

**PEOPLES-SIDNEY FINANCIAL CORPORATION**  
Sidney, Ohio

**ANNUAL REPORT**  
June 30, 2010



PEOPLES-SIDNEY FINANCIAL CORPORATION  
Sidney, Ohio

ANNUAL REPORT  
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**SELECTED CONSOLIDATED FINANCIAL  
INFORMATION AND OTHER DATA**

The following tables set forth certain information concerning the consolidated financial condition and earnings of, and other data regarding, the Corporation at the dates and for the periods indicated.

<u>Selected Financial Condition and Other Data:</u>	<u>At June 30,</u>				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In thousands)				
Total amount of:					
Assets	\$ 140,847	\$ 135,422	\$ 136,186	\$ 138,308	\$ 139,047
Securities available for sale	4,168	2,091	1,987	4,848	5,250
FHLB stock	1,895	1,895	1,869	1,821	1,768
Loans, net (1)	120,857	124,004	122,563	121,487	124,171
Deposits	91,536	85,016	80,977	82,479	82,819
Borrowed funds	32,914	34,169	37,585	38,189	38,511
Common stock in ESOP subject to repurchase obligation	--	--	--	1,677	1,757
Shareholders' equity	15,728	15,529	16,946	15,258	15,500
	<u>Year ended June 30,</u>				
<u>Selected Operations Data:</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In thousands)				
Interest income	\$ 7,779	\$ 8,254	\$ 8,949	\$ 8,981	\$ 8,415
Interest expense	<u>3,112</u>	<u>3,765</u>	<u>4,301</u>	<u>4,231</u>	<u>3,628</u>
Net interest income	4,667	4,489	4,648	4,750	4,787
Provision for loan losses	<u>498</u>	<u>218</u>	<u>171</u>	<u>2</u>	<u>72</u>
Net interest income after provision for loan losses	4,169	4,271	4,477	4,748	4,715
Noninterest income	95	120	127	132	134
Noninterest expense	<u>3,330</u>	<u>3,470</u>	<u>3,378</u>	<u>3,295</u>	<u>3,223</u>
Income before income taxes	934	921	1,226	1,585	1,626
Income tax expense	<u>324</u>	<u>298</u>	<u>441</u>	<u>565</u>	<u>587</u>
Net income	<u>\$ 610</u>	<u>\$ 623</u>	<u>\$ 785</u>	<u>\$ 1,020</u>	<u>\$ 1,039</u>
Earnings per common share - basic	<u>\$ 0.49</u>	<u>\$ 0.50</u>	<u>\$ 0.59</u>	<u>\$ 0.76</u>	<u>\$ 0.76</u>
Earnings per common share - diluted	<u>\$ 0.49</u>	<u>\$ 0.50</u>	<u>\$ 0.59</u>	<u>\$ 0.76</u>	<u>\$ 0.76</u>
Dividends declared per share	<u>\$ 0.43</u>	<u>\$ 0.53</u>	<u>\$ 0.74</u>	<u>\$ 0.74</u>	<u>\$ 0.72</u>

(Continued)

Selected Financial Ratios and Other Data:

Performance Ratios:	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Return on assets (ratio of net income to average total assets)	0.44%	0.46%	0.57%	0.74%	0.75%
Return on equity (ratio of net income to average equity) (8)	3.90	3.99	4.65	6.03	5.99
Dividend payout ratio (6)	87.76	106.00	125.42	97.37	94.74
Interest rate spread (2)	3.27	3.10	3.12	3.15	3.24
Net interest margin (3)	3.52	3.40	3.52	3.53	3.58
Ratio of operating expense to average total assets	2.42	2.54	2.47	2.38	2.34
Ratio of average interest-earning assets to average interest-bearing liabilities	1.11x	1.11x	1.12x	1.12x	1.13x
Quality Ratios:					
Nonperforming assets to total assets at end of period (4)	4.53%	2.81%	2.01%	1.43%	1.44%
Allowance for loan losses to nonperforming loans	16.84	23.32	29.52	36.11	47.03
Allowance for loan losses to gross loans (5)	0.87	0.66	0.55	0.54	0.71
Capital Ratios:					
Shareholders' equity to total assets at end of period (8)	11.17	11.47	12.44	12.24	12.41
Average equity to average assets (8)	11.38	11.42	12.36	12.21	12.60
Other Data:					
Number of full service offices (7)	4	4	4	4	4

- (1) Loans are shown net of net deferred loan fees, loans in process and the allowance for loan losses.
- (2) The average interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) The net interest margin represents net interest income as a percent of average interest-earning assets.
- (4) Nonperforming assets consist of nonperforming loans and foreclosed assets. Nonperforming loans consist of all accruing loans 90 days or more past due and all nonaccrual loans.
- (5) Gross loans are stated at unpaid principal balances, net of deferred loan fees.
- (6) Dividends declared per share divided by basic earnings per common share.
- (7) Full service offices include the main office and separate drive-through facility and three full-service branches located in Anna, Jackson Center and the Sidney Wal-Mart.
- (8) Average equity includes average amount of common stock in ESOP subject to repurchase obligation and reclassified out of permanent equity for 2007 and 2006.

**Yields Earned and Rates Paid.** The following table sets forth certain information relating to the Corporation's average balance sheet and reflects the average yield on interest-earning assets and the average cost of interest-bearing liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balances of interest-earning assets or interest-bearing liabilities, respectively, for the periods presented. Average balances are derived from average daily balances. Nonaccruing loans have been included in the table as loans carrying a zero yield.

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(Continued)

Year ended June 30,

	2010			2009		
	Average outstanding balance	Interest earned/ paid	Yield/ rate	Average outstanding balance	Interest earned/ paid	Yield/ rate
(Dollars in thousands)						
<b>ASSETS:</b>						
Interest-earning assets:						
Interest-earning deposits	\$ 6,326	\$ 1	0.02%	\$ 4,418	\$ 13	0.29%
Securities available for sale (1)	2,676	86	3.38	2,057	80	4.01
Loans (2)	121,759	7,604	6.25	123,586	8,070	6.53
FHLB stock	<u>1,895</u>	<u>88</u>	4.62	<u>1,888</u>	<u>91</u>	4.83
Total interest-earning assets	<u>132,656</u>	<u>7,779</u>	<u>5.87</u>	<u>131,949</u>	<u>8,254</u>	<u>6.26</u>
Noninterest-earning assets:						
Cash and due from banks	1,675			1,774		
Premises and equipment, net	1,672			1,743		
Accrued interest and other assets	<u>1,508</u>			<u>1,286</u>		
Total noninterest-earning assets	<u>4,855</u>			<u>4,803</u>		
Total assets	<u>\$ 137,511</u>			<u>\$ 136,752</u>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>						
Interest-bearing liabilities:						
Savings deposits	\$ 23,526	\$ 117	0.50%	\$ 22,944	\$ 142	0.62%
Demand and NOW deposits	20,671	187	0.91	13,451	117	0.87
Certificate accounts	<u>42,151</u>	<u>1,298</u>	3.08	<u>45,090</u>	<u>1,658</u>	3.68
Total interest-bearing deposits	86,348	1,602	1.86	81,485	1,917	2.35
Borrowed funds	<u>33,499</u>	<u>1,510</u>	4.51	<u>37,598</u>	<u>1,848</u>	4.91
Total interest-bearing liabilities	<u>119,847</u>	<u>3,112</u>	<u>2.60</u>	<u>119,083</u>	<u>3,765</u>	<u>3.16</u>
Noninterest-bearing liabilities						
Demand deposits	1,396			1,146		
Accrued interest payable and other liabilities	<u>624</u>			<u>900</u>		
Total noninterest-bearing liabilities	<u>2,020</u>			<u>2,046</u>		
Total liabilities	121,867			121,129		
Total shareholders' equity	<u>15,644</u>			<u>15,623</u>		
Total liabilities and shareholders' equity	<u>\$ 137,511</u>			<u>\$ 136,752</u>		
Net interest income; interest rate spread (3)						
		<u>\$ 4,667</u>	<u>3.27%</u>		<u>\$ 4,489</u>	<u>3.10%</u>
Net earning assets	<u>\$ 12,809</u>			<u>\$ 12,866</u>		
Net interest margin (4)			<u>3.52%</u>			<u>3.40%</u>
Average interest-earning assets to interest-bearing liabilities	<u>1.11x</u>			<u>1.11x</u>		

(1) Average balance includes unrealized gains and losses while yield is based on amortized cost.

(2) Calculated net of deferred loan fees, loan discounts, loans in process and allowance for loan losses and includes nonperforming loans.

(3) Net interest rate spread represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average interest-earning assets.

## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders  
Peoples-Sidney Financial Corporation  
Sidney, Ohio

We have audited the accompanying consolidated balance sheets of Peoples-Sidney Financial Corporation as of June 30, 2010 and 2009 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples-Sidney Financial Corporation as of June 30, 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.

Crowe Horwath LLP

Columbus, Ohio  
August 30, 2010

PEOPLES-SIDNEY FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 1,412,069	\$ 1,968,177
Interest-bearing deposits in other financial institutions	6,739,541	2,538,634
Overnight deposits	<u>2,700,000</u>	<u>--</u>
Total cash and cash equivalents	10,851,610	4,506,811
Securities available for sale	4,167,500	2,090,620
Federal Home Loan Bank stock	1,894,500	1,894,500
Loans, net of allowance of \$1,063,200 and \$826,100	120,856,565	124,003,638
Accrued interest receivable	741,113	781,287
Premises and equipment, net	1,620,947	1,719,074
Other real estate owned and repossessions	64,614	259,463
Prepaid FDIC premiums	464,585	--
Other assets	<u>185,541</u>	<u>166,644</u>
 Total assets	 <u>\$ 140,846,975</u>	 <u>\$ 135,422,037</u>
 <b>LIABILITIES</b>		
Deposits	\$ 91,535,520	\$ 85,016,250
Borrowed funds	32,914,300	34,169,107
Accrued interest payable and other liabilities	<u>668,805</u>	<u>708,104</u>
Total liabilities	125,118,625	119,893,461
 <b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value, 500,000 shares authorized, none issued and outstanding	--	--
Common stock, \$.01 par value, 3,500,000 shares authorized, 1,670,224 shares issued	16,702	16,702
Additional paid-in capital	9,246,826	9,280,322
Retained earnings	11,552,103	11,473,632
Treasury stock, 424,327 shares at cost	(5,198,322)	(5,198,322)
Unearned employee stock ownership plan shares	--	(104,220)
Accumulated other comprehensive income	<u>111,041</u>	<u>60,462</u>
Total shareholders' equity	<u>15,728,350</u>	<u>15,528,576</u>
 Total liabilities and shareholders' equity	 <u>\$ 140,846,975</u>	 <u>\$ 135,422,037</u>

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest income		
Loans, including fees	\$ 7,603,900	\$ 8,069,964
Securities	86,083	80,246
Demand, time and overnight deposits	1,525	12,684
Dividends on Federal Home Loan Bank stock	<u>87,614</u>	<u>91,168</u>
Total interest income	7,779,122	8,254,062
Interest expense		
Deposits	1,602,561	1,917,052
Borrowed funds	<u>1,509,877</u>	<u>1,847,534</u>
Total interest expense	<u>3,112,438</u>	<u>3,764,586</u>
Net interest income	4,666,684	4,489,476
Provision for loan losses	<u>498,074</u>	<u>218,635</u>
Net interest income after provision for loan losses	4,168,610	4,270,841
Noninterest income		
Service fees and other charges	120,624	119,042
Loss on sale of REO and repossessions	(28,149)	(4,261)
Mortgage banking income	<u>2,659</u>	<u>5,627</u>
Total noninterest income	95,134	120,408
Noninterest expense		
Compensation and benefits	1,699,604	1,751,832
Director fees	91,500	97,200
Occupancy and equipment	364,122	372,118
Computer processing	369,878	365,686
Professional services	148,415	220,455
State franchise taxes	204,435	193,447
Federal deposit insurance	164,665	133,585
Other	<u>287,036</u>	<u>335,761</u>
Total noninterest expense	<u>3,329,655</u>	<u>3,470,084</u>
Income before income taxes	934,089	921,165
Income tax expense	<u>323,700</u>	<u>297,978</u>
Net income	<u>\$ 610,389</u>	<u>\$ 623,187</u>
Earnings per common share - basic	<u>\$ 0.49</u>	<u>\$ 0.50</u>
Earnings per common share - diluted	<u>\$ 0.49</u>	<u>\$ 0.50</u>

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years Ended June 30, 2010 and 2009

	Common <u>Stock</u>	Additional Paid-In <u>Capital</u>	Retained <u>Earnings</u>	Treasury <u>Stock</u>	Unearned ESOP <u>Shares</u>	Accumulated Other Comprehensive <u>Income (Loss)</u>	<u>Total</u>
Balance, July 1, 2008	\$ 17,854	\$ 10,848,436	\$ 11,501,465	\$ (5,198,322)	\$ (215,197)	\$ (7,845)	\$ 16,946,391
Comprehensive income:							
Net income for the year ended June 30, 2009	--	--	623,187	--	--	--	623,187
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	--	--	--	--	--	68,307	<u>68,307</u>
Total comprehensive income							691,494
Cash dividends - \$.53 per share	--	--	(651,020)	--	--	--	(651,020)
Commitment to release 9,458 employee stock ownership plan shares	--	(18,182)	--	--	110,977	--	92,795
Retirement of 115,151 shares of common stock	<u>(1,152)</u>	<u>(1,549,932)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,551,084)</u>
Balance, June 30, 2009	<u>\$ 16,702</u>	<u>\$ 9,280,322</u>	<u>\$ 11,473,632</u>	<u>\$ (5,198,322)</u>	<u>\$ (104,220)</u>	<u>\$ 60,462</u>	<u>\$ 15,528,576</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)  
Years Ended June 30, 2010 and 2009

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance, July 1, 2009	\$ 16,702	\$ 9,280,322	\$ 11,473,632	\$ (5,198,322)	\$ (104,220)	\$ 60,462	\$ 15,528,576
Comprehensive income:							
Net income for the year ended June 30, 2010	--	--	610,389	--	--	--	610,389
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	--	--	--	--	--	50,579	<u>50,579</u>
Total comprehensive income							660,968
Cash dividends - \$.43 per share	--	--	(531,918)	--	--	--	(531,918)
Commitment to release 8,879 employee stock ownership plan shares	<u>--</u>	<u>(33,496)</u>	<u>--</u>	<u>--</u>	<u>104,220</u>	<u>--</u>	<u>70,724</u>
Balance, June 30, 2010	<u>\$ 16,702</u>	<u>\$ 9,246,826</u>	<u>\$ 11,552,103</u>	<u>\$ (5,198,322)</u>	<u>\$ --</u>	<u>\$ 111,041</u>	<u>\$ 15,728,350</u>

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	\$ 610,389	\$ 623,187
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	124,772	146,196
Provision for loan losses	498,074	218,635
Proceeds from sale of loans in secondary market	131,398	262,530
Loans disbursed for sale in secondary market	(130,000)	(259,300)
Gain on sale of loans	(3,713)	(7,650)
Amortization of mortgage servicing rights	2,480	3,176
Net accretion of securities	(246)	(246)
Loss on sale of REO and repossessions	28,149	4,261
FHLB stock dividends	--	(25,200)
Deferred taxes	(40,850)	(83,686)
Compensation expense for ESOP shares	70,724	92,795
Change in:		
Prepaid FDIC premiums	(464,585)	--
Accrued interest receivable and other assets	20,695	72,631
Accrued expense and other liabilities	25,496	(20,425)
Deferred loan fees	(4,062)	17,380
Net cash from operating activities	868,721	1,044,284
Cash flows from investing activities		
Purchase of securities available for sale	(3,000,000)	--
Proceeds from call of securities available for sale	1,000,000	--
Net change in loans	2,056,748	(1,933,581)
Premises and equipment expenditures	(26,645)	(98,830)
Capitalized improvements to other real estate owned	(39,010)	--
Proceeds from sale of REO and repossessions	802,440	432,218
Net cash from investing activities	793,533	(1,600,193)
Cash flows from financing activities		
Net change in deposits	6,519,270	4,039,148
Proceeds from long-term FHLB advances	--	6,000,000
Repayments of long-term FHLB advances	(1,254,807)	(9,416,184)
Cash distribution for redemption of common stock in conjunction with reverse stock split	(50,000)	(1,451,084)
Cash dividends paid	(531,918)	(651,020)
Net cash from financing activities	4,682,545	(1,479,140)
Net change in cash and cash equivalents	6,344,799	(2,035,049)
Cash and cash equivalents at beginning of year	4,506,811	6,541,860
Cash and cash equivalents at end of year	\$ 10,851,610	\$ 4,506,811
Supplemental cash flow information		
Interest paid	\$ 3,127,435	\$ 3,806,446
Income taxes paid	330,000	450,000
Supplemental noncash disclosures		
Transfer from loans to REO and repossessions	596,730	257,479

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation: The consolidated financial statements include Peoples-Sidney Financial Corporation (“Peoples”) and its wholly-owned subsidiary, Peoples Federal Savings and Loan Association (the “Association”), a federal stock savings and loan association, together referred to as the Corporation. Intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations: The Corporation provides financial services through its main office in Sidney, Ohio, and branch offices in Sidney, Anna and Jackson Center, Ohio. Its primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the area. Other financial instruments, which potentially represent concentrations of credit risk, include deposit accounts in other financial institutions and overnight deposits.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through August 30, 2010, which is the date that the Corporation’s financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with financial institutions, overnight deposits and time deposits with original maturities of 90 days or less. Overnight deposits are sold for one-day periods. Net cash flows are reported for loan and deposit transactions, as well as short-term borrowings under its cash management line of credit with the Federal Home Loan Bank of Cincinnati.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains or losses reported in other comprehensive income, net of tax.

Interest income includes amortization of premiums and accretion of discounts recognized on the level yield method. Realized gains and losses on sales of securities are recorded on the trade date and determined using the amortized cost of the specific security sold.

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. Management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank (FHLB) Stock: The Association is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less net deferred loan fees and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance using the interest method and includes amortization of net deferred loan fees over the loan term. Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based upon the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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 a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. 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.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception.

Servicing Assets: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income for servicing loans is based on a contractual percentage of the outstanding principal; or a fixed amount per loan and is recorded as income when earned. The amortization of mortgage servicing rights is netted against mortgage banking income.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. 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 the 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.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value at acquisition less estimated selling costs, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time the property is acquired is accounted for as a loan

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

charge-off. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Gains and losses on disposition, and changes in the valuation allowance are reported in net gain or loss on other real estate owned.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is calculated using the straight-line method based on the estimated useful lives of the assets. The useful lives range from 10 years to 40 years for building and improvements, 3 years to 20 years for furniture and equipment and 5 years for automobiles. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense as incurred and improvements are capitalized.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

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

Employee Stock Ownership Plan: The cost of shares issued to the Employee Stock Ownership Plan (“ESOP”), but not yet allocated to participants, is shown as a reduction of shareholders’ equity. Compensation expense is based on the average market price of shares as quoted on the Over the Counter Bulletin Board, as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest. Participants may exercise a put option and require the Corporation to repurchase their ESOP shares upon termination.

Stock-based Compensation: The Corporation measures compensation cost for all stock-based awards based on the grant-date fair value and recognizes compensation cost over the requisite service period of stock-based awards, which is usually the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model. Compensation expense related to management recognition plan share awards is based upon fair value of the shares at the date of grant.

No compensation expense was recognized in 2010 or 2009 for stock options or management recognition plan share awards as there were no unvested options or awards at July 1, 2008 and no grants have been awarded or modified since July 1, 2008.

Advertising Costs: Advertising costs are generally expensed as incurred. Advertising expense included in other noninterest expense totaled \$15,964 and \$41,238 for the years ending June 30, 2010 and 2009.

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans, issued to meet customer financing needs. 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.

Earnings Per Common Share: Basic earnings per common share ("EPS") is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. The Corporation had no potentially dilutive shares for the years ended June 30, 2010 or 2009.

Equity: Stock dividends in excess of 20% are considered stock splits and are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional share amounts are paid in cash with a reduction in retained earnings.

Dividend Restriction: Financial institution regulations require the maintenance of certain capital levels and may limit the amount of dividends that may be paid. For detail on dividend restrictions and regulatory capital requirements, see Note 11.

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

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

Restrictions on Cash: At June 30, 2010 and 2009, the Association was required to have \$39,000 and \$38,000 on deposit with its correspondent banks as a compensating clearing requirement.

Fair Values of Financial Instruments: Fair values 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.

Reclassifications: Reclassification of certain amounts in the prior years consolidated financial statements have been made to conform to the current presentation.

Adoption of New Accounting Standards: In May 2009, the FASB issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Companies should disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Companies are required to reflect in their financial statements the effects of subsequent events that provide additional

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

evidence about conditions at the balance-sheet date (recognized subsequent events). Companies are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for interim and annual financial periods ending after June 15, 2009 with prospective application. The effect of adopting this new guidance was not material to the Corporation's financial statements.

In June 2009, the FASB replaced *The Hierarchy of Generally Accepted Accounting Principles*, with the *FASB Accounting Standards Codification* (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

**NOTE 2 - SECURITIES AVAILABLE FOR SALE**

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows.

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>2010</u>				
U.S. Government agencies	<u>\$ 3,999,262</u>	<u>\$ 168,238</u>	<u>\$ --</u>	<u>\$ 4,167,500</u>
<u>2009</u>				
U.S. Government agencies	<u>\$ 1,999,016</u>	<u>\$ 91,604</u>	<u>\$ --</u>	<u>\$ 2,090,620</u>

Contractual maturities of securities available for sale at year-end 2010 were as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due after one year through five years	<u>\$ 3,999,262</u>	<u>\$ 4,167,500</u>

A security pledged at year-end 2010 and 2009 had a carrying amount of \$2,166,880 and \$2,090,620 and was pledged to secure public deposits and repurchase agreements. There were no sales of securities in 2010 or 2009.

At June 30, 2010 and 2009, the Corporation held no securities which were in an unrealized loss position.

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PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3 - LOANS**

Year-end loans were as follows.

	<u>2010</u>	<u>2009</u>
Mortgage loans:		
1-4 family residential	\$ 82,177,578	\$ 85,968,158
Multi-family residential	5,506,231	4,810,956
Commercial real estate	16,845,505	15,556,092
Real estate construction and development	1,004,223	1,750,311
Land	<u>2,734,435</u>	<u>2,494,014</u>
Total mortgage loans	108,267,972	110,579,531
Consumer loans	3,851,230	4,060,872
Commercial loans	<u>10,136,272</u>	<u>10,529,106</u>
Total loans	122,255,474	125,169,509
Less:		
Allowance for loan losses	(1,063,200)	(826,100)
Deferred loan fees	<u>(335,709)</u>	<u>(339,771)</u>
	<u>\$ 120,856,565</u>	<u>\$ 124,003,638</u>

At June 30, 2010 and 2009, there were no loans held for sale. Mortgage loans serviced for others are not reported as assets. The principal balance of these loans at June 30, 2010 and 2009 was \$527,887 and \$566,027, respectively. Servicing rights associated with the serviced loans totaled \$6,501 and \$7,083 at June 30, 2010 and 2009, respectively.

Activity in the allowance for loan losses was as follows.

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 826,100	\$ 679,800
Provision for losses	498,074	218,635
Charge-offs	(269,387)	(73,804)
Recoveries	<u>8,413</u>	<u>1,469</u>
Balance at end of year	<u>\$ 1,063,200</u>	<u>\$ 826,100</u>

Impaired loans were as follows.

	<u>2010</u>	<u>2009</u>
Impaired loans with no specific allowance for loan losses allocated	\$ 122,000	\$ --
Period-end impaired loans with specific allowance for loan losses allocated	3,817,000	1,485,000
Amount of the specific allowance allocated to impaired loans	350,000	236,000

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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**NOTE 3 - LOANS (Continued)**

	<u>2010</u>	<u>2009</u>
Average of impaired loans during the year	\$ 2,033,000	\$ 823,000
Interest income recognized during the year	69,073	13,705
Cash-basis interest income recognized	69,073	13,705

Nonperforming loans at year-end were as follows.

	<u>2010</u>	<u>2009</u>
Loans past due over 90 days still on accrual	\$ 205,000	\$ 297,000
Nonaccrual loans	6,108,000	3,245,000

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Loans to executive officers, directors and companies with which they are affiliated totaled \$2,330,000 at June 30, 2010 and \$2,019,000 at June 30, 2009.

**NOTE 4 - PREMISES AND EQUIPMENT**

Year-end premises and equipment was as follows.

	<u>2010</u>	<u>2009</u>
Land	\$ 225,166	\$ 225,166
Buildings and improvements	2,572,089	2,572,089
Furniture and equipment	1,780,647	1,754,001
Automobile	<u>25,680</u>	<u>25,680</u>
Total cost	4,603,582	4,576,936
Accumulated depreciation	<u>(2,982,635)</u>	<u>(2,857,862)</u>
	<u>\$ 1,620,947</u>	<u>\$ 1,719,074</u>

The Association entered into a lease for a branch in the Super Wal-Mart in Sidney that commenced in June 2001. The lease term was renewed for five years at \$39,750 annually which ends June 30, 2011. The lease has another five-year renewal period at \$49,688 annually which is expected to be renewed. Total rental expense was \$39,750 for both years ended June 30, 2010 and 2009. Rental commitments under the noncancelable operating lease, before considering the renewal option are \$39,750 for the year ending June 30, 2011.

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PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 - FEDERAL INCOME TAXES**

Income tax expense was as follows.

	<u>2010</u>	<u>2009</u>
Current	\$ 364,550	\$ 381,664
Deferred	<u>(40,850)</u>	<u>(83,686)</u>
	<u>\$ 323,700</u>	<u>\$ 297,978</u>

Effective tax rates differ from federal statutory rates applied to financial statement income due to the following.

	<u>2010</u>	<u>2009</u>
Income taxes computed at the statutory tax rate on pretax income	\$ 317,590	\$ 313,196
Add tax effect of:		
ESOP fair value book expense in excess of tax deduction	--	4,598
Nondeductible expenses and other	<u>6,110</u>	<u>(19,816)</u>
	<u>\$ 323,700</u>	<u>\$ 297,978</u>
Statutory tax rate	<u>34.0%</u>	<u>34.0%</u>
Effective tax rate	<u>34.7%</u>	<u>32.3%</u>

Year-end deferred tax assets and deferred tax liabilities were due to the following.

	<u>2010</u>	<u>2009</u>
Items giving rise to deferred tax assets		
Deferred loan fees	\$ 113,518	\$ 114,589
Reserve for delinquent interest	15,464	55,042
Allowance for loan losses	361,488	280,874
Accrued compensation	4,483	2,967
OREO writedowns	1,530	--
Accrued ESOP expense	<u>--</u>	<u>9,385</u>
Total deferred tax assets	496,483	462,857
Items giving rise to deferred tax liabilities		
Prepaid expenses	(51,943)	(45,997)
Securities accretion	(585)	(502)
Depreciation	(11,767)	(24,822)
FHLB stock dividends	(429,729)	(429,729)
Unrealized gain on securities available for sale	(57,197)	(31,142)
Mortgage servicing rights	<u>(2,210)</u>	<u>(2,408)</u>
Total deferred tax liabilities	<u>(553,431)</u>	<u>(534,600)</u>
Net deferred tax asset (liability)	<u>\$ (56,948)</u>	<u>\$ (71,743)</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 - FEDERAL INCOME TAXES (Continued)**

Retained earnings at June 30, 2010 and 2009 included approximately \$2,174,000 for which no provision for federal income taxes had been made. This amount represents the qualifying and nonqualifying tax bad debt reserve as of December 31, 1987, which is the end of the Association's base year for purposes of calculating the bad debt deduction for tax purposes. If this portion of retained earnings is used in the future for any purpose other than to absorb bad debts, it will be added to future taxable income. The related amount of unrecognized deferred tax liability was approximately \$739,000 at June 30, 2010 and 2009.

The Corporation and its subsidiary are subject to U.S. federal income tax. There were no penalties or interest recorded in the income statement for the years ended June 30, 2010 and 2009 and no amounts accrued for penalties and interest as of June 30, 2010 and 2009. There are no unrecognized tax benefits as of June 30, 2010 and 2009. The Corporation is no longer subject to examination by taxing authorities for years before 2006.

**NOTE 6 - DEPOSITS**

Year-end deposits were as follows.

	<u>2010</u>	<u>2009</u>
Noninterest-bearing demand deposits	\$ 2,250,574	\$ 1,011,939
NOW accounts	7,602,325	6,968,314
Money market accounts	19,078,425	8,163,701
Savings accounts	23,890,104	23,487,550
Certificates of deposit	<u>38,714,092</u>	<u>45,384,746</u>
	<u>\$ 91,535,520</u>	<u>\$ 85,016,250</u>

Deposits at FDIC-insured institutions are now insured up to \$250,000 per depositor for each account ownership category. The aggregate amount of certificates of deposit with a minimum denomination of \$250,000 was \$2,934,000 and \$4,994,000 at June 30, 2010 and 2009, respectively. The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was \$8,869,000 and \$11,261,000 at June 30, 2010 and 2009 respectively. Related party deposits were \$803,000 and \$682,000 at June 30, 2010 and 2009.

The scheduled maturities of certificates of deposit as of June 30, 2010 were as follows.

Year ended June 30,	
2011	\$ 21,897,196
2012	9,708,805
2013	3,749,173
2014	1,240,115
2015	<u>2,118,803</u>
	<u>\$ 38,714,092</u>

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - BORROWED FUNDS**

At June 30, 2010, the Association had a cash management line of credit enabling it to borrow up to \$8,000,000 from the Federal Home Loan Bank of Cincinnati ("FHLB"). All cash management advances have an original maturity of 90 days. The line of credit must be renewed on an annual basis. There were no outstanding borrowings on this line of credit at June 30, 2010 or 2009.

At June 30, 2010, based on the Association's current FHLB stock ownership, total assets and pledgable residential mortgage loan portfolio, the Association had the ability to obtain borrowings up to a maximum of \$44.4 million.

Advances from the Federal Home Loan Bank at year-end were as follows.

	<u>2010</u>	<u>2009</u>
Fixed rate advances with rates ranging from 2.41% to 5.12%, maturities ranging from July 2010 to June 2013 for 2010 and 2009	\$ 23,000,000	\$ 23,000,000
Select pay mortgage-matched advances with rates ranging from 3.31% to 5.35%, final maturities ranging from May 2011 to March 2023 for 2010 and 2009	4,914,300	6,169,107
Convertible advances, rate 6.27%, final maturity September 2010 for 2010 and 2009	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 32,914,300</u>	<u>\$ 34,169,107</u>

Fixed rate advances are payable at the maturity date and subject to prepayment penalties. The interest rates on the convertible advances are fixed for a specified number of years, then convertible on a quarterly basis to a variable rate at the option of the FHLB. If the convertible option is exercised, the advance may be prepaid without penalty. The select pay mortgage-matched advances require monthly principal and interest payments and annual additional principal payments.

Advances under the borrowing agreements were collateralized by the Association's FHLB stock owned and \$87,002,000 and \$91,448,000 of qualifying mortgage loans at year-end 2010 and 2009.

Maturities of FHLB advances for the next five years and thereafter were as follows.

Year ended June 30,	
2011	\$ 8,108,153
2012	11,743,736
2013	10,590,992
2014	417,525
2015	367,511
Thereafter	<u>1,686,383</u>
	<u>\$ 32,914,300</u>

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PEOPLES-SIDNEY FINANCIAL CORPORATION  
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**NOTE 8 - RETIREMENT PLANS**

The Corporation maintains a 401(k) profit sharing plan. With certain exceptions, all employees who have attained the age of 21 and who have completed one year of employment, during which they worked at least 1,000 hours, are eligible to participate in the plan. The Corporation provides a matching contribution on behalf of participants who make elective compensation deferrals at the rate of 50% of the first 6% of participant contributions up to a maximum match of 3% of the participant's compensation. Effective July 1, 2010, the Corporation will provide a matching contribution on behalf of participants who make elective compensation deferrals at the rate of 100% of the first 6% of participant contributions up to a maximum match of 6% of the participant's compensation. The Corporation may change this matching formula at their discretion. The Corporation may also contribute additional amounts at its discretion. Employee contributions are vested at all times and the Corporation's matching contributions vest evenly over five years of service. The cash contribution and related expense included in salaries and employee benefits was \$36,231 and \$37,442 for the years ended June 30, 2010 and 2009.

**NOTE 9 - EMPLOYEE STOCK OWNERSHIP PLAN**

The Corporation offers an employee stock ownership plan ("ESOP") for the benefit of substantially all employees of the Corporation. The ESOP received a favorable determination letter from the Internal Revenue Service on the qualified status of the ESOP under applicable provisions of the Internal Revenue Code. The ESOP borrowed funds from Peoples in order to acquire common shares of Peoples. The loan is secured by the shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Association's discretionary contributions to the ESOP, dividends on unallocated shares received by the ESOP and earnings on ESOP assets. When loan payments are made, ESOP shares are allocated to participants based on relative compensation. Dividends on allocated shares increase participant accounts.

Participants receive the shares at the end of employment. A participant may require stock received to be repurchased by the Corporation unless the stock is traded on an established market. Contributions to the ESOP during 2010 and 2009 were \$109,138 and \$116,255. ESOP compensation expense was \$70,724 and \$92,795 for the years ended June 30, 2010 and 2009. As of June 30, 2010, all shares in the ESOP have been allocated.

Year-end ESOP shares were as follows.

	<u>2010</u>	<u>2009</u>
Allocated shares	155,783	146,904
Unreleased shares	<u>          --</u>	<u>          8,879</u>
Total ESOP shares	<u>          155,783</u>	<u>          155,783</u>
Fair value of unreleased shares	<u>\$          --</u>	<u>\$          86,215</u>
Fair value of allocated shares subject to repurchase obligation	<u>\$  1,587,429</u>	<u>\$  1,426,438</u>

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
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**NOTE 10 - MANAGEMENT RECOGNITION PLAN**

A Management Recognition Plan (“MRP”) was adopted by the Board of Directors and approved by the shareholders of the Corporation on May 22, 1998 to purchase 71,415 common shares. The MRP is used as a means of providing directors and certain key employees of the Corporation with an ownership interest in the Corporation in a manner designed to compensate such directors and key employees for services to the Corporation.

In conjunction with the adoption of the MRP on May 22, 1998, the Board of Directors awarded 57,128 shares to certain directors, officers and employees of the Corporation. No shares had been previously awarded. One-fifth of such shares were earned and nonforfeitable on each of the first five anniversaries of the date of the award. All MRP shares outstanding fully vested on May 22, 2003. At June 30, 2010, there were 14,287 shares reserved for future awards and held as treasury stock. There was no compensation expense in 2010 or 2009.

**NOTE 11 - REGULATORY MATTERS**

The Association is subject to various regulatory capital requirements administered by the federal regulatory agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators. Failure to meet minimum capital requirements can initiate regulatory action.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

At June 30, 2010 and 2009, management believes the Association complies with all regulatory capital requirements. Based on the Association’s computed regulatory capital ratios, the Association is considered well capitalized under the Federal Deposit Insurance Act at June 30, 2010 and 2009. No conditions or events have occurred subsequent to the last notification by regulators that management believes would change the Association’s category.

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
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**NOTE 11 - REGULATORY MATTERS (Continued)**

At year-end 2010 and 2009, the Association's actual capital levels and minimum required levels were as follows.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective-Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
			(Dollars in thousands)			
<u>2010</u>						
Total capital (to risk-weighted assets)	\$ 16,126	18.2%	\$ 7,107	8.0%	\$ 8,884	10.0%
Tier 1 (core) capital (to risk-weighted assets)	15,157	17.1	3,554	4.0	5,330	6.0
Tier 1 (core) capital (to adjusted total assets)	15,157	10.8	5,629	4.0	7,037	5.0
Tangible capital (to adjusted total assets)	15,157	10.8	2,111	1.5	N/A	
<u>2009</u>						
Total capital (to risk-weighted assets)	\$ 15,123	17.0%	\$ 7,126	8.0%	\$ 8,908	10.0%
Tier 1 (core) capital (to risk-weighted assets)	14,419	16.2	3,563	4.0	5,345	6.0
Tier 1 (core) capital (to adjusted total assets)	14,419	10.6	5,418	4.0	6,773	5.0
Tangible capital (to adjusted total assets)	14,419	10.6	2,032	1.5	N/A	

The Qualified Thrift Lender test requires at least 65% of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or the Association must convert to a commercial bank charter. Management believes the Association satisfies this test.

When the Association converted from a mutual to a stock institution, a "liquidation account" was established at \$9,307,000, which was net worth reported in the conversion prospectus. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would receive a distribution from this account if the Association liquidated. Dividends may not reduce shareholders' equity below the required liquidation account balance.

In addition to the liquidation account restriction discussed above, OTS regulations limit capital distributions by savings associations. Generally, capital distributions are permitted without notice or application to the OTS if the distributions are limited to current year to date undistributed net income and prior two years' undistributed net income, as long as the institution remains well capitalized after the proposed distribution. If dividends to be paid would exceed the net income test, an application would be required. This evaluation is made for the Association on a calendar year basis. Based on this calculation, the Association currently has \$806,000 plus any retained profits for the period from July 1, 2010 through December 31, 2010 available to pay dividends to the holding company through the remainder of calendar year 2010 without prior regulatory approval.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 12 - OFF-BALANCE-SHEET ACTIVITIES**

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year-end.

	<u>2010</u>	<u>2009</u>
1-4 family residential real estate – fixed rate	\$ 335,000	\$ 774,000
1-4 family residential real estate – variable rate	494,000	552,000
Commercial real estate – variable rate	--	218,000
Commercial lines of credit – variable rate	2,811,000	2,564,000
Home equity lines of credit – variable rate	696,000	703,000

The interest rate on fixed-rate commitments ranged from 5.75% to 6.375% at June 30, 2010 and 6.375% to 6.75% at June 30, 2009. Commitments to make loans are generally made for a period of 30 days or less. The maximum maturity for fixed-rate commitments range from 10 years to 20 years.

**NOTE 13 - FAIR VALUE**

Fair value is 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. There are 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 a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of the Corporation's valuation methodologies used to measure and disclose the fair values of its financial assets and liabilities on a recurring or nonrecurring basis:

Securities Available-For-Sale: Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. Security fair values are calculated based on market prices of similar securities.

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 13 - FAIR VALUE (Continued)**

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

June 30, 2010	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities				
U.S. Government Agencies	\$ 4,167,500	\$ --	\$ 4,167,500	\$ --

June 30, 2009	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities				
U.S. Government Agencies	\$ 2,090,620	\$ --	\$ 2,090,620	\$ --

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

June 30, 2010	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans	\$ 3,467,800	\$ --	\$ --	\$ 3,467,800
Other real estate owned	\$ 64,614	\$ --	\$ --	\$ 64,614

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 13 - FAIR VALUE (Continued)**

	Carrying Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2009				
Assets:				
Impaired loans	\$ 1,249,000	\$ --	\$ --	\$ 1,249,000

Impaired loans, which are usually measured for impairment using the fair value of the collateral, had a principal balance of \$3,817,000 with a specific valuation allowance of \$350,000 at June 30, 2010, resulting in an additional provision for loan losses of \$192,000 for the fiscal year ended June 30, 2010.

At June 30, 2009 impaired loans had a principal balance of \$1,485,000 with a specific valuation allowance of \$236,000 resulting in an additional provision for loan losses of \$211,000 for the fiscal year ended June 30, 2009.

Other real estate owned, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of \$64,614 at June 30, 2010, which is made up of the outstanding balance of \$69,114, net of a valuation allowance of \$4,500 at June 30, 2010, resulting in a write-down of \$4,500 for the year ended June 30, 2010.

The carrying amounts and estimated fair values of financial instruments at year-end were as follows.

	<u>2010</u>		<u>2009</u>	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 10,851,610	\$ 10,851,610	\$ 4,506,811	\$ 4,506,811
Securities available for sale	4,167,500	4,167,500	2,090,620	2,090,620
Federal Home Loan Bank stock	1,894,500	N/A	1,894,500	N/A
Loans, net	120,856,565	121,857,695	124,003,638	123,891,653
Accrued interest receivable	741,113	741,113	781,287	781,287
Financial liabilities:				
Deposits	(91,535,520)	(92,227,929)	(85,016,250)	(86,251,778)
Borrowed funds	(32,914,300)	(35,473,447)	(34,169,107)	(36,449,817)
Accrued interest payable	(133,723)	(133,723)	(148,720)	(148,720)

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PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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**NOTE 13 - FAIR VALUE (Continued)**

The estimated fair value approximates carrying amounts for all items except those described below. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practical to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements, which are not material.

**NOTE 14 - EARNINGS PER SHARE**

The factors used in the earnings per share computation follows.

	<u>2010</u>	<u>2009</u>
Basic and diluted Net income	<u>\$ 610,389</u>	<u>\$ 623,187</u>
Weighted average common shares outstanding	1,245,897	1,255,361
Less: Average unallocated ESOP shares	<u>(4,439)</u>	<u>(13,608)</u>
Weighted average common shares outstanding for basic and diluted earnings per common share	<u>1,241,458</u>	<u>1,241,753</u>
Basic and diluted earnings per common share	<u>\$ 0.49</u>	<u>\$ 0.50</u>

There were no stock based compensation plans with outstanding awards as of or during the years ended June 30, 2010 or 2009.

**NOTE 15 - OTHER COMPREHENSIVE INCOME (LOSS)**

Other comprehensive income (loss) components and related taxes were as follows.

	<u>2010</u>	<u>2009</u>
Unrealized holding gains and (losses) on available-for-sale securities	\$ 76,634	\$ 103,494
Tax effect	<u>(26,055)</u>	<u>(35,187)</u>
Other comprehensive income (loss)	<u>\$ 50,579</u>	<u>\$ 68,307</u>

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2010 and 2009

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**NOTE 16 - STOCK SPLITS**

On July 30, 2008 the Corporation's shareholders approved a 1-for-600 reverse stock split, followed immediately by a 600-for-1 forward stock split of the Corporation's common shares outstanding. Shareholders of record owning fewer than 600 common shares received a cash payment of \$13.47 per share. The transaction resulted in the repurchase of 115,151 shares for a total amount of \$1,551,084 to those shareholders of record. During the years ended June 30, 2010 and 2009, the Corporation distributed \$50,000 and \$1,451,084 for the redemption of shares in the transaction. As of June 30, 2010, \$50,000 remains obligated for share redemption and is included in accred interest payable and other liabilities.

The stock splits were part of a going-private transaction. After the completion of the stock splits, the Corporation had less than 300 shareholders and suspended its Securities and Exchange Commission (SEC) reporting.

**NOTE 17 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

Following is condensed financial information of Peoples-Sidney Financial Corporation as of June 30, 2010 and 2009, and for the periods ended June 30, 2010 and 2009.

CONDENSED BALANCE SHEETS  
 June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents	\$ 510,572	\$ 1,049,645
Investment in subsidiary	15,268,377	14,479,411
Loans receivable from ESOP	--	102,021
Other assets	<u>749</u>	<u>--</u>
Total assets	<u>\$ 15,779,698</u>	<u>\$ 15,631,077</u>
Liabilities and shareholders' equity		
Other liabilities	\$ 51,348	\$ 102,501
Shareholders' equity	<u>15,728,350</u>	<u>15,528,576</u>
Total liabilities and shareholders' equity	<u>\$ 15,779,698</u>	<u>\$ 15,631,077</u>

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(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 17 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)**

CONDENSED STATEMENTS OF INCOME  
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Income		
Dividend income from subsidiary	\$ --	\$ 920,000
Interest on loans	<u>7,116</u>	<u>14,233</u>
	7,116	934,233
Other expenses	<u>87,872</u>	<u>98,607</u>
Income (loss) before taxes and undistributed earnings of subsidiary	(80,756)	835,626
Income tax benefit	<u>(27,300)</u>	<u>(28,600)</u>
Income (loss) before undistributed earnings of subsidiary	(53,456)	864,226
Equity in undistributed earnings of subsidiary (distributions in excess of earnings)	<u>663,845</u>	<u>(241,039)</u>
Net income	<u>\$ 610,389</u>	<u>\$ 623,187</u>

CONDENSED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	\$ 610,389	\$ 623,187
Adjustments to reconcile net income to cash provided by operations:		
(Equity in undistributed income of subsidiary) distributions in excess of earnings	(663,845)	241,039
Net change in other assets and liabilities	<u>(1,902)</u>	<u>1,398</u>
Net cash from operating activities	(55,358)	865,624
Cash flows from investing activities		
Proceeds from loan principal repayments	<u>102,021</u>	<u>102,022</u>
Net cash from investing activities	102,021	102,022
Cash flows from financing activities		
Cash distribution for redemption of common stock in conjunction with reverse stock split	(50,000)	(1,451,084)
Cash dividends paid	(531,918)	(651,020)
Dividends on unallocated ESOP shares	<u>(3,818)</u>	<u>(9,719)</u>
Net cash from financing activities	<u>(585,736)</u>	<u>(2,111,823)</u>
Net change in cash and cash equivalents	(539,073)	(1,144,177)
Cash and cash equivalents at beginning of year	<u>1,049,645</u>	<u>2,193,822</u>
Cash at end of year	<u>\$ 510,572</u>	<u>\$ 1,049,645</u>

PEOPLES-SIDNEY FINANCIAL CORPORATION

**SHAREHOLDER INFORMATION**

**ANNUAL MEETING**

The Annual Meeting of Shareholders will be held at 11:00 a.m., Sidney, Ohio on October 8, 2010, at the Hampton Inn, I-75 and Fair Road, Sidney, Ohio. Further information with regard to the meeting can be found in the proxy statement.

**STOCK LISTING**

Peoples-Sidney Financial Corporation common stock is traded on the OTC Bulletin Board under the symbol "PPSF."

**SHAREHOLDERS AND GENERAL INQUIRIES**

Douglas Stewart, President  
Peoples-Sidney Financial Corporation  
101 East Court Street  
P.O. Box 727  
Sidney, Ohio 45365-3021  
(937) 492-6129

**TRANSFER AGENT**

Registrar and Transfer Co.  
10 Commerce Drive  
Cranford, NJ 07016

**ANNUAL AND OTHER REPORTS**

A copy of Peoples-Sidney Financial Corporation's Annual Report for the year ended June 30, 2010, may be obtained without charge by contacting Douglas Stewart, President and Chief Executive Officer, Peoples-Sidney Financial Corporation, 101 East Court Street, P.O. Box 727, Sidney, Ohio 45365-3021.

PEOPLES-SIDNEY FINANCIAL CORPORATION

**CORPORATE INFORMATION**

**CORPORATION AND ASSOCIATION ADDRESS**

101 East Court Street  
P.O. Box 727  
Sidney, Ohio 45365-3021

Telephone: (937) 492-6129  
Fax: (937) 498-4554

**BOARD OF DIRECTORS**

Douglas Stewart  
*President and Chief Executive Officer of  
Peoples Federal Savings and Loan Association*

Harry N. Faulkner  
*Partner in the law firm of Faulkner, Garmhausen,  
Keister & Shenk LPA*

Jeffery S. Sargeant  
*Owner and President of Community  
Insurance Group, Ltd., a full line insurance  
company*

James W. Kerber  
*Owner of James W. Kerber CPA, a private practice  
accounting firm*

Richard T. Martin (Chairman of the Board)  
*Certified Public Accountant, in the CPA firm  
of McCrate, Delaet & Company*

**OFFICERS OF THE CORPORATION AND  
THE ASSOCIATION**

Douglas Stewart, President & CEO  
David R. Fogt, VP Financial Services and  
Operations  
Gary N. Fullenkamp, VP Mortgage Loans  
and Corporate Secretary  
Debra A. Geuy, Chief Financial Officer and  
Treasurer

**SPECIAL COUNSEL**

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2900 K Street NW  
Suite 200  
Washington, D.C. 20007-5118

**INDEPENDENT AUDITORS**

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One Columbus  
10 West Broad Street  
Columbus, Ohio 43215