

Bradley County
Financial Corporation



2010 Annual Report



George Robert Taylor

August 15, 1921 – July 16, 2010

In 1986, Bobby Taylor led a group in organizing a new bank. Bank of Cleveland opened its doors in May 1987, with Taylor serving as chairman and chief executive officer.

In 1997, Bobby Taylor retired his post as chief executive officer and retained the chairman’s position of Bank of Cleveland and the parent company, Bradley County Financial Corporation. Until a few weeks prior to his death, Taylor was still in the office daily at Bank of Cleveland greeting friends and customers and keeping current with the banking industry.

Taylor believed in forming friendships as well as business partnerships. He often said the success of any business is based on the strength of its employees. He worked hard at finding the right employees to work with him—and he believed in rewarding them for their efforts. Many considered Bobby’s ability to determine character as one reason for his great success.

Few men in Bradley County have had a greater impact on the overall growth and success of this community than George Robert Taylor. His name will forever be synonymous with Bank of Cleveland and the legacy he leaves behind is monumental. His contributions to our country, the banking industry and our great city were only surpassed by his love and dedication to his family.



July 30, 2010, the section of First Street between Ocoee and Broad Streets was officially renamed in honor of Bobby Taylor and his service to our community.

2010 Annual Report Contents

Letter to Shareholders	3
Shareholder Update	4
Select Financial Data.....	8
Consolidated Balance Sheet	9
Consolidated Statement of Income	10
Board of Directors, Officers & Staff	11

Bradley County Financial Corporation

Dear Shareholder:

Bradley County Financial Corporation experienced another solid year in 2010. The following are financial highlights:

	<u>Year End 2010</u>	<u>Year End 2009</u>
• Total Assets	253,000,000	254,000,000
• Net Income	3,360,000	3,000,000
• Earnings Per Share-Diluted	10.47	9.30
• Book Value Per Share	85.65	79.70
• Return on Equity	13.23%	12.47%

Bradley County Financial Corporation's net income increased 12.6% over 2009. Bank of Cleveland's net income for the year reached \$3.51 million, a 10.3% increase from the prior year.

During the economic downturn, which began in 2008, the company has shown positive operating results as illustrated by the following:

	<u>Dec. 31, 2007</u>	<u>Dec. 31, 2010</u>	<u>Increase</u>
• Bank of Cleveland's Capital	27,000,000	32,000,000	5,000,000
• Reserve for Loan Losses	3,000,000	4,500,000	1,500,000
• BCFC Shareholders' Equity	22,000,000	27,000,000	5,000,000

We were able to increase capital and reserves \$6.5 million and increase the value of the Company by growing shareholders' equity \$5 million while paying out \$4.4 million in cash dividends, which went directly into our local economy. Our conservative posture allowed us to be well positioned for this difficult phase in our nation's history. Over the past two years, Bradley County's local economy fared much better than most parts of the country due to the diversity of industry in our area.

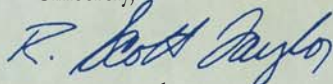
Looking back at 2010, a milestone was achieved as Bank of Cleveland's capital level exceeded \$32 million for the first time in the Bank's history. Strong capital is a key component of a safe and sound bank and Bank of Cleveland far exceeds the well capitalized threshold established by the FDIC. Bank of Cleveland's \$32 million in capital does not include TARP or any other type of government assistance funds. Over the 23 year history of the Bank, we have maintained a strong capital position through our focus on safety and soundness, profitable growth, asset quality and efficiency. Bank of Cleveland continues to remain profitable, strong and stable, while significantly outperforming our peer banks on the state and national level.

New legislation signed into law July of 2010, permanently raised the maximum deposit insurance coverage from \$100,000 to \$250,000. This is the first permanent increase since 1980. In addition, the FDIC Temporary Liquidity program which provides unlimited FDIC insurance coverage to all non interest bearing transaction accounts was extended until December 31, 2012. FDIC insurance premiums and assessments paid by all insured banks remain at peak levels in order to continue replenishing the FDIC insurance fund.

Good things are happening in our area. The recently announced capital investments of Amazon.com, Whirlpool, Olin, Wacker Chemie and Volkswagen are already having a positive impact on our economic climate. Their commitments to our area only reiterate what we have known for a long time, Bradley County is truly a great place to live, work and do business.

Thank you for your continued support of Bank of Cleveland.

Sincerely,



R. Scott Taylor
Chairman

Good News!

Good Things are Happening in the Bradley County Area.

Bank Capital Reaches a New High.

Bank of Cleveland's historical trend as a high performing bank continued throughout 2010. Capital exceeded \$32 million for the first time in the Bank's history, which far exceeds the well capitalized status threshold established by the FDIC. Bank of Cleveland's capital does not include TARP or any other type of government assistance funds.

Throughout its twenty-three year history, the Bank has maintained a strong capital position by focusing on safety and soundness, profitable growth, efficiency and asset quality.

Recently, Bank of Cleveland's holding company, Bradley County Financial Corporation, paid out its 73rd consecutive dividend to its shareholders. "We are extremely proud of the Bank's performance," said Scott Taylor, president and chief executive officer of Bank of Cleveland. "Our history in the

community and knowledge of the local market combined with our strength and stability sets us apart from the competition."

Mortgage Loan Volume Higher.

Bank of Cleveland's residential mortgage loan volume increased in 2010 due in part to the refinancing wave sparked by declining rates in the latter part of the year.

Rates still remain low and many families are finding it is a good time to purchase a new home.

Stronger FDIC Protection.

The FDIC Temporary Liquidity program provides unlimited FDIC insurance coverage to all non interest bearing transaction accounts. This program was implemented in late 2008 to strengthen confidence and encourage liquidity in the banking system. This program has been extended twice since

its inception and FDIC recently announced an extension of the program until December 31, 2012.

In addition, new legislation signed into law July of 2010 permanently raised the maximum deposit insurance coverage from \$100,000 to \$250,000. This is the first permanent increase in FDIC deposit insurance coverage since 1980. "FDIC's maximum coverage is \$250,000 and is based on account ownership. Our employees are very knowledgeable concerning FDIC insurance guidelines and limits and they work with customers to ensure they receive maximum coverage on their money," said Julian Sullivan, executive vice president.

Good News Campaign!

Recently, Bank of Cleveland launched a new marketing campaign entitled "Good News." It features the recent announcements by Whirlpool, Wacker Chemie, Volkswagen, Amazon.com and Olin with an emphasis on Bradley County's bright future. "This campaign draws attention to the positive impact the capital investments of these corporations will have on our area," said Christy



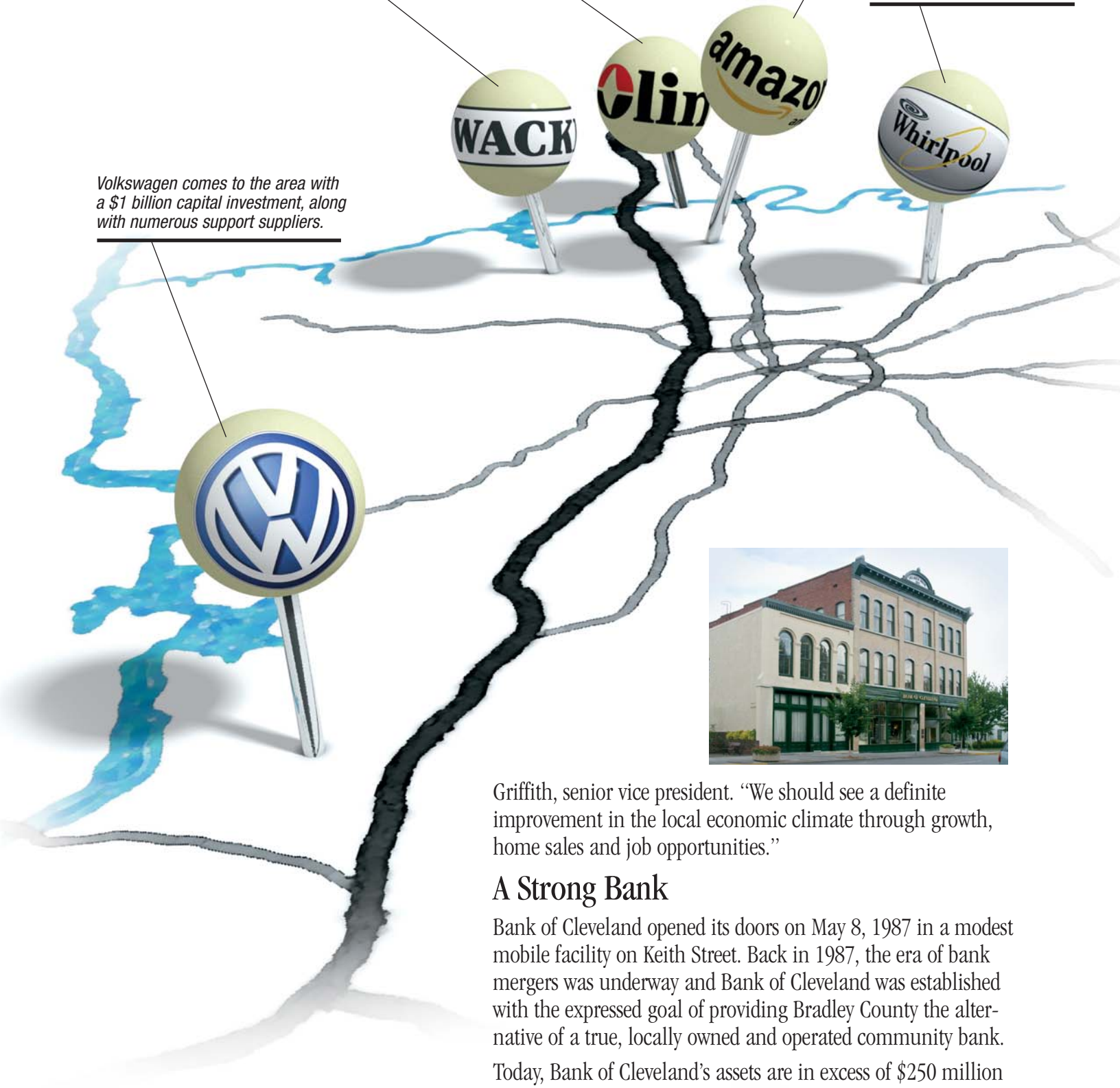
Wacker Chemie announces \$1.5 billion capital investment in a new plant in Bradley County.

Olin Corporation announces \$160 million capital investment to enhance its operation in Bradley County.

Amazon.com announces a \$48 million capital investment to build a new distribution center in Bradley County.

Whirlpool announces a \$120 million capital investment in a new plant in Bradley County.

Volkswagen comes to the area with a \$1 billion capital investment, along with numerous support suppliers.



Griffith, senior vice president. “We should see a definite improvement in the local economic climate through growth, home sales and job opportunities.”

A Strong Bank

Bank of Cleveland opened its doors on May 8, 1987 in a modest mobile facility on Keith Street. Back in 1987, the era of bank mergers was underway and Bank of Cleveland was established with the expressed goal of providing Bradley County the alternative of a true, locally owned and operated community bank. Today, Bank of Cleveland’s assets are in excess of \$250 million and it continues to gain local, state and national recognition for its overall performance and capital strength.

Supporting Our Community



Bank of Cleveland is a proud supporter of Habitat for Humanity. Pictured is Julian Sullivan giving the keys to the new home to the Habitat For Humanity homeowners.



Bank of Cleveland celebrates "Paint the Town Pink" for the Mary Ellen Locher Foundation.



Money raised from An Evening Of Cleveland Mystery & Folklore benefit the Chamber of Commerce Allied Arts & Leisure and The Caring Place. Pictured: Robert Bradney, Bender Realty; Christy Griffith, Bank of Cleveland; Kyle Elrod, Allied Arts & Leisure; Dwight Richardson, Bender Realty.



Bank of Cleveland is proud to contribute to the Tennessee Small Business Development Center. Pictured: Teresa Davis, Bank of Cleveland; Brenda Sheehy, TSBD; Brian Hood, Bank of Cleveland.



The main office sees a spooky transformation during October in preparation for the downtown festivities.



Bank of Cleveland golf team in the Trousdale School tournament. Pictured: Joan Cronan, Clint Taylor, Clarke Taylor, BJ Walker, Tony Martin, Mike Hamilton



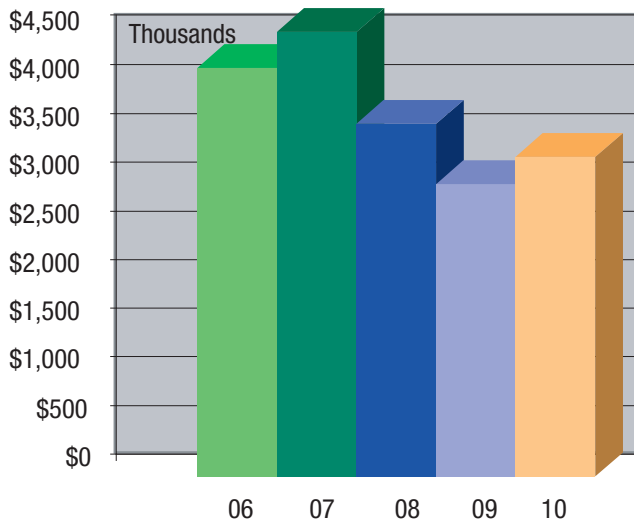
A few of the spectators during the Evening of Cleveland Mystery and Folklore. Pictured:Ellie Mills, Knox Watson Isabel Martin, Hayes Martin, Reece Meagher, Burns Meagher.



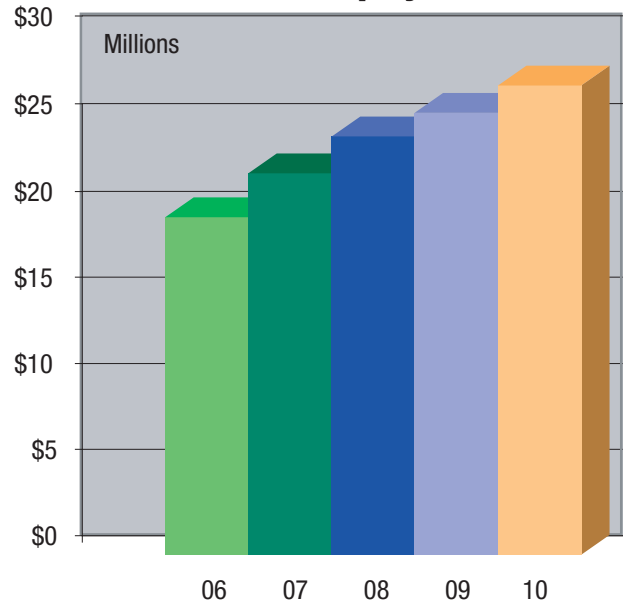
Cleveland 100 contribution. Pictured: Johnny Holden, Scott Taylor, Tom Rowland, Stephen Crass.

Financial Highlights

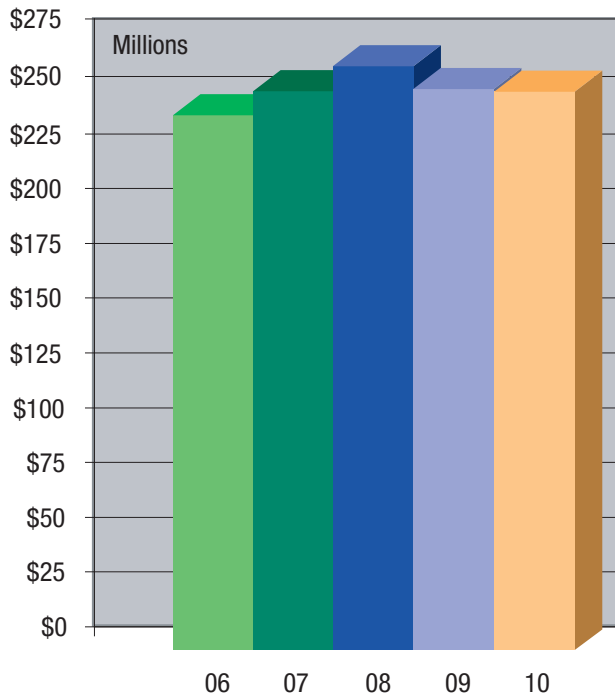
Net Income



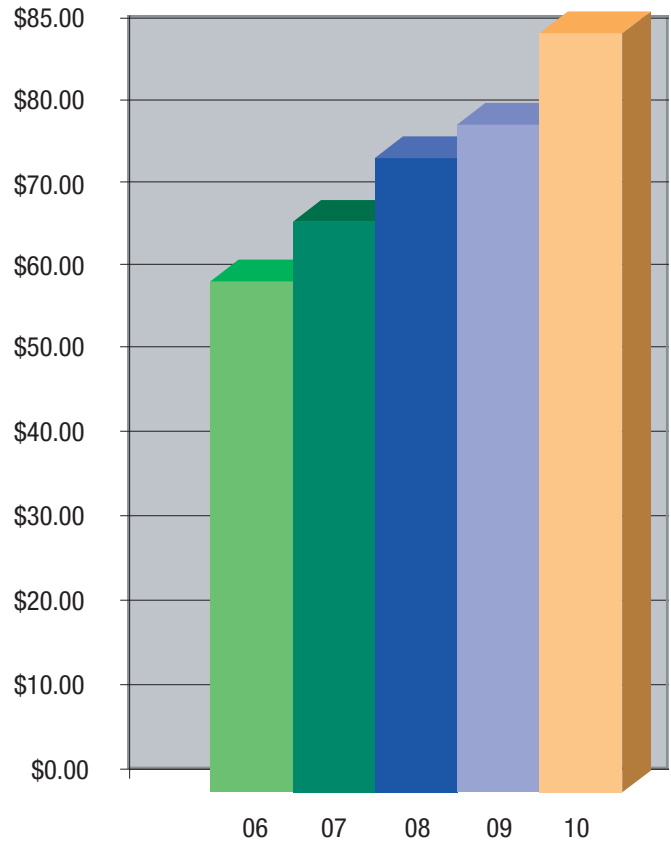
Total Equity



Total Assets



Book Value



Select Financial Data

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
OPERATIONS					
Interest income	\$14,626,897	\$15,054,547	\$17,371,130	\$20,448,642	\$17,452,950
Interest expense	<u>2,156,301</u>	<u>3,460,436</u>	<u>5,879,210</u>	<u>8,033,602</u>	<u>6,031,001</u>
Net interest income	12,470,596	11,594,111	11,491,920	12,415,040	11,421,949
Provision for loan loss	(1,491,671)	(1,094,398)	(787,215)	(301,918)	(300,802)
Non-interest income	2,323,793	2,065,059	1,981,182	1,822,201	2,323,152
Non-interest expense	<u>(7,786,104)</u>	<u>(7,633,333)</u>	<u>(6,734,787)</u>	<u>(6,564,717)</u>	<u>(6,582,646)</u>
Income before income taxes	5,516,614	4,931,439	5,951,100	7,370,606	6,861,653
Provision for income taxes	<u>2,159,447</u>	<u>1,931,374</u>	<u>2,288,401</u>	<u>2,832,876</u>	<u>2,640,518</u>
Net income	<u>\$3,357,167</u>	<u>\$3,000,065</u>	<u>\$3,662,699</u>	<u>\$4,537,730</u>	<u>\$4,221,135</u>
BALANCE SHEET DATA					
Assets	\$253,154,885	\$254,136,234	\$262,327,896	\$252,001,967	\$238,786,348
Investment securities	3,996,907	5,313,438	1,947,656	1,880,222	1,919,063
Deposits	214,814,778	217,052,521	214,030,604	209,905,148	197,455,041
Loans, net	215,352,571	229,512,148	243,587,980	233,355,376	217,691,180
Stockholder equity	27,186,783	25,373,713	24,066,449	21,984,650	19,457,033
PER SHARE DATA					
Net income	\$10.58	\$9.42	\$11.42	\$14.11	\$13.12
Cash dividends	4.60	4.60	4.60	4.60	4.20
Book value	85.65	79.70	75.05	68.37	60.46
SIGNIFICANT RATIOS					
Return on average assets	1.32%	1.16%	1.42%	1.85%	1.92%
Return on equity	13.23%	12.47%	16.66%	23.32%	18.77%
Average equity to average assets	10.36%	9.57%	8.95%	8.44%	9.56%
Allowance for loan loss to net loans	2.11%	1.74%	1.31%	1.15%	1.09%

Consolidated Statement of Income

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INTEREST INCOME		
Loans	\$14,539,807	\$14,941,555
Securities	86,785	112,851
Federal funds sold	305	141
	<u>14,626,897</u>	<u>15,054,547</u>
INTEREST EXPENSE	<u>2,156,301</u>	<u>3,460,436</u>
Net interest income	12,470,596	11,594,111
Provision for loan loss	<u>1,491,671</u>	<u>1,094,398</u>
Net interest income after provision for loan losses	<u>10,978,925</u>	<u>10,499,713</u>
NON-INTEREST INCOME		
Service charges, fees and commissions	731,666	841,511
Other	<u>1,592,127</u>	<u>1,223,548</u>
	<u>2,323,793</u>	<u>2,065,059</u>
NON-INTEREST EXPENSES		
Salaries & employee benefits	4,320,933	4,227,490
Occupancy expenses	457,010	440,248
Other operating expenses	<u>3,008,161</u>	<u>2,965,595</u>
	<u>7,786,104</u>	<u>7,633,333</u>
Income before income taxes	5,516,614	4,931,439
Income taxes	<u>2,159,447</u>	<u>1,931,374</u>
Net income	<u>\$3,357,167</u>	<u>\$3,000,065</u>

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Board of Directors, Officers & Staff

Bradley County Financial Corporation

Board of Directors

Gerald Burns
Burns Ornamental Iron & Fabricating, Inc.

Fritz Harris, CPA
Harris, Williamson, Trehitt & Ownby,
CPAs, PC

Steve Lambert
Bradley Concrete

Steve Robinson
Cleveland Plywood Co., Inc.

Scott Taylor
Bank of Cleveland

Officers

Scott Taylor
Chairman and President

Fritz Harris
Vice Chairman

Julian Sullivan, III
Treasurer

Cathy Hixson
Secretary

Bank of Cleveland

Board of Directors

Gerald Burns
Fritz Harris
Steve Lambert
Steve Robinson
Scott Taylor

Executive Officers

Scott Taylor
Chairman, President,
Chief Executive Officer

Terry Buckner
Executive Vice President

Julian Sullivan, III
Executive Vice President, Cashier

Officers

Christy Griffith
Senior Vice President

Cathy Hixson
Senior Vice President

Tammy Self
Senior Vice President

Connie Botts
Vice President

Deanna Brookshire
Vice President

Teresa Davis
Vice President

Tonya Gumm
Vice President

Brian Hood
Vice President

Becky Kinser
Vice President

Tony Martin
Vice President

Bank of Cleveland

Staff

Chris Bailey
Laura Blanchard
Jeri Botts
Beth Brady
Amy Calhoun
Kim Campbell
Lisa Carroll
Michelle Clark
Kathy Clowers
Jessica Cross
Carolyn Davis
Teresa J. Davis
Brandi Ensley
Lyndsey Epperson
Margaret Everhart
Judy Farlow
Missy Flowers
Chris Frazier
Ginger Galloway
Mark Gravelle
Valerie Gregg
Tricia Hall
Shane Hindman
Kim Hooker
April Hutson
Bob Kaylor
Karen King
Anna Klibisz
Freida Lee
Belinda Mantooth
Jamie Maupin

Michelle Marshall
Mary Jane Mattace
Kristi McCracken
Janice Mull
Brittany Murray
Trina Norton
Judie O'Dell
Ann Officer
Joan Ownby
Heather Pardue
Carolyn Robinson
Charlotte Samples
Robin Sharp
Courtney Simpson
Tonya Sliger
Margaret Smith
Sandy Spence
Clint Taylor
Paula Weeks
Loren West



Main Office
75 Bobby Taylor Avenue

25th Street Office
1400 25th Street

Bradley Square Office
190 Paul Huff Parkway

Southforke Office
1200 Perimeter Drive

Downtown Motorbank
315 Broad Street