various governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets, on us and the Bank. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading prices of our securities.

We expect to face increased regulation of our industry, including as a result of EESA, the ARRA and related initiatives by the federal government. Compliance with such regulations may increase our costs and limit our ability to pursue business opportunities.

We are subject to additional uncertainties, and potential additional regulatory or compliance burdens, as a result of our participation in the CPP.

We accepted an investment of $7.5 million from the U.S. Treasury under the CPP. The Agreement we (and all other participating institutions) entered into with the U.S. Treasury, provides that the U.S. Treasury may unilaterally amend the agreement to the extent required to comply with any changes after the execution in applicable federal statutes. As a result of this provision, the U.S. Treasury and Congress may impose additional requirements or restrictions on us and the Bank in respect of reporting, compliance, corporate governance, executive or employee compensation, dividend payments, stock repurchases, lending or other business practices, capital requirements or other matters. We may be required to expend additional resources in order to comply with these requirements. Such additional requirements could impair our ability to compete with institutions that are not subject to the restrictions because they did not accept an investment from the U.S. Treasury. To the extent that additional restrictions or limitations on employee compensation are imposed, such as those contained in ARRA and the regulations issued in June 2009, we may be less competitive in attracting and retaining successful incentive compensation based lenders and customer relations personnel, or senior executive officers.

Additionally, the ability of Congress to utilize the amendment provisions to effect political or public relations goals could result in our being subjected to additional burdens as a result of public perceptions of issues relating to the largest banks, and which are not applicable to community oriented institutions such as us. We may be disadvantaged as a result of these uncertainties.

As a result of the issuance of the Series A Preferred Stock to the U.S. Treasury, we are required to comply with certain restrictions on executive and employee compensation included in the EESA, as amended. Certain of these provisions could limit the amount and the tax deductibility of compensation we pay to our executive officers, and could have an adverse affect on our ability to compete for and retain employees and senior executive officers.

Any Future Increases in FDIC Insurance Premiums or Special Assessments Could Adversely Impact Our Earnings.

In May 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution. We recorded an expense of approximately $178,000 during the year ended December 31, 2009, to reflect the special assessment. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period. In addition, the FDIC increased the general assessment rate and, therefore, our FDIC general insurance premium expense has increased compared to prior periods.

The FDIC also issued a final rule pursuant to which all insured depository institutions were required to prepay on December 30, 2009 their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. We prepaid $2.1 million of our assessments on December 30, 2009, based on our deposits and assessment rate as of September 30, 2009. The prepaid balance will be reduced by the actual expense for our quarterly assessments, until the balance is exhausted. Depending on how our actual assessments compare to the estimated assessments, the prepaid balance may be exhausted earlier than or later than the planned three year time period.

In February 2011, the FDIC amended its deposit insurance regulations (1) to change the assessment base for insurance from domestic deposits to average assets minus average tangible equity and (2) to lower overall assessment rates. The revised assessments rates are between 2.5 to 9 basis points for banks in the lowest risk category and between 30 to 45 basis points for banks in the highest risk category. The amendments will become effective for the quarter beginning April 1, 2011 with the new assessment methodology being reflected in the premium invoices due September 30, 2011.

Changes in interest rates and other factors beyond our control could have an adverse impact on our financial performance and results.
By nature, all financial institutions are impacted by changing interest rates. Among other issues, changes in interest rates may affect the following:

- the demand for new loans;
- the value of our interest-earning assets;
- prepayment speeds experienced on various asset classes, particularly residential mortgage loans;
- credit profiles of existing borrowers;
- rates received on loans and securities;
- our ability to obtain and retain deposits in connection with other available investment alternatives; and
- rates paid on deposits and borrowings.

Significant fluctuations in interest rates may have an adverse effect upon our financial condition and results of operations. The rates that we earn on our assets and the rates that we pay on our liabilities are generally fixed for a contractual period of time. We, like many financial institutions, have liabilities that generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities.

In addition, changes in interest rates can also affect the average life of our loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk. This means that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities.

There are increased risks involved with commercial real estate and commercial business and consumer lending activities.

Our lending activities include loans secured by commercial real estate. Commercial real estate lending generally is considered to involve a higher degree of risk than single-family residential lending due to a variety of factors, including generally larger loan balances and the dependency on successful operation of the project for repayment. Our lending activities also include commercial business loans to small to medium businesses, which generally are secured by various equipment, machinery and other corporate assets, and a wide variety of consumer loans, including home equity and second mortgage loans, automobile loans and unsecured loans. Although commercial business loans and consumer loans generally have shorter terms and higher interest rates than mortgage loans, they generally involve more risk than mortgage loans because of the nature of, or in certain cases the absence of, the collateral which secures such loans.

In addition, we have a concentration of higher balance commercial real estate and commercial business loans with a limited number of borrowers in our market area. As a result, we have a greater risk of a significant loss due to such concentration and a greater risk of loan defaults in the event of an economic downturn in our market area as adverse economic changes may have a negative effect on the ability of our borrowers to make timely repayment of their loans.

Strong competition within our market area may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, and other financial intermediaries operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefits them in attracting business and offer certain services that we do not provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long term basis. Our profitability depends upon our continued ability to successfully compete in our market area.

Government regulation will significantly affect the Bank's business, and may result in higher costs and lower shareholder returns.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. We are subject to extensive regulation, supervision and examination by federal, state and local governmental authorities, including the FRB and the OCC. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. Changes in the laws, regulations and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition. Federal economic and monetary policy may also affect our ability to attract deposits and other funding sources, make loans and investments, and achieve satisfactory interest spreads.

Recently enacted regulatory reform may have a material impact on our operations.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act that, among other things, imposes new restrictions and an expanded framework of regulatory oversight for financial institutions and their holding companies. Among other things, the law creates a new consumer financial protection bureau that will have the authority to promulgate rules intended to protect consumers in the financial products and services market. The creation of this independent bureau could result in new regulatory requirements and raise the cost of regulatory compliance. The federal preemption of state laws currently accorded federally chartered financial institutions will be reduced. In addition, regulation mandated by the new law could require changes in regulatory capital requirements, loan loss provisioning practices, and compensation practices which may have a material impact on our operations. Because the regulations under the new law are still being developed, we cannot determine the full impact on our business and operations at this time.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Corporation owns no real property but utilizes the main office of the Bank. The Corporation’s and the Bank’s executive offices are located at 612 Main Street, Emlenton, Pennsylvania. The Corporation pays no rent or other form of consideration for the use of this facility.

The Bank owns and leases numerous other premises for use in conducting business activities. The Bank considers these facilities owned or occupied under lease to be adequate. For additional information regarding the Bank’s properties, see “Notes to Consolidated Financial Statements” beginning on page F-8.

Item 3. Legal Proceedings

Neither the Bank nor the Corporation is involved in any material legal proceedings. The Bank, from time to time, is party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial position, results of operation, or liquidity of the Bank or the Corporation.

Item 4. (Removed and Reserved)

PART II

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

Market, Holder and Dividend Information

Emclaire Financial Corp. common stock is traded on NASDAQ Capital Markets (NASDAQ) under the symbol "EMCF". The listed market makers for the Corporation's common stock include:

Boenning and Scattergood, Inc.	Janney Montgomery Scott LLC	Monroe Securities, Inc.
4 Tower Bridge, Suite 300	1801 Market Street	100 North Riverside Plaza
200 Bar Harbor Drive	Philadelphia, PA 19103-1675	Suite 1620
West Conshohocken, PA 19428	Telephone: (215) 665-6000	Chicago, IL 60606
Telephone: (800) 889-6440		Telephone: (312) 327-2530

The Corporation has traditionally paid regular quarterly cash dividends. Future dividends will be determined by the Board of Directors after giving consideration to the Corporation's financial condition, results of operations, tax status, industry standards, economic conditions, regulatory requirements and other factors. As a result of the Corporation's participation in the U.S. Treasury's CPP, the Corporation may not pay a quarterly dividend in excess of $0.32 per share until the earlier of December 23, 2011 or the date the preferred shares have been redeemed in whole or transferred to a non-affiliated third party, without the consent of the U.S. Treasury. For additional information regarding the Corporation's participation in the CPP, see "Notes to Consolidated Financial Statements" beginning on page F-8.

The following table sets forth the high and low sale and quarter-end closing market prices of our common stock for the last two years as reported by the Nasdaq Global Market since November 6, 2009 and prior thereto as quoted on the OTC Bulletin Board, as well as cash dividends paid for the quarterly periods presented. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	Market Price			Cash
	High	Low	Close	Dividend
2010:				
Fourth quarter	$17.30	$15.81	$16.35	$0.14
Third quarter	18.00	15.55	16.50	0.14
Second quarter	16.50	14.36	15.85	0.14
First quarter	15.20	13.19	14.51	0.14

2009:				
Fourth quarter	$17.10	$12.11	$13.85	$0.14
Third quarter	18.30	15.85	17.10	0.14
Second quarter	23.50	17.50	18.00	0.14
First quarter	23.50	18.00	21.50	0.32

As of March 1, 2011, there were approximately 705 stockholders of record and 1,457,404 shares of common stock entitled to vote, receive dividends and considered outstanding for financial reporting purposes. The number of stockholders of record does not include the number of persons or entities who hold their stock in nominee or "street" name.

Common stockholders may have Corporation dividends reinvested to purchase additional shares. Participants may also make optional cash purchases of common stock through this plan and pay no brokerage commissions or fees. To obtain a plan document and authorization card call 800-757-5755.

Purchases of Equity Securities

The Corporation did not repurchase any of its equity securities in the year ended December 31, 2010.

Item 6. Selected Financial Data

Not required as the Corporation is a smaller reporting company.

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

The following discussion and analysis represents a review of the Corporation's consolidated financial condition and results of operations. This review should be read in conjunction with the consolidated financial statements beginning on page F-3.

Overview

The Corporation reported an increase in net income available to common stockholders of $1.5 million for 2010 as consolidated net income available to common stockholders amounted to $2.7 million or $1.85 per common share for 2010, compared to net income of $1.1 million or $0.80 per common share for 2009. Net income available to common stockholders was impacted by the following:

- Net interest income increased $2.0 million or 15.9% in 2010. This increase was primarily attributed to an increase in interest earned on loans receivable and securities of $642,000 and $943,000, respectively. Further contributing to the increase in net interest income, interest expense on deposits decreased by $486,000 due primarily to the continued low interest rate environment.
- Noninterest income increased $1.4 million or 48.6% primarily due to an increase in net securities gains to $1.0 million in 2010 from a net loss of $34,000 in 2009. Of the 2010 gains, $565,000 related to a capital management strategy whereby the Corporation sold $21.4 million of securities to prepay $10.0 million of long term FHLB advances. These gains were used to offset the $557,000 prepayment penalty associated with the early redemption of the advances. During 2009, the Corporation realized an other-than- temporary impairment (OTTI) charge of $898,000 related to the decline in value in certain of the Corporation's equity securities, which consisted of common stock positions held in various smaller local financial institutions.
- Noninterest expense increased $1.2 million or 9.5% primarily related to the following:
- Increased compensation, premises and other noninterest costs associated with the Titusville office, acquired during the third quarter of 2009.
- Increased compensation expense due to the reinstatement of previously suspended incentive programs. The programs were previously suspended as the Corporation set forth initiatives to maintain capital.
- One-time prepayment fees totaling $557,000 related to the repayment of long term FHLB advances.
- Increased intangible amortization related to the third-quarter 2009 Titusville branch acquisition.

- Professional fees decreased $744,000 or 57.6% to $548,000 in 2010 from $1.3 million in 2009. The Corporation incurred non-recurring professional fees of $376,000 and $399,000 in 2009 relating to the purchase of the Titusville branch office and a common stock offering, respectively.

Changes in Financial Condition

Total assets increased $14.4 million or 3.1% to $481.9 million at December 31, 2010 from $467.5 million at December 31, 2009. This increase was due primarily to increases in securities available for sale, net loans receivable and cash and equivalents of $20.6 million, $13.5 million and $19.9 million, respectively.

The increase in the Corporation's total assets was primarily funded by increases in total liabilities of $12.3 million or 2.9% and total stockholders' equity of $2.1 million or 5.6%. The increase in total liabilities was primarily due to an increase in total deposits of $24.3 million or 6.3%, partially offset by a decrease in borrowed funds of $10.0 million or 25.0%.

Cash and cash equivalents. These accounts decreased a combined $19.9 million or 51.2% to $19.0 million at December 31, 2010 from $39.0 million at December 31, 2009. This decrease was primarily due to the full deployment of cash received from the Titusville branch purchase transaction. Typically, cash accounts are increased by net operating results, deposits by customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds. Decreases result from customer deposit withdrawals, new loan originations or other loan fundings, security purchases, repayments of borrowed funds and cash dividends to stockholders.

Securities. Securities increased $20.6 million or 19.6% to $125.8 million at December 31, 2010 from $105.2 million at December 31, 2009. This increase was primarily related to the deployment of cash received from both the aforementioned Titusville branch acquisition and increased customer deposits into higher-yielding investment securities, offset by security calls, sales and repayments during the year.

Loans receivable. Net loans receivable increased $13.5 million or 4.6% to $306.2 million at December 31, 2010 from $292.6 million at December 31, 2009 as residential first mortgages increased $10.5 million or 14.1%, commercial real estate increased $3.1 million or 3.4%, commercial business increased $2.2 million or 5.3% and consumer loans increased $549,000 or 4.3%, partially offset by a $1.8 million or 2.4% decrease in home equity loans and lines of credit.

Non-performing assets. Non-performing assets include non-accrual loans, loans 90 days past due and still accruing, repossessions and real estate owned. Non-performing assets were $7.0 million or 1.45% of total assets at December 31, 2010 compared to $2.6 million or 0.56% of total assets at December 31, 2009. Non-performing assets consisted of non-performing loans, repossessions and real estate owned of $6.6 million, $0 and $373,000, respectively, at December 31, 2010 and $2.4 million, $40,000 and $173,000, respectively, at December 31, 2009. At December 31, 2010, non-performing assets consisted primarily of consumer, commercial mortgage and commercial business loans.

Federal bank stocks. Federal bank stocks were comprised of FHLB stock and FRB stock of $3.3 million and $838,000, respectively, at December 31, 2010. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships between the Corporation and the banks. In December 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock; however, in October 2010, the FHLB repurchased $173,000 of the Bank's capital stock. Management evaluated the FHLB stock for impairment and determined that no impairment charge was necessary as of December 31, 2010.

Bank-owned life insurance (BOLI). The Corporation maintains single premium life insurance policies on 20 current and former officers and employees of the Bank. In addition to providing life insurance coverage, whereby the Bank as well as the officers and employees receive life insurance benefits, the appreciation of the cash surrender value of the BOLI will serve to offset and finance existing and future employee benefit costs. Increases in this account during

2010 were associated with an increase in the cash surrender value of the policies, partially offset by certain administrative expenses.

Premises and equipment. Premises and equipment was $9.2 million at December 31, 2010 and 2009. The overall increase in premises and equipment during the year was due to capital expenditures of $993,000, partially offset by normal depreciation and amortization of $913,000. Major capital expenditures during the year included $540,000 for the purchase of the Titusville office building which had previously been leased since August 2009.

Goodwill. Goodwill was $3.7 million at December 31, 2010 and 2009. Goodwill is evaluated for possible impairment at least annually, and more frequently, if events and circumstances indicate that the asset might be impaired. Management evaluated goodwill and concluded that no impairment existed at December 31, 2010.

Core deposit intangible. The core deposit intangible was $2.0 million at December 31, 2010. In connection with the assumption of deposits through the 2009 Titusville branch purchase, the Bank recorded a core deposit intangible of $2.8 million. This asset represents the long-term value of the core deposits acquired. Fair value was determined using a third-party valuation expert specializing in estimating fair values of core deposit intangibles. The fair value was derived using an industry standard financial instrument present value methodology. All-in costs and runoff balances by year were discounted by comparable term FHLB advance rates, used as an alternative cost of funds measure. This intangible asset amortizes utilizing the double declining balance method of amortization over a weighted average estimated life of nine years. The core deposit intangible asset is not estimated to have a significant residual value. The Corporation recorded $564,000 and $203,000 of intangible amortization in 2010 and 2009, respectively.

Deposits. Total deposits increased $24.3 million or 6.3% to $409.7 million at December 31, 2010 from $385.3 million at December 31, 2009. Noninterest bearing deposits increased $8.9 million or 13.3% during the year and interest bearing deposits increased $15.4 million or 4.8%.

Borrowed funds. Borrowed funds decreased $10.0 million or 25.0% to $30.0 million at December 31, 2010 from $40.0 million at December 31, 2009 due to the aforementioned prepayment of $10.0 million of long term FHLB advances.

Stockholders' equity. Stockholders' equity increased $2.1 million or 5.6% to $39.1 million at December 31, 2010 from $37.0 million at December 31, 2009 resulting primarily from an increase in retained earnings totaling $1.7 million related to net income less preferred and common stock dividends, the reissue of 26,000 shares of treasury stock and an increase in accumulated other comprehensive loss totaling $337,000, resulting from a change in the funded status of the Corporation's defined benefit plan and net unrealized losses on securities available for sale.

Changes in Results of Operations

The Corporation reported net income before accumulated preferred stock dividends and discount accretion of $3.1 million and $1.5 million in 2010 and 2009, respectively. The following "Average Balance Sheet and Yield/Rate Analysis" and "Analysis of Changes in Net Interest Income" tables should be utilized in conjunction with the discussion of the net interest income and interest expense components of net income.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include non-accrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

	Year ended December 31,					
	2010			2009		
(Dollar amounts in thousands)	Average Balance	Interest	Yield / Rate	Average Balance	Interest	Yield / Rate
Interest-earning assets:						
Loans, taxable	$ 291,358	$ 17,570	6.03 %	$ 269,192	$ 16,768	6.23 %
Loans, tax-exempt	6,661	396	5.95 %	14,841	614	4.14 %
Total loans receivable	298,019	17,966	6.03 %	284,033	17,382	6.12 %
Securities, taxable	96,286	2,528	2.63 %	51,227	1,871	3.65 %
Securities, tax-exempt	29,626	1,662	5.61 %	20,595	1,256	6.10 %
Total securities	125,912	4,190	3.33 %	71,822	3,127	4.35 %
Interest-earning deposits with banks	26,636	277	1.04 %	33,107	362	1.09 %
Federal bank stocks	4,212	46	1.09 %	4,044	28	0.69 %
Total interest-earning cash equivalents	30,848	323	1.05 %	37,151	390	1.05 %
Total interest-earning assets	454,779	22,479	4.94 %	393,006	20,899	5.32 %
Cash and due from banks	2,406			2,187		
Other noninterest-earning assets	22,669			18,627		
Total Assets	$ 479,854			$ 413,820		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 171,932	826	0.48 %	$ 125,797	1,049	0.83 %
Time deposits	154,726	4,580	2.96 %	138,855	4,843	3.49 %
Total interest-bearing deposits	326,658	5,406	1.65 %	264,652	5,892	2.23 %
Borrowed funds, short-term	5,022	241	4.80 %	15,611	124	0.79 %
Borrowed funds, long-term	31,466	1,422	4.52 %	35,000	1,566	4.47 %
Total borrowed funds	36,488	1,663	4.56 %	50,611	1,690	3.34 %
Total interest-bearing liabilities	363,146	7,069	1.95 %	315,263	7,582	2.40 %
Noninterest-bearing demand deposits	74,082	-	-	58,126	-	-
Funding and cost of funds	437,228	7,069	1.62 %	373,389	7,582	2.03 %
	3,550			4,076		

Other noninterest-bearing liabilities						
Total Liabilities	440,778			377,465		
Stockholders' Equity	39,076			36,355		
Total Liabilities and Stockholders' Equity	$ 479,854			$ 413,820		
Net interest income		$ 15,410			$ 13,317	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			2.99 %			2.92 %
Net interest margin (net interest income as a percentage of average interest-earning assets)			3.39 %			3.39 %

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

	2010 versus 2009 Increase (decrease) due to		
(Dollar amounts in thousands)	Volume	Rate	Total
Interest income:			
Loans	$846	$(262)	$584
Securities	1,932	(869)	1,063
Interest-earning deposits with banks	(68)	(17)	(85)
Federal bank stocks	1	17	18
Total interest-earning assets	2,711	(1,131)	1,580
Interest expense:			
Deposits	1,211	(1,697)	(486)
Borrowed funds	(546)	519	(27)
Total interest-bearing liabilities	665	(1,178)	(513)
Net interest income	$2,046	$47	$2,093

2010 Results Compared to 2009 Results

The Corporation reported net income before accumulated preferred stock dividends and discount accretion of $3.1 million and $1.5 million for 2010 and 2009, respectively. The $1.5 million or 99.4% increase in net income was attributed to increases in net interest income and noninterest income of $2.0 million and $1.4 million, respectively, and a decrease in provision for loan losses of $61,000, partially offset by increases in noninterest expense and provision for income taxes of $1.2 million and $743,000, respectively.

Net interest income. The primary source of the Corporation's revenue is net interest income. Net interest income is the difference between interest income on earning assets such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income increased $2.1 million to $15.4 million for 2010, compared to $13.3 million for 2009. This increase in net interest income can be attributed to an increase in tax equivalent interest income of $1.6 million and a decrease in interest expense of $513,000.

Interest income. Tax equivalent interest income increased $1.6 million or 7.6% to $22.5 million for 2010, compared to $20.9 million for 2009. This increase can be attributed to increases in interest earned on loans, securities and federal bank stocks of $584,000, $1.1 million, and $18,000, partially offset by a decrease in interest-earning deposits of $85,000.

Tax equivalent interest earned on loans receivable increased $584,000 or 3.4% to $18.0 million for 2010, compared to $17.4 million for 2009. During that time, average loans increased $14.0 million or 4.9%, generating $846,000 of additional loan interest income. Offsetting this favorable asset growth, the yield on loans decreased 9 basis points to 6.03% for 2010, versus 6.12% for 2009 causing a $262,000 decrease in interest income.

Tax equivalent interest earned on securities increased $1.1 million or 34.0% to $4.2 million for 2010, compared to $3.1 million for 2009. During this time, average securities increased $54.1 million or 75.3% accounting for $1.9 million in additional security interest income. This increase was primarily related to the full deployment of cash received from the 2009 Titusville branch purchase and customer deposits into higher yielding investment securities. The average yield on securities decreased 102 basis points to 3.33% for 2010, versus 4.35% for 2009 primarily due to calls of certain higher rate securities and the subsequent deployment of proceeds into shorter termed, lower yielding investments.

Interest earned on interest-earning deposit accounts decreased $85,000 or 23.5% to $277,000 for 2010, compared to $362,000 for 2009. Average interest-earning deposits decreased $6.5 million or 19.5% primarily related to the deployment of remaining cash received from the 2009 Titusville branch acquisition. This decrease caused a $68,000 decrease in interest income. The average yield decreased 5 basis points resulting in a $17,000 decrease in interest income.

Interest earned on federal bank stocks increased $18,000 or 64.3% to $46,000 for 2010, compared to $28,000 for 2009.

Interest expense. Interest expense decreased $513,000 or 6.8% to $7.1 million for 2010, compared to $7.6 million for 2009. This decrease can be attributed to decreases in interest incurred on interest-bearing deposits and borrowed funds of $486,000 and $27,000, respectively.

Deposit interest expense decreased $486,000 or 8.2% to $5.4 million for 2010, compared to $5.9 million for 2009. Declines in market interest rates caused the rate on interest-bearing deposits to decrease by 58 basis points to 1.65% for 2010 versus 2.23% for 2009 accounting for a $1.7 million decrease in interest expense. Average interest-bearing deposits increased $62.0 million or 23.4%, primarily due to deposits. This increase accounted for $1.2 million in additional interest expense.

Interest expense on borrowed funds decreased $27,000 or 1.6% to $1.7 million for 2010 and 2009. Average borrowed funds decreased $14.1 million or 27.9% accounting for a decrease in interest expense of $546,000.
The average rate on borrowed funds increased 122 basis points to 4.56% for 2010 versus 3.34% for 2009. This increase in rate accounted for $519,000 of additional interest expense.

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all probable incurred losses estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of non-performing assets, the estimated underlying value of the collateral and other factors related to the collectability of the loan portfolio.

The provision for loan losses decreased $61,000 to $1.3 million for 2010, compared to $1.4 million for 2009. The Corporation's allowance for loan losses amounted to $4.1 million or 1.33% of the Corporation's total loan portfolio at December 31, 2010, compared to $3.2 million or 1.08% at December 31, 2009. The allowance for loan losses as a percentage of non-performing loans at December 31, 2010 and 2009 was 62.5% and 132.4%, respectively. The change in the allowance for loan losses to total loans and the allowance for loans losses to non-performing loans occurred as the Corporation's non-performing loans increased to $6.6 million at December 31, 2010 from $2.4 million at December 31, 2009. The increase in non-performing loans resulted primarily from the addition of four separate credit relationships which were placed on non-accrual status during the year due to deterioration in the financial condition of the borrowers, as a result of poor economic conditions, and a general decline in their ability to comply with contractual repayment terms on a timely basis. While non-performing loans increased significantly, the provision for loan losses decreased slightly year over year as the Corporation recognized a $147,000 recovery of a previously charged off commercial real estate loan. This recovery decreased the Corporation's historical loss experience and resulted in an overall reduction in general reserves allocated to this portfolio segment. In addition, due to the estimated value of the collateral supporting the loans placed on non-accrual status during the year, the Corporation generally did not require significant additional provision for impaired loans.

Noninterest income. Noninterest income includes revenue that is not related to interest rates, but rather to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, commissions on financial services, title premiums, security and loan gains and losses, and earnings on BOLI. Noninterest income increased $1.4 million or 48.6% to $4.2 million for 2010, compared to $2.8 million for 2009. This increase was primarily due to an increase in net gains on securities available for sale from a net loss of $34,000 in 2009 to a net gain of $1.0 million in 2010. Included in the 2010 gains, $565,000 related to a capital management strategy whereby $21.4 million of securities were sold to prepay long term FHLB advances. These gains were used to offset the $557,000 prepayment penalty associated with the early redemption of the advances. During 2010 and 2009, other-than-temporary impairment charges totaling $55,000 and $898,000, respectively, were realized related to the decline in value in certain marketable equity securities, which consisted of common stock positions held in various financial institutions.

Noninterest expense. Noninterest expense increased $1.2 million or 9.5% to $13.8 million for 2010, compared to $12.6 million for 2009. This increase in noninterest expense was comprised of increases in compensation and employee benefits, premises and equipment, intangible amortization and other expenses, partially offset by a decrease in professional fees and FDIC insurance.

The largest component of noninterest expense, compensation and employee benefits, increased $816,000 or 13.5% to $6.9 million for 2010, compared to $6.1 million for 2009. This increase was primarily related to increased compensation associated with the Titusville office, which was acquired in the third quarter of 2009, normal compensation increases and the reinstatement of the previously suspended incentive programs.

Premises and equipment expense increased $240,000 or 12.6% to $2.1 million for 2010, compared to $1.9 million for 2009, primarily related to costs associated with the full-year operation of the Titusville office purchased during the third quarter of 2009.

The Corporation recognized $564,000 of intangible amortization in 2010 compared to $203,000 in 2009 associated with a core deposit intangible asset of $2.8 million that was recorded related to the Titusville office purchase transaction.

Professional fees decreased $744,000 or 57.6% to $548,000 for 2010, compared to $1.3 million for 2009. This decreased as the Corporation incurred non-recurring professional fees of $376,000 and $399,000 in 2009 related to the purchase of the Titusville office and a common stock offering, respectively.

FDIC expense decreased $92,000 or 13.9% to $570,000 for 2010, compared to $662,000 for 2009. This was primarily the result of a $178,000 special assessment that was assessed on all FDIC insured depository institutions in 2009.

Other noninterest expense increased $614,000 or 24.5% to $3.1 million for 2010, compared to $2.5 million for 2009 due primarily to one-time prepayment fees totaling $557,000 related to the aforementioned prepayment of FHLB long-term advances.

The provision for income taxes increased $743,000 to $801,000 for 2010, compared to $58,000 for 2009 due to higher pre-tax income. Additionally, the effective tax rate increased year over year attributable to a greater portion of pre-tax income generated from tax-exempt investment securities and loans during 2009.

Market Risk Management

Market risk for the Corporation consists primarily of interest rate risk exposure and liquidity risk. The Corporation is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Corporation does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets.

The primary objective of the Corporation's asset liability management function is to maximize the Corporation's net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Corporation's operating environment, capital and liquidity requirements, balance sheet mix, performance objectives and overall business focus. One of the primary measures of the exposure of the Corporation's earnings to interest rate risk is the timing difference between the repricing or maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities.

The Corporation's Board of Directors has established a Finance Committee, consisting of four outside directors, the President and Chief Executive Officer (CEO), Treasurer and Chief Financial Officer (CFO) and Principal Accounting Officer (PAO), to monitor market risk, including primarily interest rate risk. This committee, which meets at least quarterly, generally establishes and monitors the investment, interest rate risk and asset liability management policies established by the Corporation.

In order to minimize the potential for adverse affects of material and prolonged changes in interest rates on the Corporation's results of operations, the Corporation's management has implemented and continues to monitor asset liability management policies to better match the maturities and repricing terms of the Corporation's interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of (i) originating adjustable-rate mortgage loans; (ii) originating short-term secured commercial loans with the rate on the loan tied to the prime rate or reset features in which the rate changes at determined intervals; (iii) emphasizing investment in shorter-term (15 years or less) investment securities; (iv) selling longer-term (30-year) fixed-rate residential mortgage loans in the secondary market; (v) maintaining a high level of liquid assets (including securities classified as available for sale) that can be readily reinvested in higher yielding investments should interest rates rise; (vi) emphasizing the retention of lower-costing savings accounts and other core deposits; and (vii) lengthening liabilities and locking in lower borrowing rates with longer terms whenever possible.

Interest Rate Sensitivity Gap Analysis

The implementation of asset and liability initiatives and strategies and compliance with related policies, combined with other external factors such as demand for the Corporation's products and economic and interest rate environments in general, has resulted in the Corporation maintaining a one-year cumulative interest rate sensitivity gap ranging between a positive and negative 20% of total assets. The one-year interest rate sensitivity gap is identified as the difference between the Corporation's interest-earning assets that are scheduled to mature or reprice within one year and its interest-bearing liabilities that are scheduled to mature or reprice within one year.

The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities, and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero, or more neutral, that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions provided by a federal regulatory agency, which management believes most accurately represents the sensitivity of the Corporation's assets and liabilities to interest rate changes, at December 31, 2010, the Corporation's interest-earning assets maturing or repricing within one year totaled $101.3 million while the Corporation's interest-bearing liabilities maturing or repricing within one-year totaled $98.8 million, providing an excess of interest-earning assets over interest-bearing liabilities of $2.4 million or 0.5% of total assets. At December 31, 2010, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 102.5%.

The following table presents the amounts of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2010 which are expected to mature, prepay or reprice in each of the future time periods presented:

(Dollar amounts in thousands)	Due in six months or less	Due within six months to one year	Due within one to three years	Due within three to five years	Due in over five years	Total
Total interest-earning assets	$ 61,571	$ 39,699	$ 114,643	$ 104,927	$ 138,420	$ 459,260
Total interest-bearing liabilities	53,732	45,101	125,745	66,738	71,274	362,590
Interest rate sensitivity gap	$ 7,839	$ (5,402)	$ (11,102)	$ 38,189	$ 67,146	$ 96,670
Cumulative rate sensitivity gap	$ 7,839	$ 2,437	$ (8,665)	$ 29,524	$ 96,670	
Ratio of gap during the period to total interest earning assets	1.63 %	(1.12)%	(2.30)%	7.92 %	13.93 %	
Ratio of cumulative gap to total interest earning assets	1.63 %	0.51 %	(1.80)%	6.13 %	20.06 %	
Total assets						$ 481,885

Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

The one-year interest rate sensitivity gap has been the most common industry standard used to measure an institution's interest rate risk position regarding maturities, repricing and prepayments. In recent years, in addition to utilizing interest rate sensitivity gap analysis, the Corporation has increased its emphasis on the utilization of interest rate sensitivity simulation analysis to evaluate and manage interest rate risk.

Interest Rate Sensitivity Simulation Analysis

The Corporation also utilizes income simulation modeling in measuring its interest rate risk and managing its interest rate sensitivity. The Finance Committee of the Corporation believes that simulation modeling enables the Corporation to more accurately evaluate and manage the possible effects on net interest income due to the exposure to changing market interest rates, the slope of the yield curve and different loan and security prepayment and deposit decay assumptions under various interest rate scenarios.

As with gap analysis and earnings simulation modeling, assumptions about the timing and variability of cash flows are critical in net portfolio equity valuation analysis. Particularly important are the assumptions driving mortgage prepayments and the assumptions about expected attrition of the core deposit portfolios. These assumptions are based on the Corporation's historical experience and industry standards and are applied consistently across the different rate risk measures.

The Corporation has established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point parallel and gradual increase or decrease in market interest rates, net interest income may not change by more than 25% for a one-year period.

Portfolio equity simulation. Portfolio equity is the net present value of the Corporation's existing assets and liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 30% of stockholders' equity.

These guidelines take into consideration the current interest rate environment, the Corporation's financial asset and financial liability product mix and characteristics and liquidity sources among other factors. Given the current rate environment, a drop in short-term market interest rates of 200 basis points immediately or over a one-year horizon would seem unlikely. This should be considered in evaluating modeling results outlined in the table below.

The following table presents the simulated impact of a 100 basis point or 200 basis point upward or downward shift of market interest rates on net interest income, for the years ended December 31, 2010 and 2009, respectively. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at December 31, 2010 remained constant. The impact of the market rate movements on net interest income was developed by simulating the effects of rates changing gradually during a one-year period from the December 31, 2010 levels for net interest income.

	Increase		Decrease	
	+100 BP	+200 BP	-100 BP	-200 BP
2010 Net interest income - increase (decrease)	2.77 %	5.02 %	(4.69)%	(8.25)%
2009 Net interest income - increase (decrease)	2.64 %	4.42 %	(5.87)%	(11.02)%

Impact of Inflation and Changing Prices

The consolidated financial statements of the Corporation and related notes presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which require the measurement of financial condition and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services since such prices are affected by inflation to a larger degree than interest rates. In the current interest rate environment, liquidity and the maturity structure of the Corporation's assets and liabilities are critical to the maintenance of acceptable performance levels.

Capital Resources

Total stockholders' equity increased $2.1 million or 5.6% to $39.1 million at December 31, 2010 from $37.0 million at December 31, 2009. Net income of $3.1 million in 2010 represented an increase in earnings of $1.5 million or 99.4% compared to 2009. Returns on average equity and assets were 7.85% and 0.64%, respectively, for 2010.

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The Corporation has maintained a strong capital position with a capital to assets ratio of 8.1% at December 31, 2010. In an effort to sustain this strong capital position, regular cash dividends on common stock decreased to $809,000 in 2010 from $1.1 million in 2009. Stockholders have taken part in the Corporation's dividend reinvestment plan introduced during 2003 with 47% of registered shareholder accounts active in the plan at December 31, 2010.

Capital adequacy is intended to enhance the Corporation's ability to support growth while protecting the interest of shareholders and depositors and to ensure that capital ratios are in compliance with regulatory minimum requirements. Regulatory agencies have developed certain capital ratio requirements that are used to assist them in monitoring the safety and soundness of financial institutions. At December 31, 2010, the Corporation and the Bank were in excess of all regulatory capital requirements.

Liquidity

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB, and amortization and prepayments of outstanding loans and maturing securities. During 2010, the Corporation used its sources of funds primarily to fund loan commitments. As of December 31, 2010, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $45.9 million, and standby letters of credit totaling $648,000. The Bank is required by the OCC to establish policies to monitor and manage liquidity levels to ensure the Bank's ability to meet demands for customer withdrawals and the repayment of short-term borrowings, and the Bank is currently in compliance with all liquidity policy limits.

At December 31, 2010, time deposits amounted to $144.8 million or 35.4% of the Corporation's total consolidated deposits, including approximately $46.7 million, which are scheduled to mature within the next year. Management of the Corporation believes that the Corporation has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation has alternative sources of funds such as a line of credit and term borrowing capacity from the FHLB and, to a more limited extent, through the sale of loans. At December 31, 2010, the Corporation's borrowing capacity with the FHLB, net of funds borrowed, was $147.2 million.

The Corporation paid quarterly cash dividends over the past two years and determined to reduce the quarterly cash dividend from $0.32 per common share to $0.14 per common share effective for the second quarter of 2009. The Corporation paid dividends of $0.14 per common share for the four quarter of 2010. On February 17, 2011 the Corporation declared dividends of $0.16 per common share payable on March 18, 2011 to shareholders of record on March 1, 2011. The determination of future dividends on the Corporation's common stock will depend on conditions existing at that time with consideration given to the Corporation's earnings, capital and liquidity needs, among other factors.

Management is not aware of any conditions, including any regulatory recommendations or requirements, that would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

Critical Accounting Policies

The Corporation's consolidated financial statements are prepared in accordance with GAAP and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily though the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Corporation are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management has identified the following as critical accounting policies.

Allowance for loan losses. The Corporation considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The balance in the allowance for loan losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions and other pertinent factors, including management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. Among the many factors affecting the allowance for loan losses, some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for loan losses may be required that would adversely impact the Corporation's financial condition or earnings in future periods.

Other-than-temporary impairment. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery.

Goodwill and intangible assets. Goodwill represents the excess cost over fair value of assets acquired in a business combination. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values. The impairment test is a two-step process that begins with an initial impairment evaluation. If the initial evaluation suggests that an impairment of the asset value exists, the second step is to determine the amount of the impairment. If the tests conclude that goodwill is impaired, the carrying value is adjusted and an impairment charge is recorded. As of December 31, 2010, the required annual impairment test of goodwill was performed and management concluded that no impairment existed as of that date.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in item 7.

Item 8. Financial Statements and Supplementary Data

Information required by this item is included herein beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

The information required by this item is incorporated herein by reference to the section captioned “Relationship With Independent Registered Public Accounting Firm” in the Proxy Statement.

Item 9A. Controls and Procedures

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation’s Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Corporation’s management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” in Rule 13a-15(e).

As of December 31, 2010, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation’s management, including the Corporation’s CEO and CFO, of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures. Based on the foregoing, the Corporation’s CEO and CFO concluded that the Corporation’s disclosure controls and procedures were effective.

There have been no significant changes in the Corporation’s internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its valuation.

During the fourth quarter of fiscal year 2010, there has been no change made in the Corporation’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. 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.

Management completed an assessment of the Corporation's internal control over financial reporting as of December 31, 2010. This assessment was based on criteria for evaluating internal control over financial reporting established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2010.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the sections captioned “Principal Beneficial Owners of the Corporation’s Common Stock”, “Section 16(a) Beneficial Ownership Reporting Compliance” and “Information With Respect to Nominees For Director, Continuing Director and Executive Officers” in the Corporation’s definitive proxy statement for the Corporation’s Annual Meeting of Stockholders to be held on April 27, 2011 (the Proxy Statement) which will be filed no later than 120 days following the Corporation’s fiscal year end.

The Corporation maintains a Code of Personal and Business Conduct and Ethics (the Code) that applies to all employees, including the CEO and the CFO. A copy of the Code has previously been filed with the SEC and is posted on our website at www.farmersnb.com. Any waiver of the Code with respect to the CEO and the CFO will be publicly disclosed in accordance with applicable regulations.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the section captioned “Executive Compensation” in the Proxy Statement.

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

The information required by this item is incorporated herein by reference to the section captioned “Principal Beneficial Owners of the Corporation’s Common Stock” in the Proxy Statement.

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

The information required by this item is incorporated herein by reference to the sections captioned “Information With Respect to Nominees For Director, Continuing Directors and Executive Officers” and “Executive Compensation” in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned “Relationship With Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)-(2) Financial Statements and Schedules:

(i) The financial statements required in response to this item are incorporated by reference from Item 8 of this report.

(3) Management Contracts or Compensatory Plans:

(i) Exhibits 10.1-10.7 listed below in (b) identify management contracts or compensatory plans or arrangements required to be filed as exhibits to this report, and such listing is incorporated herein by reference.

(b) Exhibits are either attached as part of this Report or incorporated herein by reference.

3.1 Articles of Incorporation of Emclaire Financial Corp. (1)

3.2 Bylaws of Emclaire Financial Corp. (1)

3.3 Statement with respect to shares for Preferred Stock. (2)

4.0 Specimen Stock Certificate of Emclaire Financial Corp. (3)

4.1 Form of certificate for Preferred Stock. (2)

4.2 Warrant for purchase of shares of Common Stock. (2)

10.1 Employment Agreement between Emclaire Financial Corp., the Farmers National Bank of Emlenton and certain executive officers, dated as of July 1, 2007. (4)*

10.2 Change in Control Agreement between Emclaire Financial Corp., the Farmers National Bank of Emlenton and certain executive officers, dated as of July 1, 2007. (4)*

10.3 Change in Control Agreement between Emclaire Financial Corp., the Farmers National Bank of Emlenton and certain executive officer, dated as of May 12, 2008. (5)*

10.4 Change in Control Agreement between Emclaire Financial Corp., the Farmers National Bank of Emlenton and certain executive officer, dated as of August 2, 2010. (6)*

10.5 Group Term Carve-Out Plan between the Farmers National Bank of Emlenton and 20 Officers and Employees. (7)*

10.6 Supplemental Executive Retirement Plan Agreement between the Farmers National Bank of Emlenton and Six Officers. (7)*

10.7 Adoption of Farmers National Bank of Emlenton Deferred Compensation Plan. (8)*

10.8 Letter Agreement, dated December 23, 2008 between the Corporation and the U.S. Department of the Treasury. (2)

11.0 Statement regarding computation of earnings per share (see Note 1 of the Notes to Consolidated Financial Statements in the Annual Report).

13.0 Annual Report to Stockholders for the fiscal year ended December 31, 2010.

14.0	Code of Personal and Business Conduct and Ethics. (9)
20.0	Emclaire Financial Corp. Dividend Reinvestment and Stock Purchase Plan. (10)
21.0	Subsidiaries of the Registrant (see information contained herein under "Item 1. Description of Business - Subsidiary Activity").
31.1	Principal Executive Officer 302 Certification.
31.2	Principal Financial Officer 302 Certification.
32.1	Principal Executive Officer 906 Certification.
32.2	Principal Financial Officer 906 Certification.
99.1	Principal Executive Officer 111 Certification.
99.2	Principal Financial Officer 111 Certification.

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* Compensatory plan or arrangement.

(1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2, as amended, (File No. 333-11773) declared effective by the SEC on October 25, 1996.

(2) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 23, 2008.

(3) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

(4) Incorporated by reference to the Registrant's Current Report on Form 8-K dated June 21, 2007.

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.

(6) Incorporated by reference to the Registrant's Current Report on Form 10-Q for the quarter ended June 30, 2010.

(7) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.

(8) Incorporated by reference to the Registrant's Current Report on Form 8-K dated December 15, 2008.

(9) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.

(10) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

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.

EMCLAIRE FINANCIAL CORP.

Dated: March 23, 2011

By: /s/ William C. Marsh
William C. Marsh
Chairman, Chief Executive Officer, President and Director
(Duly Authorized Representative)

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

By: /s/ William C. Marsh
William C. Marsh
Chairman of the Board
Chief Executive Officer
President
Director
(Principal Executive Officer)

Date: March 23, 2011

By: /s/ Matthew J. Lucco
Matthew J. Lucco
Treasurer and Chief Financial Officer
(Principal Financial Officer)

Date: March 23, 2011

By: /s/ Amanda L. Engles
Amanda L. Engles
Secretary
(Principal Accounting Officer)

Date: March 23, 2011

By: /s/ Ronald L. Ashbaugh
Ronald L. Ashbaugh
Director

Date: March 23, 2011

By: /s/ David L. Cox
David L. Cox
Director

Date: March 23, 2011

By: /s/ James M. Crooks
James M. Crooks
Director

Date: March 23, 2011

By: /s/ George W. Freeman
George W. Freeman
Director

Date: March 23, 2011

By: /s/ Mark A. Freemer
Mark A. Freemer
Director

Date: March 23, 2011

By: /s/ Robert L. Hunter
Robert L. Hunter
Director

Date: March 23, 2011

By: /s/ John B. Mason
John B. Mason

By: /s/ Brian C. McCarrier
Brian C. McCarrier

Director	Director
Date: March 23, 2011	Date: March 23, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Emclaire Financial Corp.
Emlenton, Pennsylvania

We have audited the accompanying consolidated balance sheet of Emclaire Financial Corp. as of December 31, 2010 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emclaire Financial Corp. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath

Cleveland, Ohio
March 17, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Emclaire Financial Corp.
Emlenton, Pennsylvania

We have audited the accompanying consolidated balance sheet of Emclaire Financial Corp. and subsidiaries (the "Corporation") as of December 31, 2009, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the year then ended. Emclaire Financial Corp.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 consolidated financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 2009 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emclaire Financial Corp. and subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ ParenteBeard LLC
Pittsburgh, Pennsylvania
March 22, 2010

Consolidated Balance Sheets

(Dollar amounts in thousands, except share and per share data)

	December 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$2,507	$2,822
Interest earning deposits with banks	16,520	36,130
Total cash and cash equivalents	19,027	38,952
Securities available for sale, at fair value	125,820	105,243
Loans receivable, net of allowance for loan losses of $4,132 and $3,202	306,152	292,615
Federal bank stocks, at cost	4,129	4,125
Bank-owned life insurance	5,596	5,388
Accrued interest receivable	1,763	1,574
Premises and equipment, net	9,241	9,170
Goodwill	3,664	3,657
Core deposit intangible	2,021	2,585
Prepaid expenses and other assets	4,472	4,217
Total Assets	$481,885	$467,526
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$75,941	$67,033
Interest bearing	333,717	318,292
Total deposits	409,658	385,325
Borrowed funds:		
Short-term	5,000	5,000
Long-term	25,000	35,000
Total borrowed funds	30,000	40,000
Accrued interest payable	649	711
Accrued expenses and other liabilities	2,460	4,456
Total Liabilities	442,767	430,492
Commitments and Contingencies	-	-
Stockholders' Equity		
Preferred stock, $1.00 par value, $1,000 liquidation value; 3,000,000 shares authorized;7,500 shares issued and outstanding	7,447	7,430
Warrants	88	88
Common stock, $1.25 par value, 12,000,000 shares authorized; 1,559,421 shares issued; 1,457,404 and 1,431,404 shares outstanding	1,949	1,949
Additional paid-in capital	14,812	14,685
Treasury stock, at cost; 102,017 and 128,017 shares	(2,114)	(2,653)
Retained earnings	17,705	15,967
Accumulated other comprehensive loss	(769)	(432)
Total Stockholders' Equity	39,118	37,034
Total Liabilities and Stockholders' Equity	$481,885	$467,526

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(Dollar amounts in thousands, except share and per share data)

	Year ended December 31,	
	2010	2009
Interest and dividend income		
Loans receivable, including fees	$17,845	$17,203
Securities:		
Taxable	2,528	1,871
Exempt from federal income tax	1,156	870
Federal bank stocks	46	28
Deposits with banks	277	362
Total interest and dividend income	21,852	20,334
Interest expense		
Deposits	5,406	5,892
Short-term borrowed funds	241	124
Long-term borrowed funds	1,422	1,566
Total interest expense	7,069	7,582
Net interest income	14,783	12,752
Provision for loan losses	1,306	1,367
Net interest income after provision for loan losses	13,477	11,385
Noninterest income		
Fees and service charges	1,419	1,495
Commissions on financial services	700	389
Title premiums	106	62
Other-than-temporary impairment losses on equity securities	(55)	(898)
Net gain on sales of loans	-	4
Net gain on sales of available for sale securities	1,030	864
Earnings on bank-owned life insurance	239	232
Other	767	682
Total noninterest income	4,206	2,830
Noninterest expense		
Compensation and employee benefits	6,870	6,054
Premises and equipment	2,139	1,899
Intangible asset amortization	564	203
Professional fees	548	1,292
Federal deposit insurance	570	662
Other	3,122	2,508
Total noninterest expense	13,813	12,618
Income before provision for income taxes	3,870	1,597
Provision for income taxes	801	58
Net income	3,069	1,539
Accumulated preferred stock dividends and discount accretion	393	393
Net income available to common stockholders	$2,676	$1,146
Earnings per common share		
Basic	$1.85	$0.80
Diluted	$1.85	$0.80

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(Dollar amounts in thousands, except share and per share data)

	Preferred Stock	Warrants	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2009	$ 7,412	$ 88	$ 1,949	$ 14,564	$ (2,653)	$ 15,840	$ (1,077)	$ 36,123
Comprehensive income:								
Net income						1,539		1,539
Change in net unrealized losses on securities available for sale, for which a portion of an other than temporary impairment has been recognized in								