

2009 Financial Comments

In 2009, the weak economic climate, deteriorating real estate market and punitive regulatory environment had an adverse impact on Oxford Bank's performance. As a result, the Bank dedicated considerable resources to manage non-performing assets, address fundamental credit issues in the loan portfolio and comply with regulatory enforcement provisions. These efforts required additional loan loss reserve allocations, and resulted in elevated legal fees, increased costs associated with maintaining bank owned properties and significant professional and regulatory expenses.

During the year, management strategically reduced the size of the organization to preserve capital and improve the efficiency of the balance sheet. Total Assets as of December 31, 2009 were \$330.821 million, a decrease of \$31.736 million from the prior year. This was the result of selectively reducing deposit balances to correspond with the declining loan portfolio. However during this process, the Bank continued to maintain a high level of liquidity and increased access to alternative funding sources.

Quality new loan opportunities were limited given the economic environment as total gross loans declined to \$227.949 million as of December 31, 2009, a \$45.944 million reduction from 2008. All loan categories decreased in 2009 as a result of maturities, principal payments, charge offs and foreclosures.

The Company's allowance for loan losses remains at a level consistent with the inherent losses in the portfolio. Total net charge offs for 2009 were \$7.166 million, a substantial reduction from the \$16.328 million reported for the same period of 2008. Due to the reduced charge off activity, the Bank only provided \$5.850 million in provision during 2009, compared to the \$17.300 million recorded in 2008, a reduction of \$11.450 million. As of December 31, 2009, the allowance for loan loss relative to total loans was 4.10%, an increase from the 3.89% reported in 2008. The increase in the coverage ratio of allowance to total loans was due to a significant reduction in the amount of loans charged off as a loss and a smaller average portfolio balance.

Other Real Estate Owned ("OREO") totaled \$10.068 million as of December 31, 2009, an increase of \$3.195 million from 2008. The growth in OREO properties was attributable to an increase in the volume of foreclosed properties and a fragile employment market. In 2009, the Bank transferred 96 properties, totaling \$12.433 million from the loan portfolio to OREO and was successful in selling 64 foreclosed homes representing \$7.686 million, for a net increase of 32 properties. As of December 31, 2009 the Bank had 86 commercial and residential properties in OREO.

Non-performing assets increased from \$22.281 million in 2008 to \$28.053 million as of December 31, 2009. This increase was due to elevated levels of OREO properties and an increase in non-accrual loans. Non-accrual loans are credits currently in the portfolio that are classified as impaired due to the inability of the customer to make payments based on the contractual terms of the loan agreement. These loans do not generate income and are required to be recorded at fair value.

Total deposits as of December 31, 2009 were \$315.196 million, a reduction of \$25.704 million from 2008. The Bank strategically reduced the size of the deposit portfolio to increase the efficiency of the balance sheet and reduce funding costs. This was achieved without negatively impacting liquidity or core customer relationships. Oxford Bank also elected to participate in the Transaction Account Guarantee Program, providing the highest level of insurance coverage to our customers.

Management successfully reduced the assets size of the institution allowing the Bank to maintain a Tier 1 capital to asset ratio of 4.02% as of December 31, 2009. However, the Bank is in violation of the capital requirement of the Order and is classified as undercapitalized under the Prompt Corrective Action provisions of the FDIC Act. The Board and management continue to aggressively pursue all alternatives to increase capital to the required regulatory levels.

The financial results of the Corporation improved in 2009 as a result of the tax impact of the increased look back period for net operating losses, one time gains from security sales, cost reduction initiatives and strategic balance sheet management. For the year ended December 31, 2009, the Corporation reported a net loss of \$3.762 million compared to a \$20.213 million net loss for the same period in 2008. The pre-tax net loss for the year ended December 31, 2009 was reduced by 62.4% compared to the same period in 2008.

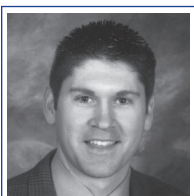
Interest income for the year ended December 31, 2009 was \$16.972 million, compared to \$22.798 million for the same period in 2008. The decrease was a result of a 16.3% reduction in earning assets, a \$5.772 million increase in non-performing loans and the restructuring of the investment portfolio. Total interest expense for the year ended December 31, 2009 was \$5.618 million, compared to \$8.836 million for the same period in 2008, a decrease of \$3.218 million. Net interest margin, representing net interest income relative to average earning assets was 3.69% for the year-to-date period ended December 31, 2009, compared to 3.74% for the same period of 2008. Management was able to maintain a strong net interest margin despite a decline in loan balances, elevated levels of non-accrual loans and a change in the composition of the investment portfolio. Management was successful in maintaining the earnings capacity of the balance sheet by implementing effective pricing strategies on deposit and loan products. Although we are operating in a historically low interest rate environment and have experienced an increase in non-performing loans, the core earnings of the Bank remain strong.

Non-interest income for the year ended December 31, 2009, was \$3.433 million compared to \$2.767 million for the same period in 2008. The improvement was from the sale of various securities during 2009, generating income totaling \$1.324 million. The securities were sold to mitigate the interest rate risk of the balance sheet, modify the mix of the portfolio and reduce the maturity profile of the Banks investments.

Management aggressively reduced operating expenses in 2009. Non-interest expense for the year ended December 31, 2009, was \$15.865 million, a \$2.000 million decline from the \$17.865 million reported for the same period in 2008. The savings were realized from reductions in Salaries and Other Loan Expense. Salary expense was reduced by \$1.099 million in 2009 compared to the prior year. This was the result of making difficult but necessary staffing reductions to be consistent with the size and capacity of the organization. Other loan expense totaled \$3.523 million for the year ended December 31, 2009, a reduction of 25.1% or \$1.180 million from 2008. During 2009, OREO properties were written down \$1.367 million due to the continued decline in property values. In addition, the Bank paid \$1.196 million for delinquent property taxes on OREO properties and homes in the process of foreclosure. The remaining costs of \$.960 million in Other Loan Expense relate to legal fees, repair costs, utilities and professional expenses. The Bank also paid \$1.929 million in FDIC insurance premiums for fiscal year 2009, compared to \$.917 million in 2008. During 2009, Other Loan Expense and FDIC insurance costs represented 34.4% of the total operating expenses of the organization.

In 2009, management successfully implemented several strategic objectives including maintaining proper balance sheet structure, increasing liquidity levels and reducing operating costs to preserve capital and mitigate the impact of non-performing assets on the results of the company. Management also tightened underwriting standards, restructured the collection department, and allocated significant resources to workout efforts. Additionally, management looked for opportunities to improve the operational efficiency of the organization. As a result, the operating performance of the Bank improved from 2008 and progress is being realized on problem assets. Management will continue to dedicate the necessary resources to generate positive results and address the asset quality issues and cost structure of the Bank.

Sincerely,



A handwritten signature in black ink that reads "Thomas H. Dorr".

Thomas H. Dorr
VP, Chief Financial Officer
Oxford Bank Corporation