

PEOPLES-SIDNEY FINANCIAL CORPORATION
Sidney, Ohio

ANNUAL REPORT
June 30, 2009

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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>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)				
Total amount of:					
Assets	\$ 135,422	\$ 136,186	\$ 138,308	\$ 139,047	\$ 136,695
Securities available for sale	2,091	1,987	4,848	5,250	5,434
FHLB stock	1,895	1,869	1,821	1,768	1,674
Loans, net (1)	124,004	122,563	121,487	124,171	121,110
Deposits	85,016	80,977	82,479	82,819	85,931
Borrowed funds	34,169	37,585	38,189	38,511	32,589
Common stock in ESOP subject to repurchase obligation	--	--	1,677	1,757	--
Shareholders' equity	15,529	16,946	15,258	15,500	17,761
	<u>Year ended June 30,</u>				
<u>Selected Operations Data:</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)				
Interest income	\$ 8,254	\$ 8,949	\$ 8,981	\$ 8,415	\$ 7,803
Interest expense	<u>3,765</u>	<u>4,301</u>	<u>4,231</u>	<u>3,628</u>	<u>3,189</u>
Net interest income	4,489	4,648	4,750	4,787	4,614
Provision for loan losses	<u>218</u>	<u>171</u>	<u>2</u>	<u>72</u>	<u>92</u>
Net interest income after provision for loan losses	4,271	4,477	4,748	4,715	4,522
Noninterest income	120	127	132	134	105
Noninterest expense	<u>3,470</u>	<u>3,378</u>	<u>3,295</u>	<u>3,223</u>	<u>3,098</u>
Income before income taxes	921	1,226	1,585	1,626	1,529
Income tax expense	<u>298</u>	<u>441</u>	<u>565</u>	<u>587</u>	<u>551</u>
Net income	<u>\$ 623</u>	<u>\$ 785</u>	<u>\$ 1,020</u>	<u>\$ 1,039</u>	<u>\$ 978</u>
Earnings per common share - basic	<u>\$ 0.50</u>	<u>\$ 0.59</u>	<u>\$ 0.76</u>	<u>\$ 0.76</u>	<u>\$ 0.71</u>
Earnings per common share - diluted	<u>\$ 0.50</u>	<u>\$ 0.59</u>	<u>\$ 0.76</u>	<u>\$ 0.76</u>	<u>\$ 0.71</u>
Dividends declared per share	<u>\$ 0.53</u>	<u>\$ 0.74</u>	<u>\$ 0.74</u>	<u>\$ 0.72</u>	<u>\$ 0.67</u>

(Continued)

Selected Financial Ratios and Other Data:

Performance Ratios:	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Return on assets (ratio of net income to average total assets)	0.46%	0.57%	0.74%	0.75%	0.72%
Return on equity (ratio of net income to average equity) (8)	3.99	4.65	6.03	5.99	5.58
Dividend payout ratio (6)	106.00	125.42	97.37	94.74	94.37
Interest rate spread (2)	3.10	3.12	3.15	3.24	3.20
Net interest margin (3)	3.40	3.52	3.53	3.58	3.51
Ratio of operating expense to average total assets	2.54	2.47	2.38	2.34	2.29
Ratio of average interest-earning assets to average interest-bearing liabilities	1.11x	1.12x	1.12x	1.13x	1.13x
Quality Ratios:					
Nonperforming assets to total assets at end of period (4)	2.81%	2.01%	1.43%	1.44%	1.22%
Allowance for loan losses to nonperforming loans	23.32	29.52	36.11	47.03	50.12
Allowance for loan losses to gross loans (5)	0.66	0.55	0.54	0.71	0.69
Capital Ratios:					
Shareholders' equity to total assets at end of period (8)	11.47	12.44	12.24	12.41	12.99
Average equity to average assets (8)	11.42	12.36	12.21	12.60	12.94
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.

(Continued)

Year ended June 30,

	2009			2008		
	Average outstanding balance	Interest earned/ paid	Yield/ rate	Average outstanding balance	Interest earned/ paid	Yield/ rate
(Dollars in thousands)						
ASSETS:						
Interest-earning assets:						
Interest-earning deposits	\$ 4,418	\$ 13	0.29%	\$ 5,831	\$ 169	2.91%
Securities available for sale (1)	2,057	80	4.01	3,574	161	4.47
Loans (2)	123,586	8,070	6.53	120,954	8,508	7.03
FHLB stock	<u>1,888</u>	<u>91</u>	4.83	<u>1,827</u>	<u>111</u>	6.06
Total interest-earning assets	<u>131,949</u>	<u>8,254</u>	<u>6.26</u>	<u>132,186</u>	<u>8,949</u>	<u>6.77</u>
Noninterest-earning assets:						
Cash and due from banks	1,774			1,276		
Premises and equipment, net	1,743			1,830		
Accrued interest and other assets	<u>1,286</u>			<u>1,317</u>		
Total noninterest-earning assets	<u>4,803</u>			<u>4,423</u>		
Total assets	<u>\$ 136,752</u>			<u>\$ 136,609</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY:						
Interest-bearing liabilities:						
Savings deposits	\$ 22,944	\$ 142	0.62%	\$ 22,733	\$ 170	0.75%
Demand and NOW deposits	13,451	117	0.87	12,106	122	1.01
Certificate accounts	<u>45,090</u>	<u>1,658</u>	3.68	<u>45,897</u>	<u>2,037</u>	4.44
Total interest-bearing deposits	81,485	1,917	2.35	80,736	2,329	2.88
Borrowed funds	<u>37,598</u>	<u>1,848</u>	4.91	<u>37,066</u>	<u>1,972</u>	5.32
Total interest-bearing liabilities	<u>119,083</u>	<u>3,765</u>	<u>3.16</u>	<u>117,802</u>	<u>4,301</u>	<u>3.65</u>
Noninterest-bearing liabilities						
Demand deposits	1,146			1,122		
Accrued interest payable and other liabilities	<u>900</u>			<u>795</u>		
Total noninterest-bearing liabilities	<u>2,046</u>			<u>1,917</u>		
Total liabilities	121,129			119,719		
Common stock in ESOP subject to repurchase obligation	--			1,543		
Total shareholders' equity	<u>15,623</u>			<u>15,347</u>		
Total liabilities and shareholders' equity	<u>\$ 136,752</u>			<u>\$ 136,609</u>		
Net interest income; interest rate spread (3)		<u>\$ 4,489</u>	<u>3.10%</u>		<u>\$ 4,648</u>	<u>3.12%</u>
Net earning assets	<u>\$ 12,866</u>			<u>\$ 14,384</u>		
Net interest margin (4)			<u>3.40%</u>			<u>3.52%</u>
Average interest-earning assets to interest-bearing liabilities	<u>1.11x</u>			<u>1.12x</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, 2009 and 2008 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, 2009 and 2008, 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 25, 2009

PEOPLES-SIDNEY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and due from financial institutions	\$ 1,968,177	\$ 1,500,977
Interest-bearing deposits in other financial institutions	<u>2,538,634</u>	<u>5,040,883</u>
Total cash and cash equivalents	4,506,811	6,541,860
Securities available for sale	2,090,620	1,986,880
Federal Home Loan Bank stock	1,894,500	1,869,300
Loans, net of allowance of \$826,100 and \$679,800	124,003,638	122,562,850
Accrued interest receivable	781,287	853,337
Premises and equipment, net	1,719,074	1,766,440
Other real estate owned and repossessions	259,463	438,463
Other assets	<u>166,644</u>	<u>166,682</u>
 Total assets	 <u>\$ 135,422,037</u>	 <u>\$ 136,185,812</u>
 LIABILITIES		
Deposits	\$ 85,016,250	\$ 80,977,102
Borrowed funds	34,169,107	37,585,291
Accrued interest payable and other liabilities	<u>708,104</u>	<u>677,028</u>
Total liabilities	119,893,461	119,239,421
 SHAREHOLDERS' EQUITY		
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 and 1,785,375 shares issued	16,702	17,854
Additional paid-in capital	9,280,322	10,848,436
Retained earnings	11,473,632	11,501,465
Treasury stock, 424,327 shares at cost	(5,198,322)	(5,198,322)
Unearned employee stock ownership plan shares	(104,220)	(215,197)
Accumulated other comprehensive loss	<u>60,462</u>	<u>(7,845)</u>
Total shareholders' equity	<u>15,528,576</u>	<u>16,946,391</u>
 Total liabilities and shareholders' equity	 <u>\$ 135,422,037</u>	 <u>\$ 136,185,812</u>

See accompanying notes to consolidated financial statements.

PEOPLES–SIDNEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest income		
Loans, including fees	\$ 8,069,964	\$ 8,508,238
Securities	80,246	160,972
Demand, time and overnight deposits	12,684	169,393
Dividends on Federal Home Loan Bank stock	<u>91,168</u>	<u>110,624</u>
Total interest income	8,254,062	8,949,227
Interest expense		
Deposits	1,917,052	2,329,062
Borrowed funds	<u>1,847,534</u>	<u>1,971,682</u>
Total interest expense	<u>3,764,586</u>	<u>4,300,744</u>
Net interest income	4,489,476	4,648,483
Provision for loan losses	<u>218,635</u>	<u>171,584</u>
Net interest income after provision for loan losses	4,270,841	4,476,899
Noninterest income		
Service fees and other charges	119,042	110,902
Gain (loss) on sale of REO and repossessions	(4,261)	6,870
Mortgage banking income	<u>5,627</u>	<u>9,721</u>
Total noninterest income	120,408	127,493
Noninterest expense		
Compensation and benefits	1,751,832	1,728,956
Director fees	97,200	97,200
Occupancy and equipment	372,118	388,256
Computer processing	365,686	370,840
Professional services	220,455	255,948
State franchise taxes	193,447	195,451
Federal deposit insurance	133,585	9,613
Other	<u>335,761</u>	<u>332,494</u>
Total noninterest expense	<u>3,470,084</u>	<u>3,378,758</u>
Income before income taxes	921,165	1,225,634
Income tax expense	<u>297,978</u>	<u>440,600</u>
Net income	<u>\$ 623,187</u>	<u>\$ 785,034</u>
Earnings per common share - basic	<u>\$ 0.50</u>	<u>\$ 0.59</u>
Earnings per common share - diluted	<u>\$ 0.50</u>	<u>\$ 0.59</u>

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended June 30, 2009 and 2008

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance, July 1, 2007	\$ 16,569	\$ 9,169,858	\$ 11,702,607	\$ (5,198,322)	\$ (333,042)	\$ (99,352)	\$ 15,258,318
Comprehensive income:							
Net income for the year ended June 30, 2008	--	--	785,034	--	--	--	785,034
Change in net unrealized gain (loss) on securities available for sale, net of reclassification and tax effects	--	--	--	--	--	91,507	<u>91,507</u>
Total comprehensive income							876,541
Cash dividends - \$.74 per share	--	--	(986,176)	--	--	--	(986,176)
Commitment to release 10,043 employee stock ownership plan shares	--	2,625	--	--	117,845	--	120,470
Transfer of 10,043 common shares subject to repurchase obligation and change in fair value of common shares subject to repurchase obligation	(100)	187,743	--	--	--	--	187,643
Reclassification of 138,567 common shares subject to repurchase obligation no longer required to be reported outside of permanent equity at June 30, 2008	<u>1,385</u>	<u>1,488,210</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,489,595</u>
Balance, June 30, 2008	<u>\$ 17,854</u>	<u>\$ 10,848,436</u>	<u>\$ 11,501,465</u>	<u>\$ (5,198,322)</u>	<u>\$ (215,197)</u>	<u>\$ (7,845)</u>	<u>\$ 16,946,391</u>

(Continued)

PEOPLES–SIDNEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
Years Ended June 30, 2009 and 2008

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
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>

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 623,187	\$ 785,034
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	146,196	169,778
Provision for loan losses	218,635	171,584
Proceeds from sale of loans in secondary market	262,530	351,993
Loans disbursed for sale in secondary market	(259,300)	(347,404)
Gain on sale of loans	(7,650)	(9,671)
Amortization of mortgage servicing rights	3,176	687
Net accretion of securities	(246)	(416)
(Gain) loss on sale of REO and repossessions	4,261	(6,870)
FHLB stock dividends	(25,200)	(48,500)
Deferred taxes	(83,686)	(1,026)
Compensation expense for ESOP shares	92,795	120,470
Change in:		
Accrued interest receivable and other assets	72,631	(52,758)
Accrued expense and other liabilities	(20,425)	(73,321)
Deferred loan fees	17,380	(26,607)
Net cash from operating activities	1,044,284	1,032,973
Cash flows from investing activities		
Purchase of time deposit	--	(1,000,000)
Proceeds from maturity of time deposit	--	1,000,000
Proceeds from maturities of securities available for sale	--	3,000,000
Net change in loans	(1,933,581)	(1,747,415)
Premises and equipment expenditures	(98,830)	(72,165)
Proceeds from sale of REO and repossessions	432,218	238,552
Net cash from investing activities	(1,600,193)	1,418,972
Cash flows from financing activities		
Net change in deposits	4,039,148	(1,502,368)
Proceeds from long-term FHLB advances	6,000,000	10,000,000
Repayments of long-term FHLB advances	(9,416,184)	(10,603,739)
Purchase common stock for retirement	(1,451,084)	--
Cash dividends paid	(651,020)	(986,176)
Net cash from financing activities	(1,479,140)	(3,092,283)
Net change in cash and cash equivalents	(2,035,049)	(640,338)
Cash and cash equivalents at beginning of year	6,541,860	7,182,198
Cash and cash equivalents at end of year	\$ 4,506,811	\$ 6,541,860
Supplemental cash flow information		
Interest paid	\$ 3,806,446	\$ 4,309,821
Income taxes paid	450,000	445,000
Supplemental noncash disclosures		
Transfer from loans to REO and repossessions	257,479	526,663

See accompanying notes to consolidated financial statements.

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

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.

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.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses for debt securities, management considers the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, whether the market decline was affected by macroeconomic conditions, and whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. 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.

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

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), issued July 2006, was effective as of July 1, 2007. The Corporation has elected to defer adoption of FIN 48, in accordance with the provisions of FASB Staff Position No. FIN 48-3, which permits certain nonpublic enterprises to delay adoption until fiscal years beginning after December 15, 2008. Upon adoption of FIN 48, the Corporation will recognize a tax benefit only if it is more than likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be 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 will be recorded. Currently, the Corporation accounts for contingencies associated with certain tax positions in accordance with SFAS No. 5, Accounting for Contingencies, which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a more likely than not recognition threshold.

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 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 2009 or 2008 for stock options as there were no unvested options at July 1, 2007 and no options have been awarded or modified since July 1, 2007.

Advertising Costs: Advertising costs are generally expensed as incurred. Advertising expense included in other noninterest expense totaled \$41,238 and \$24,366 for the years ending June 30, 2009 and 2008.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

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. Management recognition plan ("MRP") shares are considered outstanding as they become vested. Diluted EPS includes the dilutive effect of MRP shares and the additional potential common shares issuable under stock options.

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 12.

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, 2009 and 2008, the Association was required to have \$38,000 and \$658,000 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.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (FAS 157). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies the assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of the adoption was not material. In October 2008, The FASB issued Staff Position (FSP) 157-3, Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active. This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which amends existing guidance for determining whether impairment is other-than-temporary (OTTI) for debt securities. The FSP requires an entity to assess 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 in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount of credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on the results of operations or financial position.

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this FSP at June 30, 2009 did not have a material impact on the results of operations or financial position.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Corporation did not elect the fair value option for any financial assets or financial liabilities as of July 1, 2008, the effective date of the standard.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

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.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2009</u>				
U.S. Government agencies	\$ 1,999,016	\$ 91,604	\$ --	\$ 2,090,620
<u>2008</u>				
U.S. Government agencies	\$ 1,998,770	\$ --	\$ (11,890)	\$ 1,986,880

Contractual maturities of securities available for sale at year-end 2009 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.

	Amortized Cost	Fair Value
Due after one year through five years	\$ 1,999,016	\$ 2,090,620

A security pledged at year-end 2009 and 2008 had a carrying amount of \$2,090,620 and \$1,986,880 and was pledged to secure public deposits and repurchase agreements. There were no sales of securities in 2009 or 2008.

Securities with unrealized losses at year-end 2008, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows. There were no unrealized losses at year end 2009.

<u>Description of Securities</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2008</u>						
U.S. Government agencies	\$ 1,986,880	\$ (11,890)	\$ --	\$ --	\$ 1,986,880	\$ (11,890)

Unrealized losses on the investment securities were not recognized into income because the securities are of high credit quality, management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. The fair value recovered during fiscal 2009 and the fair value of the security now exceeds the Corporation's cost basis as of June 30, 2009.

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PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 - LOANS

Year-end loans were as follows.

	<u>2009</u>	<u>2008</u>
Mortgage loans:		
1-4 family residential	\$ 85,968,158	\$ 85,402,334
Multi-family residential	4,810,956	4,904,285
Commercial real estate	15,556,092	15,197,403
Real estate construction and development	1,750,311	878,899
Land	<u>2,494,014</u>	<u>2,769,432</u>
Total mortgage loans	110,579,531	109,152,353
Consumer loans	4,060,872	4,990,359
Commercial loans	<u>10,529,106</u>	<u>9,422,329</u>
Total loans	125,169,509	123,565,041
Less:		
Allowance for loan losses	(826,100)	(679,800)
Deferred loan fees	<u>(339,771)</u>	<u>(322,391)</u>
	<u>\$ 124,003,638</u>	<u>\$ 122,562,850</u>

At June 30, 2009 and 2008, 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, 2009 and 2008 was \$566,027 and \$500,231, respectively. Servicing rights associated with the serviced loans totaled \$7,083 and \$6,540 at June 30, 2009 and 2008, respectively.

Activity in the allowance for loan losses was as follows.

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 679,800	\$ 664,800
Provision for losses	218,635	171,584
Charge-offs	(73,804)	(170,250)
Recoveries	<u>1,469</u>	<u>13,666</u>
Balance at end of year	<u>\$ 826,100</u>	<u>\$ 679,800</u>

Impaired loans were as follows.

	<u>2009</u>	<u>2008</u>
Period-end impaired loans with no specific allowance for loan losses allocated	\$ 494,000	\$ 133,000
Period-end impaired loans with specific allowance for loan losses allocated	991,000	56,000
Amount of the specific allowance allocated to impaired loans	214,000	25,000

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 3 - LOANS (Continued)

	<u>2009</u>	<u>2008</u>
Average of impaired loans during the year	\$ 823,000	\$ 470,000
Interest income recognized during the year	13,705	22,024
Cash-basis interest income recognized	13,705	22,024

Nonperforming loans at year-end were as follows.

	<u>2009</u>	<u>2008</u>
Loans past due over 90 days still on accrual	\$ 297,000	\$ 1,327,000
Nonaccrual loans	3,245,000	976,000

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 \$1,940,000 at June 30, 2009 and \$1,711,000 at June 30, 2008.

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment was as follows.

	<u>2009</u>	<u>2008</u>
Land	\$ 225,166	\$ 225,166
Buildings and improvements	2,572,089	2,557,984
Furniture and equipment	1,754,001	1,670,511
Automobile	<u>25,680</u>	<u>25,680</u>
Total cost	4,576,936	4,479,341
Accumulated depreciation	<u>(2,857,862)</u>	<u>(2,712,901)</u>
	<u>\$ 1,719,074</u>	<u>\$ 1,766,440</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. The lease has another five-year renewal period at \$49,688 annually. Total rental expense was \$39,750 for both years ended June 30, 2009 and 2008.

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PEOPLES-SIDNEY FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 4 - PREMISES AND EQUIPMENT (Continued)

Rental commitments under the noncancelable operating lease was as follows, before considering the renewal option.

Year ending June 30,	
2010	\$ 39,750
2011	<u>39,750</u>
	<u>\$ 79,500</u>

NOTE 5 - FEDERAL INCOME TAXES

Income tax expense was as follows.

	<u>2009</u>	<u>2008</u>
Current	\$ 381,664	\$ 441,626
Deferred	<u>(83,686)</u>	<u>(1,026)</u>
	<u>\$ 297,978</u>	<u>\$ 440,600</u>

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

	<u>2009</u>	<u>2008</u>
Income taxes computed at the statutory tax rate on pretax income	\$ 313,196	\$ 416,716
Add tax effect of:		
ESOP fair value book expense in excess of tax deduction	4,598	12,342
Nondeductible expenses and other	<u>(19,816)</u>	<u>11,542</u>
	<u>\$ 297,978</u>	<u>\$ 440,600</u>
Statutory tax rate	<u>34.0%</u>	<u>34.0%</u>
Effective tax rate	<u>32.3%</u>	<u>35.9%</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 5 - FEDERAL INCOME TAXES (Continued)

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

	<u>2009</u>	<u>2008</u>
Items giving rise to deferred tax assets		
Deferred loan fees	\$ 114,589	\$ 108,475
Reserve for delinquent interest	55,042	13,414
Allowance for loan losses	280,874	231,132
Accrued compensation	2,967	2,153
Unrealized loss on securities available for sale	--	4,045
Accrued ESOP expense	<u>9,385</u>	<u>17,120</u>
Total deferred tax assets	462,857	376,339
Items giving rise to deferred tax liabilities		
Prepaid expenses	(45,997)	(48,270)
Securities accretion	(502)	(418)
Depreciation	(24,822)	(24,508)
FHLB stock dividends	(429,729)	(421,161)
Unrealized gain on securities available for sale	(31,142)	--
Mortgage servicing rights	<u>(2,408)</u>	<u>(2,224)</u>
Total deferred tax liabilities	<u>(534,600)</u>	<u>(496,581)</u>
Net deferred tax asset (liability)	<u>\$ (71,743)</u>	<u>\$ (120,242)</u>

Retained earnings at June 30, 2009 and 2008 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, 2009 and 2008.

NOTE 6 - DEPOSITS

Year-end deposits were as follows.

	<u>2009</u>	<u>2008</u>
Noninterest-bearing demand deposits	\$ 1,011,939	\$ 1,179,101
NOW accounts	6,968,314	6,750,105
Money market accounts	8,163,701	4,220,004
Savings accounts	23,487,550	23,171,569
Certificates of deposit	<u>45,384,746</u>	<u>45,656,323</u>
	<u>\$ 85,016,250</u>	<u>\$ 80,977,102</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 6 - DEPOSITS (Continued)

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was \$11,261,000 and \$9,378,000 at June 30, 2009 and 2008, respectively. Deposits more than \$100,000 are not insured by the FDIC. Related party deposits were \$682,000 and \$658,000 at June 30, 2009 and 2008.

The scheduled maturities of certificates of deposit as of June 30, 2009 were as follows.

Year ended June 30,	
2010	\$ 20,837,911
2011	15,339,866
2012	6,587,389
2013	1,723,394
2014	<u>896,186</u>
	<u>\$ 45,384,746</u>

NOTE 7 - BORROWED FUNDS

At June 30, 2009, 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, 2009 or 2008.

At June 30, 2009, 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 \$52.4 million.

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

	<u>2009</u>	<u>2008</u>
Fixed rate advances with rates ranging from 2.41% to 5.12%, maturities ranging from July 2010 to June 2013 for 2009 and rates ranging from 4.42% to 5.16%, maturities ranging from March 2009 to June 2013 for 2008	\$ 23,000,000	\$ 20,000,000
Select pay mortgage-matched advances with rates ranging from 3.31% to 5.35%, final maturities ranging from May 2011 to March 2023 for 2009 and 2008	6,169,107	7,585,291
Convertible advances, rate 6.27%, final maturity September 2010 for 2009 and rates ranging from 6.00% to 6.27%, final maturities ranging from June 2009 to September 2010 for 2008	<u>5,000,000</u>	<u>10,000,000</u>
	<u>\$ 34,169,107</u>	<u>\$ 37,585,291</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 7 - BORROWED FUNDS (Continued)

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 \$91,448,000 and \$88,905,000 of qualifying mortgage loans at year-end 2009 and 2008.

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

Year ended June 30,	
2010	\$ 1,254,807
2011	8,108,154
2012	11,743,735
2013	10,590,991
2014	417,525
Thereafter	<u>2,053,895</u>
	<u>\$ 34,169,107</u>

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. 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 \$37,442 and \$38,505 for the years ended June 30, 2009 and 2008.

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.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 9 - EMPLOYEE STOCK OWNERSHIP PLAN (Continued)

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 2009 and 2008 were \$116,255 and \$123,430. ESOP compensation expense was \$92,795 and \$120,470 for the years ended June 30, 2009 and 2008.

Year-end ESOP shares were as follows.

	<u>2009</u>	<u>2008</u>
Allocated shares	146,904	138,567
Unreleased shares	<u>8,879</u>	<u>18,337</u>
Total ESOP shares	<u>155,783</u>	<u>156,904</u>
Fair value of unreleased shares	<u>\$ 64,373</u>	<u>\$ 197,123</u>
Fair value of allocated shares subject to repurchase obligation	<u>\$ 1,065,054</u>	<u>\$ 1,489,595</u>

NOTE 10 - STOCK OPTION AND INCENTIVE PLAN

The Stock Option and Incentive Plan was approved by the shareholders of the Corporation on May 22, 1998 which provides for the issue of up to 178,538 options. Exercise price is the market price at the date of grant. One-fifth of the options awarded become first exercisable on each of the first five anniversaries of the date of grant. The option period expires 10 years from the date of grant. The option period expired May 22, 2008 and June 10, 2008 for options outstanding during 2008.

A summary of the activity in the plan was as follows.

	<u>2008</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	119,972	\$ 16.04
Granted	--	--
Exercised	--	--
Forfeited	<u>(119,972)</u>	<u>16.04</u>
Outstanding at end of year	<u>--</u>	<u>\$ --</u>
Options exercisable at year-end	--	\$ --
Remaining shares available for grant	178,538	

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 11 - 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, 2009, there were 14,287 shares reserved for future awards and held as treasury stock. There was no compensation expense in 2009 or 2008.

NOTE 12 - 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, 2009 and 2008, 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, 2009 and 2008. No conditions or events have occurred subsequent to the last notification by regulators that management believes would change the Association’s category.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 12 - REGULATORY MATTERS (Continued)

At year-end 2009 and 2008, 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>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	
<u>2008</u>						
Total capital (to risk-weighted assets)	\$ 15,213	17.2%	\$ 7,074	8.0%	\$ 8,843	10.0%
Tier 1 (core) capital (to risk-weighted assets)	14,558	16.5	3,537	4.0	5,306	6.0
Tier 1 (core) capital (to adjusted total assets)	14,558	10.7	5,448	4.0	6,810	5.0
Tangible capital (to adjusted total assets)	14,558	10.7	2,043	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. At June 30, 2009 the Association had paid dividends in excess of retained net income for calendar years 2007, 2008 and calendar year to date 2009 of \$1,873,000. Therefore, the Association must apply for OTS approval to pay additional dividends to Peoples until such time as the total of retained net income for the current calendar to date plus the previous two calendar years exceeds the amount of planned dividends at that time.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 13 - 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>2009</u>	<u>2008</u>
1-4 family residential real estate – fixed rate	\$ 774,000	\$ 409,000
1-4 family residential real estate – variable rate	552,000	239,000
Commercial real estate – variable rate	218,000	260,000
Commercial lines of credit – variable rate	2,564,000	4,162,000
Home equity lines of credit – variable rate	703,000	855,000

The interest rate on fixed-rate commitments ranged from 6.375% to 6.75% at June 30, 2009 and 6.25% to 7.00% at June 30, 2008. 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 14 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

FAS 157 defines fair value as 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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:

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

Assets and Liabilities Measured on a Recurring Basis

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

	<u>Fair Value Measurements at June 30, 2009 Using</u>		
	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
			\$ --

Assets and Liabilities Measured on a Nonrecurring Basis

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

	<u>Fair Value Measurements at June 30, 2009 Using</u>		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	\$	--	\$ 776,700

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.

Impaired loans, which are usually measured for impairment using the fair value of the collateral, had a principal balance of \$991,000 with a specific valuation allowance of \$214,000 at June 30, 2009, resulting in an additional provision for loan losses of \$189,000 for the fiscal year ended June 30, 2009.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

In accordance with FAS 107-1, the carrying amounts and estimated fair values of financial instruments at year-end were as follows.

	<u>2009</u>		<u>2008</u>	
	Carrying <u>Value</u>	Estimated Fair <u>Value</u>	Carrying <u>Value</u>	Estimated Fair <u>Value</u>
Financial assets:				
Cash and cash equivalents	\$ 4,506,811	\$ 4,506,811	\$ 6,541,860	\$ 6,541,860
Securities available for sale	2,090,620	2,090,620	1,986,880	1,986,880
Federal Home Loan Bank stock	1,894,500	--	1,869,300	--
Loans, net	124,003,638	123,891,653	122,562,850	122,118,080
Accrued interest receivable	781,287	781,287	853,337	853,337
Financial liabilities:				
Deposits	(85,016,250)	(86,251,778)	(80,977,102)	(81,983,921)
Borrowed funds	(34,169,107)	(36,449,817)	(37,585,291)	(38,137,437)
Accrued interest payable	(148,720)	(148,720)	(190,580)	(190,580)

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 15 - EARNINGS PER SHARE

The factors used in the earnings per share computation follows.

	<u>2009</u>	<u>2008</u>
Basic		
Net income	<u>\$ 623,187</u>	<u>\$ 785,034</u>
Weighted average common shares outstanding	1,255,361	1,361,048
Less: Average unallocated ESOP shares	<u>(13,608)</u>	<u>(23,359)</u>
Weighted average common shares outstanding for basic earnings per common share	<u>1,241,753</u>	<u>1,337,689</u>
Basic earnings per common share	<u>\$ 0.50</u>	<u>\$ 0.59</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE 15 - EARNINGS PER SHARE (Continued)

	<u>2009</u>	<u>2008</u>
Diluted		
Net income	<u>\$ 623,187</u>	<u>\$ 785,034</u>
Weighted average common shares outstanding for basic earnings per common share	1,241,753	1,337,689
Add: Dilutive effects of assumed exercises of stock options	<u> --</u>	<u> --</u>
Weighted average common shares and dilutive potential common shares outstanding	<u>1,241,753</u>	<u>1,337,689</u>
Diluted earnings per common share	<u>\$ 0.50</u>	<u>\$ 0.59</u>

The stock options expired May 22, 2008 and June 10, 2008. As such there were no options outstanding at June 30, 2009 or 2008.

NOTE 16 - OTHER COMPREHENSIVE INCOME (LOSS)

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

	<u>2009</u>	<u>2008</u>
Unrealized holding gains and (losses) on available-for-sale securities	\$ 103,494	\$ 138,644
Tax effect	<u>(35,187)</u>	<u>(47,137)</u>
Other comprehensive income (loss)	<u>\$ 68,307</u>	<u>\$ 91,507</u>

NOTE 17 - 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 a total cash payment of \$1,551,084 to those shareholders of record.

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.

As a result of the going-private transaction, the Corporation was no longer required to report common stock in ESOP subject to repurchase obligation outside of permanent equity. The Corporation reclassified the amounts relating to the repurchase obligation to permanent equity as of June 30, 2008.

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 18 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Following is condensed financial information of Peoples-Sidney Financial Corporation as of June 30, 2009 and 2008, and for the periods ended June 30, 2009 and 2008.

CONDENSED BALANCE SHEETS
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 1,049,645	\$ 2,193,822
Investment in subsidiary	14,479,411	14,549,629
Loans receivable from ESOP	<u>102,021</u>	<u>204,043</u>
Total assets	<u>\$ 15,631,077</u>	<u>\$ 16,947,494</u>
Liabilities and shareholders' equity		
Other liabilities	\$ 102,501	\$ 1,103
Shareholders' equity	<u>15,528,576</u>	<u>16,946,391</u>
Total liabilities and shareholders' equity	<u>\$ 15,631,077</u>	<u>\$ 16,947,494</u>

CONDENSED STATEMENTS OF INCOME
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Income		
Dividend income from subsidiary	\$ 920,000	\$ --
Interest on loans	<u>14,233</u>	<u>21,408</u>
	934,233	21,408
Other expenses	<u>98,607</u>	<u>109,833</u>
Income (loss) before taxes and undistributed earnings of subsidiary	835,626	(88,425)
Income tax benefit	<u>(28,600)</u>	<u>(29,900)</u>
Income (loss) before undistributed earnings of subsidiary	864,226	(58,525)
Equity in undistributed earnings of subsidiary (distributions in excess of earnings)	<u>(241,039)</u>	<u>843,559</u>
Net income	<u>\$ 623,187</u>	<u>\$ 785,034</u>

(Continued)

PEOPLES-SIDNEY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 18 - PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 623,187	\$ 785,034
Adjustments to reconcile net income to cash provided by operations:		
(Equity in undistributed income of subsidiary) distributions in excess of earnings	241,039	(843,559)
Net change in other assets and liabilities	<u>1,398</u>	<u>(2,422)</u>
Net cash from operating activities	865,624	(60,947)
 Cash flows from investing activities		
Proceeds from loan principal repayments	<u>102,022</u>	<u>102,021</u>
Net cash from investing activities	102,022	102,021
 Cash flows from financing activities		
Purchase common stock for retirement	(1,451,084)	--
Cash dividends paid	(651,020)	(986,176)
Dividends on unallocated ESOP shares	<u>(9,719)</u>	<u>(21,000)</u>
Net cash from financing activities	<u>(2,111,823)</u>	<u>(1,007,176)</u>
 Net change in cash and cash equivalents	(1,144,177)	(966,102)
Cash and cash equivalents at beginning of year	<u>2,193,822</u>	<u>3,159,924</u>
 Cash at end of year	<u>\$ 1,049,645</u>	<u>\$ 2,193,822</u>

SHAREHOLDER INFORMATION

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 11:00 a.m., Sidney, Ohio on October 9, 2009, 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, 2009, 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

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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

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