

CARROLLTON BANK

February 14, 2011

An update on trends in banking,
our bank in particular,
and what it might mean to you.

Lately, a lot of people have been asking me similar questions about some of the many banking topics in the news these days. Assuming you might have some of the same questions, I've summarized them here, both to help answer your questions, and to pose some opportunities that could help you and your family.

I've read several articles that say Free Checking is dead. Is that true?

Not at Carrollton Bank. What caused the articles was Bank of America discontinued Free Checking, and the media assumed all other banks would follow their lead. Some banks did. However, what the media missed was the fact that more than 80% of American customers prefer Free Checking. Therefore, we plan to keep offering what our customers want. If your checking account is at a bank that is discontinuing Free Checking, we would be pleased to help you switch your account.

Carrollton Bank added a lot of banks and bankers last year. Will that continue?

Last year we took advantage of unprecedented opportunities, opening 3 new offices and adding 11 new bankers. This year we will focus on absorbing that growth and using the efficiencies made possible by last year's growth to keep providing good value.

When will CD and money market rates rise?

Unfortunately for savers, there is no indication that the Federal Reserve will increase short-term rates (which drive bank savings rates) appreciably in 2011. We expect them to remain low to help stimulate economic growth and create jobs.

Is it still a good time to refinance my home?

Absolutely. Even though 15- and 30-year fixed rates have risen a little, today's mortgage rates are still very attractive by historical standards. If you have not refinanced in the last 18 months, please call one of our bankers and let them calculate how much today's low interest rates can save you.

There have been a flurry of bank acquisitions. Are more coming?

Yes, the pace may quicken due to new bank legislation passed by Congress last summer. In fact, one big one in our area has already been announced. M&I (formerly Southwest Bank) will be acquired by Bank of Montreal in 2011. It has not been decided whether the new name will be Bank of Montreal, Harris Bank (Bank of Montreal's subsidiary bank in the US) or another name.

Please continue below...

How healthy is Carrollton Bank?

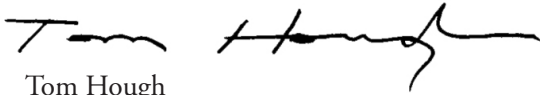
We continue to be extremely strong and very grateful. Our December 31, 2010 financial statement is below. You'll always find our latest financials on our website.

Why does Carrollton Bank remain so strong?

Quite simply, we have strong customers. Our strength is a tribute to how well you have managed your financial affairs. I believe we attract this type of customer because we are owner-operated, by bankers who have some skin in the game. So we continue to take the same prudent approach we've used since 1877.

All of us at Carrollton Bank would like to wish you and your family all the best in 2011, and express how much we enjoy having the opportunity to serve you.

Best regards,



Tom Hough
Chairman & CEO

P.S. Please feel free to share this letter with family members and friends if you believe it could help them.



CARROLLTON BANK

| | <i>December 31</i> | <i>December 31</i> |
|--|----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> |
| Assets | | |
| Cash and due from banks | \$20,917,442 | \$18,782,045 |
| Cash held at Federal Reserve | 11,256,341 | 9,016,168 |
| Federal funds sold | 8,695,000 | 3,420,000 |
| Available for sale securities | 244,210,441 | 211,796,907 |
| Loans | 643,092,831 | 564,166,212 |
| less allowance for possible loan losses | 8,490,404 | 7,385,492 |
| Premises & equipment, net | 18,489,797 | 15,280,595 |
| Other assets | 12,050,685 | 14,892,871 |
| Total Assets | 950,222,133 | 829,969,305 |
| Liabilities | | |
| Deposits: | | |
| Non-interest bearing | 71,679,717 | 64,469,109 |
| Interest bearing | 732,475,693 | 633,629,362 |
| Total Deposits | 804,155,410 | 698,098,471 |
| Federal funds purchased | - | - |
| Advances from FHLB | 76,000,000 | 70,000,000 |
| Other liabilities | 1,951,934 | 2,128,276 |
| Total Liabilities | 882,107,344 | 770,226,747 |
| Shareholders' Equity | | |
| Common Stock | 716,636 | 716,636 |
| Paid in Capital | 24,652,005 | 21,652,005 |
| Retained Earnings | 42,537,959 | 34,835,566 |
| Unrealized Gain (Loss) on available for sale securities | 208,191 | 2,538,351 |
| Total Shareholders' Equity | 68,114,789 | 59,742,558 |
| Total Liabilities & Shareholders' Equity | \$950,222,133 | \$829,969,305 |

| <u>Regulatory Capital Ratios</u> | FDIC | | |
|---|--------------------------------|------------------------|------------------------|
| | <u>Well-Capitalized</u> | <u>12-31-10</u> | <u>12-31-09</u> |
| Risk-based Capital Ratio | Above 10% | 11.52% | 11.07% |
| Core Capital (Tier 1) Ratio | Above 6% | 10.27% | 9.82% |
| Leverage Ratio | Above 5% | 7.10% | 6.84% |

