

MILLENNIUM BANKSHARES CORPORATION
Sterling, Virginia

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Millennium Bankshares Corporation
Sterling, Virginia

We have audited the accompanying consolidated balance sheets of Millennium Bankshares Corporation and subsidiary (The Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the two-year period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Millennium Bankshares Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has a regulatory capital deficiency, overhead costs from continuing operations that exceed net interest income after provision for loan losses, substantial unrealized losses on investment securities and substantial loan losses that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Elliott Davis, LLC

Elliott Davis, LLC
Galax, Virginia
December 2, 2011

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009
(dollars in thousands, except share data)

	2010	2009
ASSETS		
Cash and due from financial institutions	\$ 27,415	\$ 8,909
Federal funds sold	5,949	1,443
Securities available for sale	34,281	83,289
Restricted stock	2,640	3,142
Loans receivable (net of allowance for loan losses of \$4,380 in 2010 and \$5,902 at December 31, 2009)	112,829	130,981
Premises and equipment, net	1,411	1,561
Accrued interest receivable	707	1,031
Other real estate owned	10,008	9,010
Other assets	1,252	1,697
Total assets	\$ 196,492	\$ 241,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 11,976	\$ 11,490
Interest-bearing	167,354	182,037
Total deposits	179,330	193,527
Federal funds purchased and repurchase agreements	836	648
Advances from Federal Home Loan Bank	11,000	33,800
Subordinated debentures	8,248	8,248
Accrued interest payable	756	502
Other accrued expenses	686	895
Total liabilities	200,856	237,620
Commitments and contingencies	-	-
Stockholders' equity		
Common stock, \$.01 par value; authorized 10,000,000 shares; issued and outstanding 178,848 at 2010 and 178,549 at 2009	2	2
Additional paid-in capital	49,674	49,628
Accumulated other comprehensive loss	(7,971)	(6,659)
Accumulated deficit	(46,069)	(39,528)
Total stockholders' equity	(4,364)	3,443
Total liabilities and stockholders' equity	\$ 196,492	\$ 241,063

See accompanying notes to consolidated financial statements

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2010 and 2009

(dollars in thousands, except share data)

	2010	2009
<i>Interest income</i>		
Loans, including fees	\$ 7,266	\$ 6,960
Securities		
Taxable	2,182	2,536
Tax-exempt	322	337
Dividends	26	37
Federal funds sold	34	90
Total interest income	9,830	9,960
<i>Interest expense</i>		
Deposits	3,410	5,646
Federal funds purchased and repurchase agreements	5	5
Advances from Federal Home Loan Bank	1,530	1,759
Subordinated debentures	334	374
Total interest expense	5,279	7,784
Net interest income	4,551	2,176
Provision for loan losses	1,178	2,924
Net interest income (loss) after provision for loan losses	3,373	(748)
<i>Noninterest income</i>		
Gain on sale of loans and loan fees, net	102	282
Service charges	109	176
Net gain on sale of/and called securities	511	6
Gain on sale of assets	2	9
Impairment charge on investment securities	51	(56)
Losses from sale/write-down of other real estate owned	(820)	(2,524)
Other income	71	141
Total noninterest income (expense)	26	(1,966)

(Continued)

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2010 and 2009
(dollars in thousands, except share data)

<i>(Continued)</i>	2010	2009
<i>Noninterest expense</i>		
Officers' and employees' compensation and benefits	\$ 4,069	\$ 4,073
Occupancy and equipment expense	1,046	1,322
Marketing, promotion and advertising expense	41	38
Professional fees	114	108
Accounting and auditing fees	127	268
FDIC insurance premiums	602	1,025
Legal fees	251	516
Other real estate owned expenses	897	827
FHLB pre-payment penalty	872	23
Franchise tax	175	250
Data processing expense	415	415
Other operating expense	1,355	1,974
Total noninterest expense	9,964	10,839
Loss from continuing operations before income taxes	(6,565)	(13,553)
Provision for income tax benefit	24	779
Loss from continuing operations	(6,541)	(12,774)
Income from discontinued operations, net of tax	-	911
Net loss	\$ (6,541)	\$ (11,863)
<i>Loss per common share from continuing operations</i>		
Basic	\$ (36.57)	\$ (71.54)
Diluted	\$ (36.57)	\$ (71.54)
<i>Earnings per common share from discontinued operations</i>		
Basic	\$ -	\$ 5.10
Diluted	\$ -	\$ 5.10
<i>Loss per common share</i>		
Basic	\$ (36.57)	\$ (66.44)
Diluted	\$ (36.57)	\$ (66.44)
Dividends per common share	\$ -	\$ -
<i>Weighted average shares outstanding</i>		
Basic	178,848	178,549
Diluted	178,848	178,549

See accompanying notes to consolidated financial statements

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2010 and 2009
(Dollars in thousands except share data)

	<u>Number of Shares</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Totals</u>	<u>Comprehensive Income (Loss)</u>
<i>Balance, December 31, 2008</i>	178,549	\$ 2	\$ 49,628	\$ (28,209)	\$ (6,958)	\$ 14,463	\$ -
Changes in net unrealized gain (loss) on securities available for sale	-	-	-	544	299	843	843
Net loss	-	-	-	(11,863)	-	(11,863)	(11,863)
Total comprehensive loss							<u>\$ (11,020)</u>
<i>Balance, December 31, 2009</i>	178,549	2	49,628	(39,528)	(6,659)	3,443	
Issuance of stock	311		2			2	
Stock compensation expense			44			44	
Retirement of fractional shares	(12)						
Changes in net unrealized gain (loss) on securities available for sale	-		-		(1,312)	(1,312)	(1,312)
Net loss	-		-	(6,541)	-	(6,541)	(6,541)
Total comprehensive loss							<u>\$ (7,853)</u>
<i>Balance, December 31, 2010</i>	<u>178,848</u>	<u>\$ 2</u>	<u>\$ 49,674</u>	<u>\$ (46,069)</u>	<u>\$ (7,971)</u>	<u>\$ (4,364)</u>	

See accompanying notes to consolidated financial statements

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009
(dollars in thousands, except share data)

	<u>2010</u>	<u>2009</u>
<i>Cash flows from operating activities</i>		
Net loss	\$ (6,541)	\$ (11,863)
Adjustments to reconcile net loss to net cash flow from operating activities:		
Depreciation and amortization	259	243
Depreciation and amortization - discontinued operations	-	60
Provision for loan losses, including discontinued operations	1,178	2,924
Provision for other real estate owned	352	2,393
Amortization of investment security premiums and accretion of discounts, net	194	108
Realized gain on sale of investment securities available for sale	(511)	(6)
Impairment charge (recovery) on investment securities	(51)	56
Gain on disposal of fixed assets	(2)	(9)
Loss on disposal of other real estate owned	468	454
Stock based compensation expense	44	-
Changes in:		
Accrued interest receivable	323	(37)
Accrued interest receivable - discontinued operations	-	233
Other assets	445	(584)
Other assets - discontinued operations	-	90
Accrued interest payable	254	38
Accrued interest payable - discontinued operations	-	(8)
Other accrued expenses	(209)	(301)
Net cash used in operating activities	<u>(3,797)</u>	<u>(6,209)</u>

(Continued)

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009
(dollars in thousands, except share data)

<i>(Continued)</i>	<u>2010</u>	<u>2009</u>
<i>Cash flows from investing activities</i>		
Decrease (increase) in federal funds sold	\$ (4,506)	\$ 21,916
Loan originations and payments, net	13,032	(15,225)
Loan originations and payments, net - discontinued operations	-	58,968
Purchase of securities available for sale	(9,500)	(44,291)
Sales of securities available for sale	11,990	-
Maturities and pay downs of securities available for sale	45,577	35,937
Proceeds from sale of restricted stock	502	-
Proceeds from disposal of other real estate owned	2,124	911
Proceeds from disposal of fixed assets	-	117
Purchase of bank premises and equipment	(109)	(511)
Purchase of bank premises and equipment - discontinued operations	-	58
Net cash provided by investing activities	<u>59,110</u>	<u>57,880</u>
<i>Cash flows from financing activities</i>		
Proceeds from issuance of common stock	2	-
Net decrease in deposits	(14,197)	(11,534)
Net decrease in deposits - discontinued operations	-	(33,144)
Repayments on FHLB advances	(22,800)	(16,100)
Net increase (decrease) in Federal funds purchased and repurchase agreements	188	(851)
Net cash used in financing activities	<u>(36,807)</u>	<u>(61,629)</u>
<i>Net change in cash and due from banks</i>	18,506	(9,958)
Cash and due from banks of continuing operations, beginning of year	<u>8,909</u>	<u>18,867</u>
<i>Cash and due from banks of continuing operations, end of year</i>	<u>\$ 27,415</u>	<u>\$ 8,909</u>

(Continued)

MILLENNIUM BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009
(dollars in thousands, except share data)

<i>(Continued)</i>	<u>2010</u>	<u>2009</u>
<i>Supplemental cash flow information</i>		
Interest paid	\$ 5,533	\$ 7,746
Income taxes refunded	(24)	(779)
<i>Supplemental noncash disclosures</i>		
Loans transferred to other real estate owned	\$ 3,942	\$ 1,934
Net change in cash from discontinued operations	-	-

See accompanying notes to consolidated financial statements

MILLENNIUM BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(dollars in thousands, except share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Millennium Bankshares Corporation and its subsidiaries: Millennium Bank, N.A. and Millennium Financial, Inc. (collectively, the Corporation). All significant intercompany accounts and transactions have been eliminated. The Corporation was incorporated in 1998 and began operations on April 1, 1999.

Millennium Bank, N.A., (the Bank) is a federally chartered national bank and is subject to regulation by the Office of the Comptroller of the Currency (OCC). The accounts of Millennium Bank, N.A. include its subsidiaries and include other investments whose equity is not material to Millennium Bank, N.A. The principal activities of the Bank are to attract deposits and originate loans. Millennium Capital, Inc., a wholly owned subsidiary of the Bank, conducted mortgage banking, as permitted by applicable regulations, for nationally chartered banks until August 31, 2005. In September 2005, three majority-owned operating subsidiaries engaged in mortgage banking began operations; Millennium Sunbelt Mortgage, LLC, Millennium Bank Mortgage, LLC and Millennium Hyland Mortgage, LLC (the "LLC's"). As of December 31, 2006, the Corporation determined that it was in its best interest to wind down its mortgage operating subsidiaries. It was the Corporation's desire to focus exclusively on core banking activities to eliminate, going forward, the risks normally associated with mortgage banking activities. The wind down decision was also precipitated by credit quality issues that surfaced in the held for sale loan portfolio during the fourth quarter 2006. The mortgage banking operations and remaining loans held for sale were sold in the first quarter of 2007.

The Bank is engaged in the general business of banking, aimed at serving individuals, small and medium sized businesses and the professional communities principally located throughout the Northern Virginia and Richmond, Virginia areas. The Bank conducts full-service banking operations from several branches in these areas and its headquarters is located in Reston, Virginia. In November 2007, the Bank entered into an agreement for the sale of the assets and liabilities related to the two Richmond area branches, which was consummated in March 2008. Accordingly, the results of the Corporation's Richmond branches are presented as a component of discontinued operations on the income statement following the results from continuing operations. In June 2009, the Bank entered into an agreement for the sale of the assets and liabilities related to the Warrenton branch, which was consummated in September 2009. Accordingly, the results of the Corporation's Warrenton branch is presented as a component of discontinued operations on the income statement following the results from continuing operations.

Effective December 22, 2008, the Corporation voluntarily withdrew its common stock from listing on The NASDAQ Capital Market and terminated the registration of the Corporation's common stock with the Securities and Exchange Commission.

At a Special Meeting of Shareholders held on February 9, 2010 the shareholders voted to increase the number of authorized shares from 10,000,000 to 300,000,000 and to change the par value from \$5.00 per share to \$0.01. In addition, the shareholders voted to amend the Company's Articles of Incorporation to (i) effect a reverse split of the common stock at a ratio of not less than 1 for 10 and not more than 1 for 50 at any time prior to December 31, 2010, with the exact ratio to be selected by the Board of Directors, and (ii) if the amendment to increase the number of authorized shares of common stock is approved, to reduce the number of authorized shares of common stock to reflect the reverse split, but not below 10,000,000 shares.

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MILLENNIUM BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(dollars in thousands, except share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On March 8, 2010 a one-for-fifty reverse stock split became effective which reduced the number of authorized shares to 6,000,000. Pursuant to the approved proposal above the number of authorized shares was set to the minimum of 10,000,000. All per share data presented in these statements has been restated to reflect the reverse split.

The accounting and reporting policies of the Corporation are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. The more significant of these policies are discussed below.

Reclassifications: Certain reclassifications have been made to prior period balances to conform to the current year presentation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from the estimates that were used. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, impairment of securities available for sale, identification of impaired loans, valuation of other real estate owned, and the fair value of financial instruments.

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

Significant Concentrations: Most of the Corporation's activities are with customers located within the Northern Virginia area. Most of the Corporation's loans are secured by real estate in these areas. Later footnotes discuss the types of securities that the Corporation invests in and the types of lending the Corporation engages in. The Corporation does not have any significant concentrations in any one customer.

The Corporation's primary source of income is interest income earned on loans and investment securities net of interest paid on deposit products and borrowings.

Investment Securities: Debt securities are classified as available for sale when they might be sold before maturity. The amortization of premiums and accretion of discounts are recognized in interest income using the level yield method over the period to maturity without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income, net of tax. Realized gains (losses) on securities available for sale are included in noninterest income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(Continued)

MILLENNIUM BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(dollars in thousands, except share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Declines in the fair value of securities below their cost that are deemed to be other than temporary and related to credit, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Corporation's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are aggregated into pools of loans with similar characteristics and carried at the lower of cost or estimated fair value in the aggregate for each pool. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans held for sale are generally sold with servicing released. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loans sold.

Loans and Loan Fees: The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and mortgage loans secured by real estate throughout the Northern Virginia area. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest is accrued on the unpaid principal balance. Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method without anticipating prepayments. Amortization of deferred loan fees is discontinued when a loan is placed on non-accrual status.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to reflect probable incurred losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

(Continued)

MILLENNIUM BANKSHARES CORPORATION
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December 31, 2010 and 2009
(dollars in thousands, except share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms.

In July 2010, the Receivables topic of the ASC was amended to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables and troubled debt restructurings. The amendments will require the allowance disclosures to be provided on a disaggregated basis. The Company is required to begin to comply with the disclosures in its financial statements for the year ended December 31, 2011.

Foreclosed Assets (Other Real Estate Owned): Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, which establishes a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Federal Home Loan Bank Stock and Federal Reserve Bank Stock: The Bank, as a member of the Federal Home Loan Bank (FHLB) of Atlanta, is required to hold shares of capital stock in the FHLB consisting of two components; membership stock equal to the lesser of a specified percentage of the Bank's total assets on December 31 of the prior year, or 0.20 percent, plus activity-based stock which is 4.50 percent times the Bank's outstanding advances from the FHLB. This investment is recorded at cost, carried as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The amount of FHLB stock was \$ 2,386 and \$2,671 at December 31, 2010, and 2009, respectively. The Bank, as a member of the Federal Reserve Bank (FRB) is also required to hold shares of capital stock in the FRB. This stock is recorded at cost, carried as a restricted security and periodically evaluated for impairment based on the ultimate recovery of par value. The amount of FRB stock was \$195 and \$413 at December 31, 2010 and 2009, respectively.

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MILLENNIUM BANKSHARES CORPORATION
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(dollars in thousands, except share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the lesser of the economic value or the life of the lease using the straight-line method. Furniture and equipment are depreciated over estimated useful lives of three to seven years using the straight-line method. Computer hardware and software are depreciated over estimated useful lives of three to five years using the straight-line method. Automobiles are depreciated over the estimated useful life of three years using the straight-line method. Expenditures for maintenance, repairs, and improvements that do not materially extend the useful lives of property and equipment are charged to earnings. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the respective accounts, and the resulting gain or loss is reflected in current earnings.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Dividend Payment Restrictions: Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation. The total amount of dividends that may be paid in any calendar year is limited to the current years' net profits, combined with the retained net profits of the preceding two years and loans or advances from the Bank to the Corporation are limited to 10 percent of the Bank's capital stock and surplus on a secured basis. At December 31, 2010, the Bank had no retained earnings available for the payment of dividends. No funds are available for loans or advances by the Bank to the Corporation.

Income Taxes: Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The Bank pays state franchise tax in lieu of state income taxes.

The Corporation recognizes interest and/or penalties related to income tax matters as income tax expense.

Earnings per Common Share: Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate to outstanding stock options and are determined using the treasury stock method. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

(Continued)

MILLENNIUM BANKSHARES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009
(dollars in thousands, except share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Statements of Cash Flows: The Corporation considers all cash and amounts due from depository institutions, excluding Federal funds sold, to be cash equivalents for purposes of the statements of cash flows. Net cash flows are reported for loan, deposit and short term borrowing transactions.

Commitments to Extend Credit: In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value of Financial Instruments: Fair value of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. In January 2010, fair value guidance was amended to require disclosures for significant amounts transferred in and out of Levels 1 and 2 and the reasons for such transfers and to require that gross amounts of purchases, sales, issuances and settlements be provided in the Level 3 reconciliation. Disaggregation of classes of assets and liabilities is also required. The new disclosures are effective for the Company for the current year and have been reflected in the Fair Value footnote.

Comprehensive Income: Comprehensive Income consists of net income (loss) and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

(Continued)

MILLENNIUM BANKSHARES CORPORATION
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements: In January 2010, fair value guidance was amended to require disclosures for significant amounts transferred in and out of Levels 1 and 2 and the reasons for such transfers and to require that gross amounts of purchases, sales, issuances and settlements be provided in the Level 3 reconciliation. Disaggregation of classes of assets and liabilities is also required. The new disclosures are effective for the Company for the current year and have been reflected in the Fair Value footnote.

In July 2010, the Receivables topic of the ASC was amended to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables and troubled debt restructurings. The amendments will require the allowance disclosures to be provided on a disaggregated basis. The Company is required to begin to comply with the disclosures in its financial statements for the year ended December 31, 2011.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, change the scope of federal deposit insurance coverage, and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting originator compensation, minimum repayment standards, and pre-payments. Management is actively reviewing the provisions of the Dodd-Frank Act and assessing its probable impact on our business, financial condition, and results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 2 - SUPERVISORY ACTIONS and GOING CONCERN CONSIDERATIONS

Due to the conditions and events discussed herein, management believes substantial doubt exists as to the ability of the Corporation to continue as a going concern. Due to significant operating losses sustained in 2009 and 2010 and the expectation of continued losses in 2011, which is due to elevated levels of nonperforming assets, loan charge-offs, losses on write-downs and sales of other real estate owned, other than temporary impairment of investment securities, and provisions for loan losses, significant additional capital will be required for the Corporation to continue operations as an independent entity. The Corporation held a special meeting of shareholders on April 3, 2009 to vote on amendments to the Corporation's Articles of Incorporation to increase the number of authorized shares of common stock and to create a class of undesignated preferred stock. Those amendments were defeated, thereby creating significant uncertainty regarding the Corporation's ability to raise additional capital.

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NOTE 2 - SUPERVISORY ACTIONS AND GOING CONCERN CONSIDERATIONS (Continued)

The Corporation held a special meeting of shareholders on February 9, 2010 to vote on amendments to the Corporation's Articles of Incorporation to increase the number of authorized shares of common stock and approve a proposal for a reverse stock split. Those amendments were approved in 2010, thereby enhancing the Corporation's ability to raise additional capital.

As further discussed below and in Note 12, the Bank's leverage ratio and tier 1 capital ratio at December 31, 2009 and December 31, 2010 fell below the percentages mandated by its regulator. However, there is a high level of execution risk associated with this deleveraging plan and regulators could choose to place the Bank into receivership before the plan is fully executed, which would likely result in the elimination of all shareholder value.

The Corporation's ability to execute a plan has been hindered by turnover of the Corporation's senior management, including: A) in February 2007, one of the Corporation's Directors resigned; B) in March 2007, the Corporation's Executive Vice President and Chief Operating Officer resigned C) in March 2007, the Corporation's President and Chief Executive Officer was terminated and an interim President and Chief Executive Officer was appointed until the replacement started in July 2007; D) in April 2007, two of the Corporation's Directors resigned, one was the former President and Chief Executive Officer; E) in July 2007, one of the Corporation's Directors resigned; F) in February 2008, one of the Corporation's Directors resigned; G) in April 2008, the Bank's Executive Vice President and Chief Information Officer resigned; I) in January 2009, the Corporation's Chairman, President and Chief Executive Officer hired in July 2007 resigned; and J) in July 2009, the Corporation's Executive Vice President and Chief Financial officer resigned. In 2009 there was a complete change of senior management with a new Chief Executive Officer and President hired in February 2009, Chief Credit Officer in March 2009, Chief Lending Officer in May 2009 and Chief Financial Officer in August 2009. In November 2009 a Director resigned due to the age limitation for Directors. On April 12, 2010 a Director of the bank resigned and the Chief Credit Officer resigned October 15, 2010.

In addition, capital levels remain under stress from operations while the Corporation's liquidity position is improving. The market in which the Corporation and the Bank operate is highly competitive and obtaining core deposits, noninterest bearing or relatively low cost savings and money market deposits, is a significant challenge faced by most banks in the market even without the added weight of poor financial performance. Recent turmoil in the financial industry has heightened depositor concerns, and made the solicitation of deposits, particularly deposits in excess of the deposit insurance caps, more difficult. As a result of the supervisory actions discussed below the Bank is only able to accept brokered deposits, a source of funding upon which the Bank has long relied, pursuant to an FDIC waiver. The FDIC waiver limited the amount of brokered deposits, which the Bank may accept, renew or roll over, and expired in December 2008. There can be no assurance that future waiver requests or that any extension, will not impose greater restrictions on the use of brokered deposits. There can be no assurance that the Bank's other sources of borrowed funds, including but not limited to FHLB borrowings, Fed Funds lines and other interbank borrowings, which have all been further restricted as discussed in Note 9, will be available to provide necessary liquidity when needed.

There can be no assurance that the Corporation will be able to successfully attract sufficient deposits or other funds necessary to meet the cash needs of depositors, debt service and loan funding, or that such deposits or other funds can be attracted on terms that are profitable for the Corporation. The failure to maintain adequate liquidity could result in the Bank being placed into receivership, notwithstanding compliance with the applicable capital requirements, which would likely result in the elimination of all shareholder value.

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NOTE 2 - SUPERVISORY ACTIONS AND GOING CONCERN CONSIDERATIONS (Continued)

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result from the outcome of any extraordinary regulatory action, which would affect our ability to continue as a going concern.

Supervisory Actions: On January 24, 2008, the Bank entered into a formal written agreement (the "OCC Agreement") with the Office of the Comptroller of the Currency (the "OCC"). The OCC Agreement requires the Bank to undertake certain actions within designated timeframes, and to operate in compliance with the provisions thereof during its term. The OCC Agreement is based on the results of an examination of the Bank by the OCC commenced as of July 23, 2007.

The provisions of the OCC Agreement include the following: (i) By March 31, 2008, the Bank is required to achieve and thereafter maintain a total risk-based capital ratio equal to 13% of risk-weighted assets, a tier 1 capital ratio equal to 12% of risk-weighted assets, and a leverage ratio equal to 10% of adjusted total assets; (ii) Within 60 days, the Board of Directors of the Bank (the "Board") is required to adopt and implement a three year capital program, which must be submitted to the OCC for review and prior determination of no supervisory objection; (iii) Within 120 days, the Board is required to adopt and implement a three-year strategic plan which must be submitted to the OCC for review and prior determination of no supervisory objection; (iv) Within 60 days, the Board is required to submit for supervisory review a capable Senior Lending Officer; (v) Within 90 days, the Board is required to adopt and implement a written program to improve the Bank's loan portfolio management; (vi) Within 120 days, the Board is required to adopt and implement systems which provide for effective monitoring of problem loans, credit administration, compliance with law, and concentrations of credit; (vii) Within 90 days, the Board is required to adopt and implement a written program to eliminate the basis for criticism of assets identified as problem assets; (viii) Within 90 days, the Board is required to adopt and implement a written risk management program; (ix) Within 60 days, the Board is required to review and revise the Bank's written loan policy; (x) Within 30 days of implementation of the new credit diagnostic system, and no later than May 31, 2008, the Board is required to adopt and implement a written asset diversification program; (xi) Within 60 days, the Board is required to review the adequacy of the Bank's Allowance for Loan and Lease Losses and establish a program for the maintenance of an adequate Allowance; (xii) Within 60 days, the Board is required to establish an effective, independent and ongoing loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits and portfolio trends; (xiii) Within 90 days, the Board is required to adopt and implement a written liquidity, asset and liability management policy; (xiv) Within 60 days, the Board is required to submit for supervisory review a capable, full-time Bank Secrecy Act Officer; and (xv) Within 90 days, the Board is required to ensure that the Bank completes the BSA Risk Assessment, and thereafter, the Board shall review and approve the BSA Risk Assessment annually. Compliance with the

Agreement is to be monitored by a committee (the "Committee") of at least five directors, none of whom is an employee of the Bank or a family member of an employee. The Committee is required to submit written progress reports on a monthly basis and the Agreement requires the Bank to make periodic reports and filings with the OCC.

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NOTE 2 - SUPERVISORY ACTIONS AND GOING CONCERN CONSIDERATIONS (Continued)

Failure to comply with the provisions of the OCC Agreement could subject the Bank and its directors to additional enforcement actions. Compliance with the OCC Agreement is being monitored by a committee (the "Committee") of five directors, none of whom is an employee of the Bank or a family member of an employee. The Committee has been submitting written progress reports to the OCC as required by the Agreement.

The Bank began initiating a series of corrective actions commencing in July 2007 in response to anticipated final findings of the OCC's examiners. Among the actions taken are the following:

- The Bank entered into an agreement on November 30, 2007 to sell its two Richmond branches for a 9.25% premium on the outstanding deposits on the effective date of the transaction, plus the net book value of the loans and certain other assets. This transaction was consummated in March 2008 at which time a pre-tax gain of \$8.3 million was recorded.
- The Bank began evaluating options in connection with the Held For Sale/Repurchased Loan portfolio culminating in a bulk sale executed in February 2008.
- The Bank implemented a new system (Credit Quest), which was designed to strengthen the credit underwriting and administration function.
- The Bank approved a new commercial loan policy.
- The Bank retained a new external loan review firm.
- Changes in organizational responsibilities including separating the Chief Lending Officer position from the Chief Credit Officer position.
- The bank entered into an agreement on June 22, 2009 to sell its Warrenton branch loans, deposits and certain other assets at par. The transaction was consummated September 25, 2009.
- In October 2009 the bank sold \$3.9 million of loans secured by boats in order to deleverage the bank.

These steps were designed to improve risk management, enhance internal controls over credit administration, focus on the Northern Virginia market, and return the Bank to core community banking. Despite these actions, and other steps taken to address the requirements, the Bank has not as of yet, satisfactorily addressed the requirements of the OCC Agreement and there can be no assurance:

- That the OCC will deem the Bank's future actions to be adequate in addressing the requirements.
 - That further compliance activities will not be required.
 - That compliance with the OCC Agreement will enable the Corporation and Bank to resume profitable operations.
 - That efforts to comply with the OCC Agreement, or to refocus the Bank as a traditional community bank, will not have adverse effects on the operations and financial condition of the Corporation.
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MILLENNIUM BANKSHARES CORPORATION
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NOTE 2 - SUPERVISORY ACTIONS AND GOING CONCERN CONSIDERATIONS (Continued)

On June 3, 2008 the Corporation entered into a written agreement (the "FRB Agreement") with the Federal Reserve Bank of Richmond (the "FRB"). The FRB Agreement was not unexpected in light of the OCC Agreement. During the term of the FRB Agreement, the Corporation may not (i) declare or pay any dividends that are not consistent with Federal Reserve policy statements; (ii) declare or pay any dividends without the prior written approval of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director"); (iii) make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without the prior written approval of the FRB and the Director; (iv) incur, increase, or guarantee any debt without the prior approval of the FRB; or (v) purchase or redeem any shares of stock without the prior written approval of the FRB.

The Corporation is also required to obtain prior approval for the appointment of new directors, the hiring or promotion of senior executive officers, and to comply with restrictions on severance payments and indemnification payments to institution affiliated parties. The Corporation is also required to make quarterly progress reports to the FRB.

Failure to comply with the provisions of the FRB Agreement could subject the Corporation and its directors to additional enforcement actions. While the Corporation has already implemented or is acting in accordance with the requirements of the FRB Agreement, there can be no assurance that the Corporation will be able to comply fully with the provisions of the FRB Agreement, or that efforts to comply with the FRB Agreement will not have adverse effects on the operation and financial condition of the Corporation.

In February 2009, the Bank was notified that it had not completed compliance with any required articles of the OCC Agreement. The Bank's regulators, at their discretion, may respond with several options, including extending the timeframe for the Bank to comply with the OCC Agreement, placing the Bank into receivership, or arranging for a sale of the Bank's assets and liabilities. Most of these options would likely result in the elimination of some or all shareholder value.

Richmond Branches: On March 14, 2008, the Bank completed the sale of its two branches in the Richmond, Virginia market to EVB, a wholly owned subsidiary of Eastern Virginia Bankshares (Nasdaq: EVBS). EVB assumed the deposits, fixed assets, and certain of the outstanding loans of the Colonial Heights and Broad Street branches and paid the Bank a premium on the outstanding deposits on the effective date of the transaction. The sale was part of a series of strategic transactions designed to reposition the Bank as a smaller community bank concentrating exclusively in the Northern Virginia market. Total deposits assumed amounted to \$91.9 million. Total loans of \$48.9 million, originated in the Richmond market, were also purchased by the buyer of the branches. A pre-tax gain of \$8.3 million was recognized from the transaction, which is reflected in income from discontinued operations.

Warrenton Branch: On June 22, 2009, the Corporation reached a definitive agreement to sell its Warrenton branch and selected loans to Sonabank, a wholly owned subsidiary of Southern National Bancorp of Virginia, Inc. (SONA). SONA assumed selected deposits, fixed assets and selected outstanding loans. The sale was consummated on September 25, 2009 and no premium was received for

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MILLENNIUM BANKSHARES CORPORATION
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NOTE 2 - SUPERVISORY ACTIONS AND GOING CONCERN CONSIDERATIONS (Continued)

the loans or deposits. The sale was part of a series of strategic transactions designed to reposition the Bank as a smaller community bank concentrating exclusively in the Northern Virginia market. Deposits assumed and the loans acquired were approximately \$27 million and \$23 million respectively. No gain or loss was realized in the transaction.

Bulk Sale: In September 2010 the bank entered into an agreement with First Virginia Community Bank to sell \$10.7 million of it's loan portfolio plus accrued interest.

Bank Owned Life Insurance: In August 2008, the Bank surrendered its bank owned life insurance ("BOLI") policies. This action was taken primarily to improve on-balance sheet liquidity. Secondly, it was deemed prudent not to continue to generate tax-exempt income when the Company currently has unused net operating loss carry forwards. The surrender of the BOLI generated cash flows of \$13.4 million and taxable income of \$1.4 million to be used against the net operating loss carry forward. A 10% penalty, or \$140 was due upon surrender.

NOTE 3 - DISCONTINUED OPERATIONS

Warrenton Branch

On June 22, 2009, the Corporation reached a definitive agreement to sell its Warrenton branch and selected loans to Sonabank, a wholly owned subsidiary of Southern National Bancorp of Virginia, Inc. (SONA). Sonabank assumed selected deposits, fixed assets and selected outstanding loans. The sale was consummated on September 25, 2009 and no premium was received for the loans or deposits. The sale was part of a series of strategic transactions designed to reposition the Bank as a smaller community bank concentrating exclusively in the Northern Virginia market. Deposits assumed and the loans acquired were approximately \$27 million and \$23 million respectively. No gain or loss was realized in the transaction. The result of the Warrenton branch sale is included as a component of discontinued operations in 2009.

At December 31, 2010 and 2009, total assets and liabilities related to the discontinued Warrenton branch was \$0.

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NOTE 3 - DISCONTINUED OPERATIONS (Continued)

The results of the Richmond and Warrenton branches are presented in a separate category on the income statement following the results from continuing operations.

STATEMENT OF INCOME FOR DISCONTINUED OPERATIONS

	<u>2009</u>
Interest income	\$ 1,937
Interest expense	<u>695</u>
Net interest income	<u>1,242</u>
Noninterest income	
Loss on sale of loans and loan fees, net	-
Gain on sale of branches	-
Other income	<u>24</u>
Total noninterest income	<u>24</u>
Noninterest expense	
Officers' and employees' compensation and benefits	196
Occupancy and equipment expense	116
Marketing, promotion and advertising expense	0
Other operating expense	<u>43</u>
Total noninterest expense	<u>355</u>
Income from discontinued operations	
before income taxes	911
Tax expense	<u>-</u>
Income from discontinued operations	<u>\$ 911</u>

For the year ended December 31, 2010 and 2009, the income from discontinued operations related to the Warrenton branch totaled \$0 and \$911, respectively.

Other operating expenses consist of the following:

	<u>2009</u>
Meetings and seminar expense	\$ -
Office expenses	42
Outside services	1
Other loan expense	<u>-</u>
Total other operating expenses	<u>\$ 43</u>

(Continued)

MILLENNIUM BANKSHARES CORPORATION
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NOTE 4 - Restrictions on cash and amounts due from banks

The Bank is required to maintain a certain amount of cash on hand or with the Federal Reserve Bank. At December 31, 2010 and 2009 the required reserve balances amounted to \$2.0 million.

On January 28, 2008 the Bank was notified by the Federal Reserve that it had been placed on the real-time monitor and was no longer eligible for its Exempt Cap, meaning that daylight overdrafts were no longer permitted. Concurrent with this notification, the Bank was required to pledge collateral in the amount of \$1.7 million. The Bank is currently using investment securities to meet this pledging obligation.

NOTE 5 - SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale as shown in the balance sheets of the Corporation are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2010</u>				
U.S. agency securities	\$ 18,798	\$ 109	\$ (122)	\$ 18,785
Mortgage-backed securities	8,300	110	(52)	8,358
States and political subdivisions	7,031	-	(583)	6,448
Other debt securities	<u>8,123</u>	<u>-</u>	<u>(7,433)</u>	<u>690</u>
Total debt securities	<u>\$ 42,252</u>	<u>\$ 219</u>	<u>\$ (8,190)</u>	<u>\$ 34,281</u>
<u>December 31, 2009</u>				
U.S. agency securities	\$ 45,601	\$ 71	\$ (148)	\$ 45,524
Mortgage-backed securities	27,891	980	(133)	28,738
States and political subdivisions	8,372	-	(145)	8,227
Other debt securities	<u>8,084</u>	<u>-</u>	<u>(7,284)</u>	<u>800</u>
Total debt securities	<u>\$ 89,948</u>	<u>\$ 1,051</u>	<u>\$ (7,710)</u>	<u>\$ 83,289</u>

(Continued)

MILLENNIUM BANKSHARES CORPORATION
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NOTE 5 - SECURITIES AVAILABLE FOR SALE (Continued)

The fair value of debt securities available for sale at December 31, 2010 by contractual maturity were as follows. Mortgage-backed securities, which are not due at a single maturity date, are shown separately.

	Fair Value
Less than one year	\$ 2,598
After one year through five years	14,213
After five years through ten years	1,973
After ten years	7,139
Mortgage-backed securities	8,358
	\$ 34,281

Investment securities with a carrying amount of \$30,576 at December 31, 2010 were pledged as collateral for Federal Home Loan Bank, Federal Reserve Bank, and Community Bankers Bank advances, to secure repurchase agreements and for other purposes as required or permitted by law. Investment securities with a carrying amount of \$64,435 at December 31, 2009 were pledged as collateral for Federal Home Loan Bank and Community Bankers Bank advances, to secure repurchase agreements and for other purposes required or permitted by law.

During 2010 and 2009, proceeds from the sales and calls of investment securities totaled \$48,055 and \$21,815, with gross realized gains of \$607 and \$0, and gross realized losses of \$96 and \$0, respectively. Realized gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or to call dates.

Management monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to see if adjustments are needed. As outlined in the table above, the Bank owns collateralized debt obligations collateralized by banks and insurance companies with stated maturities totaling approximately \$690 in the portfolio that are considered temporarily impaired at December 31, 2010. The decline in fair value is attributable to changes in interest rates, illiquidity, and credit quality. Yet, because we have the intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value and the present value of estimated cash flows for the securities are not less than the amortized cost of the securities, management does not consider these securities to be other-than-temporarily impaired as of December 31, 2010.

Securities with unrealized losses at year-end 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	December 31, 2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(Dollars in thousands)</i>						
U.S. Agency securities	\$ 9,378	\$ (122)	\$ -	\$ -	\$ 9,378	\$ (122)
Mortgaged-backed securities	847	(52)	-	-	847	(52)
States and political subdivisions	6,448	(583)	-	-	6,448	(583)
Other debt securities	-	-	690	(7,433)	690	(7,433)
	\$ 16,673	\$ (757)	\$ 690	\$ (7,433)	\$ 17,363	\$ (8,190)

(Continued)

MILLENNIUM BANKSHARES CORPORATION
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NOTE 5 - SECURITIES AVAILABLE FOR SALE (Continued)

	December 31, 2009					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(Dollars in thousands)</i>						
U.S. Agency securities	\$ 44,453	\$ (148)	\$ -	\$ -	\$ 44,453	\$ (148)
Mortgaged-backed securities	1,895	(133)	-	-	1,895	(133)
States and political subdivisions	8,227	(145)	-	-	8,227	(145)
Other debt securities	-	-	800	(7,284)	800	(7,284)
	<u>\$ 54,575</u>	<u>\$ (426)</u>	<u>\$ 800</u>	<u>\$ (7,284)</u>	<u>\$ 55,375</u>	<u>\$ (7,710)</u>

The following table sets forth the dollar amount of the other than temporary impairment charge recorded in 2010 and 2009, by investment sector.

<i>(Dollars in thousands)</i>	Impairment (Charge)/ Recovery	
	2010	2009
	Mortgage-backed securities	62
Other debt obligations	\$ (11)	\$ (56)
Total debt securities	<u>\$ 51</u>	<u>\$ (56)</u>

Management has evaluated the other debt obligation securities for potential impairment under ACS 325-40 and has reviewed each of the issues' participants. Management has reviewed cash flow analysis of each security prepared by an independent third party to identify its best estimate of the cash flow estimated to be collected. If this estimate results in a present value of expected cash flows that is less than the amortized cost basis of a security, other than temporary impairment is considered to have occurred. If there is no shortfall in estimated cash flows, any impairment is considered temporary.

During 2010 and 2009, the Corporation recorded impairment charges totaling \$(11) and \$(56) thousand respectively on a trust preferred collateralized debt obligation with a par value of \$1.3 million. During 2009, the security was downgraded to below investment grade and there was risk that full principal and interest would not be received due to the current level of underlying defaults and or deferrals by the trust preferred issuers included in the underlying collateral. The Corporation owns three other trust preferred collateralized debt obligations, for which impairment is deemed to be temporary even though the fair values are significantly less than amortized cost. All trust preferred collateralized debt obligations were analyzed for other than temporary impairment under ASC 325-40. Unrealized losses on these securities, as well as other securities available for sale have not been recognized into income because the securities are investment grade, management has the intent and ability to hold for the foreseeable future, expected cash flows have not been adversely impacted. Furthermore, the illiquid, thinly traded and disorderly market that currently exists for these instruments is adversely affecting the fair values on other debt securities. The fair value is expected to recover as the bonds approach their maturity or reset date. The company recovered \$62 thousand in OTTI impairments from prior years upon the sale of mortgage back securities sold at a gain during 2010.

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MILLENNIUM BANKSHARES CORPORATION
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NOTE 6 - LOANS RECEIVABLE

Loans receivable include the following at December 31:

	2010	2009
Real estate loans		
Mortgage	\$ 42,380	\$ 49,190
Commercial	50,853	59,194
Construction	1,866	7,128
Total real estate loans	95,099	115,512
Commercial	17,443	15,588
Consumer	4,713	5,810
Overdrafts	7	6
Subtotal	117,262	136,916
Allowance for loan losses	(4,380)	(5,902)
Deferred loan costs (fees)	(53)	(33)
Total Loans	\$ 112,829	\$ 130,981

An analysis of the allowance for loan losses is as follows at December 31:

	2010	2009
Balance beginning of period	\$ 5,902	\$ 7,405
Provision for loan losses	1,178	2,924
Loans charged to reserve	(2,775)	(4,573)
Recoveries credited to reserve	75	146
Totals	\$ 4,380	\$ 5,902

	December 31, 2010 Portfolio	December 31, 2009 Portfolio
Non-accrual loans	\$ 6,429	\$ 10,281
Foreclosed properties	10,008	9,010
Total non-performing assets	\$ 16,437	\$ 19,291
Loans past due 90 days or more and still accruing interest	\$ -	\$ -

(Continued)

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NOTE 6 - LOANS RECEIVABLE, (Continued)

Information regarding impaired loans is as follows:

	2010	2009
Loans with no allocated allowance for loan losses	\$ 1,542	\$ 3,551
Loans with allocated allowance for loan losses	<u>4,887</u>	<u>6,730</u>
Total impaired loans	<u>\$ 6,429</u>	<u>\$ 10,281</u>
Amount of the allowance for loan losses allocated	\$ 1,020	\$ 2,837
Average investment in impaired loans	9,884	11,080
Interest income recognized during impairment	-	-
Interest income recognized on a cash basis on impaired loans	-	-

No additional funds are committed to be advanced in connection with the impaired loans above.

NOTE 7 - PREMISES AND EQUIPMENT

Premises and equipment include the following at December 31:

	2010	2009
Furniture and equipment	\$ 4,533	\$ 4,684
Leasehold improvements and land	<u>1,746</u>	<u>1,793</u>
Total cost	6,279	6,477
Less accumulated depreciation and amortization	<u>(4,868)</u>	<u>(4,916)</u>
Premises and equipment, net	<u>\$ 1,411</u>	<u>\$ 1,561</u>

Depreciation of premises and equipment from continuing operations charged to expense amounted to \$259 and \$243 in 2010 and 2009, respectively.

NOTE 8 - DEPOSITS

Time deposits in denominations of \$100,000 or more totaled \$66,466 at year-end 2010 and \$55,400 at year-end 2009. Time deposits mature as follows at December 31, 2010:

2011		\$ 79,581
2012		25,929
2013		3,951
2014		10,051
2015		<u>7,321</u>
Total		<u>\$ 126,833</u>

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NOTE 9 - BORROWINGS

The Corporation had borrowings outstanding as follows:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount</u>
<u>December 31, 2010:</u>			
Federal Home Loan Bank ⁽¹⁾			
Advances	5.32%	June 28, 2016	5,000
Advances	4.51%	February 21, 2017	<u>6,000</u>
			<u>\$ 11,000</u>

- (1) Of the \$11 million in Federal Home Loan Bank advances outstanding at December 31, 2010, \$11 million have fixed rates which may be convertible to three-month LIBOR. Advances are subject to prepayment penalties.

After reviewing the financial and operating condition of the Bank, the Federal Home Loan Bank, on January 29, 2008 rescinded the Bank's credit availability until such time as the Formal Agreement with the OCC has been terminated or significant improvement in the Bank's financial condition has occurred. The Federal Home Loan Bank did allow the Bank to retain credit availability of \$66.4 million, which was the amount of borrowings outstanding at that date. Effective August 14, 2009, this credit availability was further reduced to \$33.8 million, which was the amount of borrowings outstanding as of that date. The Federal Home Loan Bank also required that all outstanding advances be collateralized only with cash and/or securities. If the Bank is unable to comply with these collateral restrictions, the Federal Home Loan Bank will take physical possession of blanket floating lien collateral. The federal funds facilities at Community Bankers Bank also require securities pledged as collateral. During 2010 \$22.8 million in advances were curtailed. In December 2010 the bank paid off \$20.8 million in fixed rate advances with a composite rate of 4.64% incurring a prepayment penalty of \$872,000.

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NOTE 9 - BORROWINGS (Continued)

Quarter average balances, rates and maximum balances for FHLB borrowings in 2010 and 2009 are indicated below.

	Quarter Average Balance	Average Rate	Quarter Maximum Balance
<u>2010</u>			
December 31,	\$ 28,122	4.89%	\$ 31,800
September 30,	32,343	4.78%	33,800
June 30,	33,800	4.78%	33,800
March 31,	33,800	4.78%	33,800
<u>2009</u>			
December 31,	\$ 33,800	4.78%	\$ 33,800
September 30,	33,800	4.78%	33,800
June 30,	44,510	4.23%	46,900
March 31,	48,579	3.97%	49,900

The weighted average interest rate for FHLB borrowings at December 31, 2010 and 2009 were 4.88% and 4.72% respectively.

NOTE 10 - SUBORDINATED DEBENTURES

On June 27, 2002, Millennium Capital Trust I, a subsidiary of the Corporation, was formed for the purpose of issuing redeemable trust preferred securities and purchasing the Corporation's junior subordinated debentures, which are its sole assets. The Corporation owns all of the Trust's outstanding common securities. On July 11, 2002, \$8,000 of the trust preferred securities were issued in a pooled offering. The securities have a LIBOR-indexed floating rate of interest, which is set and payable on a quarterly basis. During 2010, the interest rates ranged from 3.90 percent to 4.17 percent. During 2009, the interest rates ranged from 3.93 percent to 8.47 percent. The securities have a maturity date of July 2032. The Corporation has the option of redeeming the securities beginning July 2007.

Up to 25 percent of Tier 1 capital may include the above securities for regulatory capital adequacy determination purposes. The portion of the securities not considered as Tier 1 capital will be included in Tier 2 capital. The Corporation and the Trust believe that, taken together, the Corporation's obligations under the junior subordinated debentures, the Indenture, the Trust declaration and the Guarantee entered into in connection with the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Corporation of the Trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Corporation may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related trust preferred securities. Effective with the interest payment that would have been due on April 7, 2009, the Corporation elected to begin deferring interest payments.

In accordance with ASC 810-10, the Trust is not consolidated with the Corporation. Accordingly, the Corporation does not report the securities issued by the Trust as liabilities, and instead reports as liabilities the subordinated debentures issued by the Corporation and held by the Trust, as they are no longer eliminated in consolidation.

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NOTE 11 - INCOME TAXES

The provision for federal income taxes from continuing operations consists of the following:

	<u>2010</u>	<u>2009</u>
Current (benefit) provision	\$ (24)	\$ (779)
Deferred (benefit) provision	2,615	16,486
Valuation allowance	<u>(2,615)</u>	<u>(16,486)</u>
Total provision for income taxes	<u>\$ (24)</u>	<u>\$ (779)</u>

Deferred income taxes reflect temporary differences in the recognition of revenue and expenses for tax reporting and financial statement purposes, principally because certain items, such as, allowance for loan losses and loan fees, are recognized in different periods for financial reporting and tax return purposes. A valuation allowance of \$19,101 was established for deferred tax assets at December 31, 2010. Realization of the deferred tax assets is dependent on generating sufficient taxable income. Given the size of the net operating losses already incurred and the current expectation that operating losses will continue into 2011, management believes that it is more likely than not that sufficient taxable income will not be generated to realize the deferred tax asset in its entirety in the foreseeable future.

Net deferred tax assets from continuing operations are comprised of the following at December 31:

	<u>2010</u>	<u>2009</u>
	<i>(in thousands)</i>	
Allowance for loan losses	\$ 1,489	\$ 2,007
Deferred loan fees	5	5
Depreciation	189	186
Impairment loss on securities	236	387
Write-downs of other real estate	1,083	1,058
AMT credit carryforward	-	82
Net operating loss carryforwards	13,196	10,465
Unrealized loss on securities	2,710	2,264
Other	<u>193</u>	<u>32</u>
Subtotal	19,101	16,486
Valuation allowance	<u>(19,101)</u>	<u>(16,486)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2010, the Corporation has a net operating loss carry forward of approximately \$39.0 million, which begins to expire in 2028.

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NOTE 11 - INCOME TAXES (Continued)

A reconciliation between actual tax expense from continuing operations and taxes computed at the statutory federal rate of 34% for the two years ended December 31 follows:

	2010	2009
Tax computed at statutory rate	\$ (2,232)	\$ (4,608)
Increase (decrease) in tax resulting from:		
Tax-exempt interest income	(98)	(115)
Stock option expense		-
Change in valuation allowance	2,615	3,951
Other	(309)	(7)
Actual tax benefit	\$ (24)	\$ (779)

The Corporation has no unrecognized tax benefits as of December 31, 2010 and 2009, and did not recognize any increase in unrecognized benefits during 2009 relative to any tax positions taken in 2010. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Corporation's policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2010 and 2009. The Corporation and its subsidiaries file a consolidated U.S. federal income tax return. The returns are subject to examination by taxing authorities for all years after 2006.

NOTE 12 - REGULATORY MATTERS

The Corporation (on a consolidated basis) and the Bank's primary supervisory agencies are the Federal Reserve and Office of the Comptroller of the Currency (OCC). The supervisory agencies have mandated certain minimum capital standards for the industry and pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") have outlined various levels of capital adequacy for the industry under "prompt corrective action" regulations.

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

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NOTE 12 - REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations) and of Tier I capital to adjusted total assets (as defined).

By March 31, 2008, the Bank was required to achieve and thereafter maintain a total risk-based capital ratio equal to 13% of risk-weighted assets, a tier 1 capital ratio equal to 12% of risk-weighted assets, and a leverage ratio equal to 10% of adjusted total assets. At December 31, 2008, the leverage ratio and the tier 1 capital ratio for the Bank fell below the percentages required under the formal agreement. At December 31, 2010 and 2009, the leverage ratio, the tier 1 capital ratio and total risk-based capital for the Bank were below the percentages required under the formal agreement. Management is exploring its strategic options to bring these ratios back into compliance as quickly as possible but there can be no assurance that these efforts will be successful or that these efforts would not have an adverse effect on the Corporation's operations.

The Bank is not deemed to be adequately capitalized as of December 31, 2010 under the regulatory framework as set forth in the table. The bank had remained adequately capitalized through the first three quarters of 2010 and fell below the minimum threshold on one of the three capital ratios. The bank was adequately capitalized in the Tier I Leverage capital ratio and the Tier I Risk-based capital ratio. The bank was not adequately capitalized at the Total Risk-based Capital ratio which has a benchmark of 8.0%.

The Corporation's and Bank's actual capital amounts and ratios are as follows:

	<u>Actual Amount</u>	<u>Ratio</u>	<u>Minimum Capital Requirement Amount</u>	<u>Ratio</u>	<u>Minimum To Be Well Capitalized (1) Amount</u>	<u>Ratio</u>
<i>As of December 31, 2010</i>						
Total Risk-based Capital (to risk-weighted assets)						
Consolidated	\$ 12,892	7.41%	\$ 13,912	8.00%		
Bank	13,761	7.92	13,897	8.00	\$ 17,372	10.00%
Tier I Capital (to risk- weighted assets)						
Consolidated	\$ 6,570	3.78%	\$ 6,956	4.00%		
Bank	11,562	6.66	6,949	4.00	\$ 10,423	6.00%
Tier I Capital (to average assets)						
Consolidated	\$ 6,570	2.98%	\$ 8,827	4.00%		
Bank	11,562	5.25	8,801	4.00	\$ 11,002	5.00%

(Continued)

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NOTE 12 - REGULATORY MATTERS (Continued)

	<u>Actual Amount</u>	<u>Ratio</u>	<u>OCC Agreement Capital Requirement Amount</u>	<u>Ratio</u>
<i>As of December 31, 2010</i>				
Total Risk-based Capital (to risk-weighted assets)				
Consolidated	\$ 12,892	7.41%	\$ 22,607	13.00%
Tier I Capital (to risk- weighted assets)				
Bank	\$ 11,562	6.66%	\$ 20,846	12.00%
Tier I Capital (to average assets)				
Bank	\$ 11,562	5.25%	\$ 22,003	10.00%

(1) The Consolidated entity is not subject to the prompt corrective action rules.

	<u>Actual Amount</u>	<u>Ratio</u>	<u>Minimum Capital Requirement Amount</u>	<u>Ratio</u>	<u>Minimum To Be Well Capitalized (1) Amount</u>	<u>Ratio</u>
<i>As of December 31, 2009</i>						
Total Risk-based Capital (to risk-weighted assets)						
Consolidated	\$ 20,631	10.34%	\$ 15,957	8.00%	N/A	N/A
Bank	19,635	9.89	15,889	8.00	\$ 19,862	10.00%
Tier I Capital (to risk- weighted assets)						
Consolidated	\$ 14,627	7.33%	\$ 7,979	4.00%	N/A	N/A
Bank	17,117	8.62	7,945	4.00	\$ 11,917	6.00%
Tier I Capital (to average assets)						
Consolidated	\$ 14,627	5.69%	\$ 10,277	4.00%	N/A	N/A
Bank	17,117	6.65	10,298	4.00	\$ 12,873	5.00%

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NOTE 12 - REGULATORY MATTERS (Continued)

	<u>Actual</u> <u>Amount</u>	<u>Ratio</u>	<u>OCC Agreement</u> <u>Capital</u> <u>Requirement</u> <u>Amount</u>	<u>Ratio</u>
As of December 31, 2009				
Total Risk-based Capital (to risk-weighted assets)				
Consolidated	\$ 20,631	10.34%	\$ 25,931	13.00%
Tier I Capital (to risk- weighted assets)				
Bank	\$ 17,117	8.62%	\$ 23,834	12.00%
Tier I Capital (to average assets)				
Bank	\$ 17,117	6.65%	\$ 25,746	10.00%

NOTE 13 - OPERATING LEASES

The Bank leases its corporate headquarters and most of its branch facilities under non-cancelable lease agreements. Most of these leases provide for the payment of property taxes and other costs by the Bank and include one or more renewal options ranging up to ten years.

The following are the future minimum lease payments at December 31, 2010:

Years ending December 31,

2011	\$	411
2012		344
2013		204
2014		171
2015		176
Thereafter		709
Total	<u>\$</u>	<u>2,015</u>

Rent expense from continuing operations amounted to \$398 and \$528 for the years ended December 31, 2010 and 2009, respectively.

NOTE 14 - PROFIT SHARING PLAN

The Corporation maintains a 401(k) profit sharing plan, which has also been adopted by Millennium Bank, N.A. The Plan covers substantially all full time employees. The Plan allows the Corporation, and its affiliates, to make contributions to the plan at the discretion of management. The Corporation and affiliates made contributions of \$56 and \$57 to the 401(k) plan for the years ended December 31, 2010 and 2009, respectively.

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NOTE 15 - OTHER INCOME AND OTHER OPERATING EXPENSE

	2010	2009
Other income consists of the following:		
Commissions and fees	\$ 68	\$ 128
Other income	3	13
Total other income	\$ 71	\$ 141
Other operating expenses consist of the following:		
Dues and fees	\$ 195	\$ 214
Miscellaneous taxes	5	7
Insurance expense	374	309
Meetings and seminar expense	34	79
Miscellaneous operating expenses	64	159
Office expenses	154	208
Lawsuit settlements and operating losses	8	68
Outside services	481	744
Other loan expense	40	186
Total other operating expenses	\$ 1,355	\$ 1,974

NOTE 16 - RELATED PARTY TRANSACTIONS

The Bank has entered into loan transactions with certain directors, executive officers, and their affiliates. The aggregate amount of loans to such related parties at December 31, 2010 and 2009 was \$245 and \$275 respectively. During 2010, disbursements made to such related parties amounted to \$0 and payments amounted to \$30. The effect of changes in composition of related parties in 2010 was \$30, including loans to individuals who are longer directors of the corporation.

The Bank has also entered into deposit transactions with certain directors, executive officers, and their affiliates. Total deposits at December 31, 2010 and 2009 were \$797 and \$714 respectively.

In 2010, the Corporation leased space in Herndon, Virginia from a related party in the amount of \$144.

In February 2010, the Corporation purchased a directors and officers liability insurance policy that provides \$10.0 million of liability coverage. The premium expense related to this policy was approximately \$382 which will be recognized as expense over the twelve month coverage period from February 27, 2010 to February 27, 2011.

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NOTE 17 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF CREDIT

Credit Related Financial Instruments: The Corporation is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve to varying degrees elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, the following financial instruments, the majority of which are at variable rates, were outstanding whose contract amounts represent credit risk:

	<u>2010</u>	<u>2009</u>
Commitments to grant loans, commercial pipeline and unfunded commitments under lines of credit	\$ 20,950	\$ 21,538
Commercial and standby letters of credit	319	922
	<u>\$ 21,269</u>	<u>\$ 22,460</u>

Commitments to grant loans are generally made for periods of 60 days or less. The fixed rate loan commitments have interest rates ranging from 2.25% to 18.0% and maturities up to 5 years.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. These loans are considered in the pipeline until closing of the loan.

Unfunded commitments are closed loans where the customer has not drawn the entire amount of the loan and include commercial lines-of-credit, revolving credit lines and overdraft protection agreements. These commitments may expire without being drawn upon or may be partially drawn on. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

Commercial and standby letters-of-credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. These letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of

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NOTE 17 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF CREDIT (Continued)

loss can be reasonable estimated. Management does not believe there are any such matters that will have a material effect on the consolidated financial statements.

Recourse on Loans: The Corporation has sold loans during the year with limited recourse. The Corporation has no recorded reserves for any recourse conditions as of December 31, 2010 and 2009, respectively.

NOTE 18 - STOCK OPTION PLAN

On August 11, 1999, the Bank adopted an Incentive Stock Option Plan which was subsequently approved by the stockholders of Millennium Bankshares Corporation. The total number of shares granted under the plan cannot exceed 2,000,000 shares. The Board of Directors of the Corporation administers the plan and the plan terminated as of August 10, 2009. Under the plan, the option price of the shares must be granted at not less than fair market value, the options term may not exceed ten years and the options are not transferable. All stock options have an exercise price that is at least equal to the fair market value of the Corporation's stock on the date the options were granted.

The following table summarizes stock option activity for the year ended December 31, 2010.

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregated Intrinsic Value (in thousands)</u>
Outstanding at December 31, 2009	8,588	\$ 269.00		
Granted	-			
Exercised	-			
Forfeited	(492)	167.88		
Expired	(680)	250.00		
Outstanding at December 31, 2010	<u>7,416</u>	<u>\$ 339.99</u>	<u>6.3</u>	<u>\$ -</u>
Exercisable at December 31, 2010	<u>5,826</u>	<u>\$ 328.98</u>	<u>4.2</u>	<u>\$ -</u>

Information related to the stock option plan during each year follows:

	<u>2010</u>	<u>2009</u>
Intrinsic value of options exercised	\$ -	\$ -
Cash received from option exercised	-	-

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. Expected volatilities are based on historical volatility

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NOTE 18 - STOCK OPTION PLAN (Continued)

if the Corporation's stock, and other factors. Expected dividends are based on dividend trends and the market price of the Corporation's stock price at grant. The Corporation uses historical data to estimate option exercises within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

The weighted average assumptions for options granted during the year and the resulting estimated weighted average fair values per share used in our option pricing model are as follows:

	2010	2009	2008
Assumptions:			
Risk free interest rate	-%	3.19%	3.72%
Expected dividend yield	-%	-%	-%
Expected life of options (in years)	-	7	10
Expected volatility	-	27.7	21.6
Estimated fair value per share	\$ -	\$ 6.50	\$ 106.00

SFAS 123R requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. Historically, the Corporation did not reduce its compensation expense for estimated forfeitures prior to vesting primarily based on the limited number of holders of unvested stock options. During 2008 and 2009, an unusually high number of forfeitures occurred due to unanticipated employee resignations. Also, in 2008, the Corporation terminated, for cause, the employment and consulting agreements with Carroll C. Markley, the former President and Chief Executive Officer of the Corporation. As a result of this action, 293,535 of options granted to Mr. Markley expired. Estimated forfeitures will continue to be reassessed in subsequent periods and may change based on new facts and circumstances.

As of December 31, 2010, there was \$67 of total unrecognized compensation cost related to nonvested stock options under the Plan.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for 2011 and beyond is estimated as follows:

<u>Year</u>	<u>(in thousands)</u>
2011	\$ 38
2012	19
2013	7
2014	3

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NOTE 19 - EARNINGS PER SHARE

The following table shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of potential dilutive common stock.

	Years Ended December 31,	
	<u>2010</u>	<u>2009</u>
Loss from continuing operations	\$ (6,541)	\$ (12,774)
Weighted average shares outstanding	<u>178,848</u>	<u>178,549</u>
Basic loss per share from continuing operations	<u>\$ (36.57)</u>	<u>\$ (71.54)</u>
Loss from continuing operations	\$ (6,541)	\$ (12,774)
Weighted average shares outstanding	178,848	178,549
Add dilutive effects of assumed exercises of stock options	<u>-</u>	<u>-</u>
Weighted average shares outstanding adjusted for dilution	<u>178,848</u>	<u>178,549</u>
Diluted loss per share from continuing operations	<u>\$ (36.57)</u>	<u>\$ (71.54)</u>
Income from discontinued operations	\$ -	\$ 911
Weighted average shares outstanding	<u>178,848</u>	<u>178,549</u>
Basic earnings per share from discontinued operations	<u>\$ 0.00</u>	<u>\$ 5.10</u>
Income from discontinued operations	\$ -	\$ 911
Weighted average shares outstanding	178,848	178,549
Add dilutive effects of assumed exercises of stock options	<u>-</u>	<u>-</u>
Weighted average shares outstanding adjusted for dilution	<u>178,848</u>	<u>178,549</u>
Diluted income per share from discontinued operations	<u>\$ 0.00</u>	<u>\$ 5.10</u>

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NOTE 19 - EARNINGS PER SHARE (Continued)

	Years Ended December 31,	
	2010	2009
Net loss	\$ (6,541)	\$ (11,863)
Weighted average shares outstanding	178,848	178,549
Basic loss per share from continuing operations	<u>\$ (36.57)</u>	<u>\$ (66.44)</u>
Net loss	\$ (6,541)	\$ (11,863)
Weighted average shares outstanding	178,848	178,549
Add dilutive effects of assumed exercises of stock options	-	-
Weighted average shares outstanding adjusted for dilution	<u>178,848</u>	<u>178,549</u>
Diluted loss per share	<u>\$ (36.57)</u>	<u>\$ (66.44)</u>

All stock options were considered anti-dilutive in computing weighted average shares for 2010 and 2009.

NOTE 20 - OTHER COMPREHENSIVE INCOME (LOSS)

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

	Years Ended December 31,	
	2010	2009
Change in unrealized holding gains (losses) on available for sale securities	\$ (1,256)	\$ 843
Reclassification adjustment for losses (gains) realized in income	(56)	(544)
Net unrealized gains (losses)	(1,312)	299
Tax effect	-	-
Other comprehensive income (loss)	<u>\$ (1,312)</u>	<u>\$ 299</u>

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MILLENNIUM BANKSHARES CORPORATION
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NOTE 21 - PARENT COMPANY ONLY FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

	2010	2009
<i>Assets</i>		
Interest bearing deposits in banks	\$ 584	\$ 548
Investment in subsidiaries	3,591	10,459
Loans, net	-	39
Other assets	425	1,047
Total assets	\$ 4,600	\$ 12,093
<i>Liabilities</i>		
Subordinated debentures	8,248	8,248
Other liabilities	716	402
Total liabilities	8,964	8,650
<i>Stockholders' equity</i>		
Common stock	2	2
Additional paid-in capital	49,674	49,628
Accumulated other comprehensive loss	(7,971)	(6,659)
Accumulated deficit	(46,069)	(39,528)
Total stockholders' equity	(4,364)	3,443
Total liabilities and stockholders' equity	\$ 4,600	\$ 12,093

CONDENSED STATEMENTS OF OPERATIONS

	2010	2009
Equity in loss of Bank	\$ (6,056)	\$ (12,040)
Other expenses	(172)	487
Interest income (expense), net	(313)	(310)
Net loss	\$ (6,541)	\$ (11,863)

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MILLENNIUM BANKSHARES CORPORATION
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NOTE 21 - PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	2010	2009
<i>Cash flows from operating activities</i>		
Net loss	\$ (6,541)	\$ (11,863)
Equity in undistributed net loss of subsidiaries	6,056	12,040
Subtotal	(485)	177
Stock-based compensation expense	44	-
(Increase) decrease in other assets	622	(788)
Increase in other liabilities	314	227
Net cash provided by (used in) operating activities	495	(384)
<i>Cash flows from investing activities</i>		
Change in loans	39	2,752
Increase in investment in subsidiaries	(500)	(3,051)
Net cash used in investing activities	(461)	(299)
<i>Cash flows from financing activities</i>		
Proceeds from issuance of common stock	2	-
Net cash used in investing activities	2	-
Net increase (decrease) in cash and due from banks	36	(683)
Cash and due from banks, beginning of year	548	1,231
<i>Cash and due from banks, end of year</i>	\$ 584	\$ 548

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MILLENNIUM BANKSHARES CORPORATION
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NOTE 22 - FAIR VALUE

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

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

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

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

In January 2010, fair value guidance was amended to require disclosures for significant amounts transferred in and out of Levels 1 and 2 and the reasons for such transfers and to require that gross amounts of purchases, sales, issuances and settlements be provided in the Level 3 reconciliation. Disaggregation of classes of assets and liabilities is also required. The new disclosures are effective for the Company for the current year and have been reflected in this footnote. There were no changes in the levels used to assess the fair values of assets from 2009 compared to 2010. The Corporation used the following methods and significant assumptions to estimate fair value.

Securities: The fair value of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair value of our trust preferred collateralized debt obligations were historically determined using Level 2 inputs but the market for these securities has become comparatively inactive. As such, the fair value for these instruments is now determined based on Level 3 inputs using a model developed by a third party provider which uses a base discount margin assumption driven by current fundamentals adjusted for characteristics unique to each security and the security's discounted cash flows. Due to current market conditions as well as the limited trading activity of these securities, the fair value measurement is highly sensitive to assumption changes and market volatility.

Impaired loans: The fair value of impaired loans is measured at an observable market price, if available, or at the fair value of the loan's collateral, if the loan is collateral dependent. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Since significant adjustments are frequently made in appraisals to adjust for differences between comparable sales and income data typically used in the appraisal process, this results in a Level 3 classification of these inputs for determining fair value.

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NOTE 22 - FAIR VALUE (Continued)

OREO: The fair value of OREO is measured at an observable market price determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Since significant adjustments are frequently made in appraisals to adjust for differences between comparable sales and income data typically used in the appraisal process, this results in a Level 3 classification of these inputs for determining fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis: Assets measured at fair value on a recurring basis are summarized below. The Corporation has no liabilities that are measured at fair value on a recurring basis.

Description	Level 1	Level 2	Level 3	Balance at December 31, 2010
Investment securities available-for-sale:				
U. S. agency securities	\$ -	\$ 18,785	\$ -	\$ 18,785
Mortgage-backed securities	\$ -	\$ 8,358	\$ -	\$ 8,358
States and political subdivisions	\$ -	\$ 6,448	\$ -	\$ 6,448
Other debt securities	\$ -	\$ -	\$ 690	\$ 690
Total debt securities	<u>\$ -</u>	<u>\$ 33,591</u>	<u>\$ 690</u>	<u>\$ 34,281</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Description	Level 1	Level 2	Level 3	Balance at December 31, 2009
Investment securities available-for-sale:				
U. S. agency securities	\$ -	\$ 45,524	\$ -	\$ 45,524
Mortgage-backed securities	\$ -	\$ 28,738	\$ -	\$ 28,738
States and political subdivisions	\$ -	\$ 8,227	\$ -	\$ 8,227
Other debt securities	\$ -	\$ -	\$ 800	\$ 800
Total debt securities	<u>\$ -</u>	<u>\$ 82,489</u>	<u>\$ 800</u>	<u>\$ 83,289</u>
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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NOTE 22 - FAIR VALUE (Continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010 and 2009.

	Twelve Months Ended December 31,	
	2010	2009
	<i>(in thousands)</i>	
Balance, beginning of period	\$ 800	\$ 1,061
Net unrealized loss included in other comprehensive income	(121)	(715)
Impairment charge	11	454
Balance, end of period	\$ 690	\$ 800

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis: Assets measured at fair value on a nonrecurring basis are summarized below. The Corporation has no liabilities that are measured at fair value on a nonrecurring basis.

Description	Level 1	Level 2	Level 3	Balance at December 31, 2010
Assets:				
Impaired Loans	\$ -	\$ -	\$ 6,429	\$ 6,429
Foreclosed assets	\$ -	\$ -	\$ 10,008	\$ 10,008
Total assets at fair value	\$ -	\$ -	\$ 16,437	\$ 16,437
 Total liabilities	\$ -	\$ -	\$ -	\$ -

Description	Level 1	Level 2	Level 3	Balance at December 31, 2009
Assets:				
Impaired Loans	\$ -	\$ -	\$ 10,281	\$ 10,281
Foreclosed assets	\$ -	\$ -	\$ 9,010	\$ 9,010
Total assets at fair value	\$ -	\$ -	\$ 19,291	\$ 19,291
 Total liabilities	\$ -	\$ -	\$ -	\$ -

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NOTE 22 - FAIR VALUE (Continued)

The carrying amount and estimated fair values of financial instruments at December 31, 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets:</i>				
Cash and due from banks	\$ 27,415	\$ 27,415	\$ 8,909	\$ 8,909
Federal funds sold	5,949	5,949	1,443	1,443
Securities available for sale	34,281	34,281	83,289	83,289
Loans receivable, net	112,829	110,044	130,981	128,028
Accrued interest receivable	707	707	1,031	1,031
<i>Financial liabilities:</i>				
Deposits	179,330	179,303	193,527	191,984
Federal funds purchased and repurchase agreements	836	836	648	648
FHLB advances	11,000	12,822	33,800	39,065
Subordinated debentures	8,248	8,248	8,248	8,248
Accrued interest payable	756	756	502	502
Unused commitments	-	-	-	-

The assumptions used and the estimates disclosed represent management's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to management as of the respective reporting dates. In certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and management's evaluation of those factors change.

Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, these fair value estimates are not necessarily indicative of the amounts that the Corporation would realize in a market transaction. Because of the wide range of valuation techniques and the numerous estimates, which must be made, it may be difficult to make reasonable comparisons of the Corporation's fair value information to that of other financial institutions. SFAS 107 excludes certain financial instruments from its disclosure requirement. Because of this and the many uncertainties discussed above, the aggregate fair value amount should in no way be construed as representative of the underlying value of the Corporation.

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NOTE 22 – FAIR VALUE (Continued)

The following methods and assumptions were used to estimate the fair value amounts at December 31, 2009 and 2008:

Cash and Cash Equivalents: Carrying amount approximates fair value.

Securities: Fair value is estimated using techniques discussed earlier on page 43.

Loans Held for Sale: Fair value is based on selling prices arranged by arms-length contracts with third parties.

Loans Receivable, Net of Allowance: Fair value of loans is estimated using discounted cash flow analyses based on contractual repayment schedules. The discount rates used in these analyses are based on either the interest rates paid on U.S. Treasury securities of comparable maturities adjusted for credit risk and non-interest operating costs or the interest rates currently offered by the Bank for loans with similar terms to borrowers of similar credit quality. Impaired loans' fair values were estimated as described on page 44.

Deposit Liabilities: The carrying amount of deposit liabilities payable on demand, consisting of NOW accounts, money market deposits, statement savings and other deposit accounts approximates fair value. Fair value of fixed-rate certificates of deposit is estimated based on discounted cash flow analysis using the remaining maturity of the underlying accounts and interest rates currently offered on certificates of deposit with similar original maturities.

Borrowings: The carrying amount of short-term FHLB advances approximates fair value. Fair value of all other borrowings is estimated based on discounted cash flow analysis using the remaining maturity of the borrowings and interest rates currently in effect on borrowings with similar original maturities.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Note 23 – Subsequent Events

On February 16, 2011 the bank was notified by the OCC confirming the institution's undercapitalized status and issued a Prompt Corrective Action (PCA) requiring submission of a capital restoration plan. The bank received its response from the OCC to the submitted capital restoration plan on May 11, 2011 indicating Notification of Disapproval and Non-Acceptance of Capital Restoration Plan.