"CHANGES AHEAD"

At the annual meeting of the members of First Federal Savings and Loan Association of Greene County, held Wednesday, January 26, 2011, John E. Mariner and Scott S. O'Neil were re-elected as Directors for three year terms expiring in January 2014. At the reorganization meeting, President/CEO John E. Mariner announced all officers were again elected to serve the banking institution during 2011.

2010 was a year of distinction for the community banking industry as significant challenges were faced from historic low interest rates to a Congressional battle for the restructure of the financial services industry, said Mariner. Last summer, the most comprehensive overhaul of the financial services industry, since the Great Depression, was signed into law: the Dodd-Frank Wall Street Reform and Consumer Protection Act. We have lived through an historic three year period in the financial life of this nation as the provisions of this Act will affect the entire financial institution system forever.

Its passage will certainly help to level the playing field for all community banks. It will also set an important precedent that community banks should not be treated the same as the largest and riskiest financial firms. Overall, the Law is a mixed bag for community

banks with both positive and negative provisions but a new policy of tiered regulation is a good thing for all community banks. Why? A much fairer deposit insurance assessment rate, a stricter regulation of too-big-to-fail institutions and a community bank exemption from the Consumer Financial Protection Bureau----each are huge wins for our industry, opined Mariner.

Many of its provisions will create new rules on how all banking will be conducted in the future with an important emphasis to Wall Street banking---243 new rules and 22 Congressional Reports to be specific. The Office of Thrift Supervision (OTS) has been abolished as our regulator and the Office of the Comptroller of the Currency (OCC) will become First Federal's regulatory agency beginning July 2011.

Mariner noted that there were 157 banks taken into FDIC receivorships during the year. Compare that number to 2009 when 140 bank failures were reported. There remains 860 problem institutions on the FDIC's watchlist as 2011 begins; which suggests the industry's financial condition remains stressed. Why? High unemployment continues, as the need for job creation remains a priority; poor loan demand continues; unprecedented demand for bank capital has increased, resulting in a continuation of their failures; consumer confidence has shown some strength as 2010 ends but if the economy is to strengthen so must confidence.

I am extremely proud to report our Association continues to earn Bauer Financial's 5- Star Superior Rating for 89 consecutive quarters. By earning this distinction, First Federal has demonstrated the epitome of safety and soundness. The prestigious "sustained superiority status" is earned by fewer than 10% of the 7,760 FDIC insured banks in the USA. To achieve this honor First Federal continues to exhibit exceptional strength in such areas as capital adequacy, asset quality and stability and we have done so every quarter for over 22 years.

Mariner added that 2010 witnessed exceptional growth to the Association's total assets and total deposits but it also saw other financials that were not as significant. Total assets increased over \$86 million from \$705 million at the end of 2009 to \$791 million at the end of 2010 ---- an increase of 12.2%. Total deposits also increased significantly by over \$82 million from \$597 million to \$680 million or an increase of 13.9%. Total assets had increased 11% in 2009 and total deposits 12%. Why such increases in the last two years? Production of natural gas from the Marcellus Shale Formation is a rapidly emerging industry in Greene County and this "super giant" gas field is projected to yield decades of gas production. Land leases for its drilling rights continue; as does coal land sales. The excellent overall financial condition of the Association continues to dominate the customer's choice for a banking relationship.

Total mortgages did not increase during the year and actually decreased \$1.6 million. Total mortgage loans closed were \$29 million less than 2009 and the lowest since 2006. Why? 2010 was an extremely market rate sensitive year due to historic low interest rates for both mortgages and deposits. This became a real concern for us as a

portfolio lender and for our asset/liability management. What happens when deposit interest rates go back up and they will--- it is only a matter of time when our short-term deposit rates reprice and increase faster than long-term mortgage rates. It is also important to refer to the high volume of note modifications during the year because those modifications lessened our interest income and mortgage yield considerably. Total mortgages represent 77% of our total assets. Loan quality continues to be exceptionally strong even though our specific reserves for loan loss did increase 43%. Total mortgage delinquencies increased only slightly and 90 day and over past due accounts was a slight decrease. Our statement of condition shows 4 REO properties acquired thru foreclosure awaiting sale as 2011 begins.

There were no monies borrowed in 2010 and obviously no liquidity issues; as available cash was often much higher than desired and became a challenge for placement to the investment portfolio. Short term maturities, not yield, became the strategy; as the portfolio increased \$69 million or 44% from 2009. Obviously, that cash would have preferred to be placed into mortgages but that did not happen.

I am very happy to tell you \$2.7 million was added to our equity capital in 2010; resulting in the following ratios: Our Tier 1 (Core) Capital ratio is 13.14%; our Total Risk-Based Capital ratio is 28.56%; our Tier I Risk Based Capital ratio is 28.08%, our Equity Capital to deposits is 15.43% and to assets is 13.26% and our return on assets is 0.37%. These ratios continue to substantially exceed minimum Federal Regulatory requirements. Yes, you will again recognize these ratios are

lower than 2009 and especially the decrease of the Tier 1 (Core) Capital ratio from 14.3% to 13.14%; as the addition of net income to equity capital for 2010 simply did not match our significant growth to total assets and total deposits. Year 2010 was a very impressive year for our financials considering the economic and regulatory challenges for all banks across the Country.

Mariner concluded by saying that for 86 years our mission has been to provide a quality service and the opportunity of a financial relationship for our community. We care deeply about our customers. After all, they are our neighbors, family and friends. In this new world of banking, the two most vital ingredients for all banks, small and large, are capital and talent and First Federal has both; and both are strong. We have no stockholders to answer and it is our mutuality that permits us to focus solely to our customers and the services they want. We know the people and the communities that we serve. Our mission has never changed and our employees and Officers will continue to strive for the same desire, dedication, and determination to excellence as has been so faithfully done since 1924. This is just the way First Federal does its business. As the year 2011 begins, it promises to be a year of changes for the entire financial industry. First Federal Savings and Loan Association of Greene County is poised to not only adapt to these changes but to excel in the process.