ALIANT
FINANCIAL CORPORATION

Annual Report 2010

Bank with the bank that lives where you do!

Only in Alabama

ALIANT
FINANCIAL CORPORATION

Our Mission Statement

We consistently provide the highest service levels to our customers, our communities, our teammates, and our shareholders. We strive to truly understand their needs and deliver our resources to satisfy those needs, thereby, helping them realize their dreams. We wish to attain top quartile financial performance among our peers on an annual basis.

Bank with the bank that lives where you do!

Only in Alabama

ALIANT FINANCIAL CORPORATION

Board of Directors

- **Joseph V. Chillura**
  Chairman of the Board
- **Della K. Fancher**
- **Kenneth H. Givens**
- **J. Eric Hamilton III**
- **Richard E. Hanan**
- **Jerry C. Kyser**
- **M. Barnett Lawley**
- **Thomas B. McMurtrey III**
- **Dan L. Moultrie**
- **James D. Nabors**
- **J. H. Robinson, Jr.**
- **Richard H. Robinson**
- **Harrison I. Steans**
- **Jennifer W. Steans**
- **John J. Thomas**
- **John R. Thomas**
- **Russell L. Thomas**

Senior Leadership Team

- **Amanda Stevens**
- **Caryn Hughes**
- **Eric Hamilton**
- **Greg Hill**
- **Isabella Akers**
- **Joe Gilmore**
- **Ken Givens**
- **Larry J. Uptain**
- **Lyn Marcum**
- **Mark Brinton**
- **Mark Torbert**
- **Martin Brown**
- **Paul Rogers**
- **Pete Knight**
- **Russell Thomas**
- **Steve Hines**
- **Steve Robinson**
- **Vickie Garner**

Message to Our Shareholders

The Great Recession continued to impact ALIANT last year, and unfortunately stymied our earlier projections for a return to profitability in 2010. It is taking longer than expected to work through resolving issues related to our real estate loan portfolio, because pricing in Alabama markets is still bottoming out. Despite that problem, we have had several significant developments – notably an increase in loan demand – that make us confident that we have turned the corner in steering ALIANT through these challenging financial times. We now expect that our decades-long record of profitability will resume early in 2011.

Net loss in 2010 was $9,943,000, much lower than the net loss of $25,401,000 in 2009, but a disappointing loss nonetheless. On an average number of 1,458,652 shares outstanding, per-share loss was $13.46 compared with a loss of $17.50 per share last year. On a pre-tax, pre-provision basis, net income did total $4,370,000 in 2010. We had a gains of $3,331,000, mostly from the sale of $54,000,000 in municipal bond securities. ALIANT did not require the tax-free income from these securities, and we thought it prudent to reduce our exposure to the credit risk associated with certain state and municipal bond holdings.

All gains were erased by the substantial loan loss provision of $19,755,000 that we were required to make to cover our loan portfolio's declining real estate values. The additional provision, along with various costs related to non-performing loans and fewer loan originations than we would have liked, resulted in our disappointing bottom-line performance.

Outstanding loans declined by $30,855,000 from the prior year, to $645,627,000, a 4.6% drop. Weak loan demand during most of the year and increased charge-offs accounted for the reduced portfolio size. By December, however, our loan demand increased noticeably. ALIANT now has a good pipeline of loans in process, which should bolster loans outstanding and interest income in the coming quarters.

In 2010, loan losses increased to $24,250,000, or 3.74% of average loans outstanding. Nonperforming assets rose to $55,004,000 at year end. As a percentage of total assets, non-performing assets increased to 6.05% in 2010 from 4.67% last year. ALIANT's "Other Real Estate Owned" rose to $22,658,000 in 2010 compared with $17,324,000 in 2009.

Our provision for credit losses of $19,755,000 in 2010 was substantially lower than the $37,033,000 that we provided last year. At period-end, our allowance for credit losses was 3.4% of loans and leases. We now believe that our problem loans have been identified and properly reserved.

Although less dramatic than the credit losses, several other factors also affected our performance. Net Interest Margin (NIM) over the entire year declined slightly to 2.94% from 2.98% in 2009. However, it is good news that by year-end 2010, the margin was up to 3.31%. We expect that NIM will stabilize around that level over the next few quarters before rising.

Total non-interest expenses dropped by $3,271,000, or 8.7%. Although foreclosed property expenses and losses remained very high at $4,459,000, they did decrease by $3,398,000 in 2010 compared with the prior year, which is a most welcome improvement. We also anticipate that foreclosed property expenses will decrease substantially again in 2011.

Unfortunately, FDIC insurance premiums rose dramatically to $2,701,000 in 2010, an increase of $325,000 compared with the prior year. (To put this figure in true perspective, our total FDIC insurance premiums just two years ago, in 2008, were only $292,000 – slightly more than one-tenth of what we now must pay.) On the positive side, we believe that this expense will also decrease in the coming year.

Overall, deposits dropped by $72,054,000, or 9.1%, compared with 2009. Yet, as an indicator of the banking public's regard for and loyalty to ALIANT, our average noninterest-bearing deposits – the most desirable category, of course, with regard to net interest margin – were actually up by $16,659,000, or 11.3%.

During most of 2010, ALIANT used less costly wholesale funding sources to support our loans instead of paying high rates on our deposit products. Now, we have resumed more aggressive pricing on our interest-bearing savings accounts and certificates of deposit to attract new funds. Our bank should show solid deposit growth once again in 2011.

As you know, we partnered with USAmeriBank (USAB) in 2009 to shore up ALIANT's solidity as we work through our financial challenges. The relationship has been a very good one, and USAB invested another $10,000,000 in our company in 2010. Forging a partnership with USAB not only provided the

capital that we needed, but will also reduce the onerous cost of complying with an ever-expanding regulatory burden. Frankly, we don't see how "small" banks, particularly those with assets below $250,000,000, will be able to survive if they do not raise additional capital by joining forces with another group.

The new capital that we have raised from various sources over the last two years has resulted in the following key capital ratios as of year-end 2010:

ALIANT BANK	Tier 1	8.70%
	Risk-Based	13.39%
ALIANT FINANCIAL CORPORATION	Tier 1	6.03%
	Risk-Based	13.97%

USAB now holds an ownership stake of 62% in ALIANT Financial Corporation. Joseph Chillura, Chief Executive Officer of USAB, was elected Chairman and Chief Executive Officer of our company. John Russell Thomas will continue to serve both as President of ALIANT Financial Corporation and as Chairman of ALIANT Bank. Eric Hamilton, Chief Executive Officer of ALIANT Bank, remains in his role as well.

In other Board news, Harrison Steans and Thomas Bradford McMurtrey were elected as directors of ALIANT Financial Corporation and of ALIANT Bank. Both gentlemen also serve as Board members of USAB.

ALIANT's financial solidity is more important to us than anything else, so our entire executive management team supported these recent changes. In addition to enhancing the financial strength of our company, USAB has provided significant human resources expertise and management acumen throughout the first two years of our partnership. As we move forward with these recent changes, we firmly believe that we are on the most expeditious path possible toward improved earnings and share price.

The book value of ALIANT stock at year-end 2010 was $12.02, a drop from $19.38 last year. Dilution from the additional capital raise and ongoing loan losses were the main reasons.

Both of our non-bank operating units performed well in 2010. ALIANT Mortgage posted net income of $297,000. Our mortgage company has recently hired several experienced loan originators, part of an overall growth in lending capabilities at the bank. ALIANT Financial Services, our brokerage division, produced revenue of $583,000. The revenue stream that these two subsidiaries consistently generate has been especially valuable to our company over the last few difficult years.

Meanwhile, our latest expansion will occur early in 2011 with the opening of a loan production office in Auburn, Alabama. A full service branch in Auburn is scheduled to open in 2012.

Tough times demand tough actions, and ALIANT has taken them. We know the importance of doing the right thing for our shareholders, and we have the fortitude to do it when required. Our management's focus in 2011 will be on controlling expenses and on booking profitable new loans. If we could be granted just one wish for our business, it would be that real estate values stabilize very soon because of a strengthening economy. Our credit quality issues should improve significantly in 2011, which should bode very well for our return to sustained profitability.

To all of our investors, customers and employees, we extend our continued gratitude for your patience, confidence and support.

Joseph V. Chillura
Chairman and
Chief Executive Officer

John Russell Thomas
President

February 18, 2011

Consolidated Financial Highlights

(Dollars in thousands, except per share amounts)

	Year Ended December 31		
	2010	2009	Percent Change
Statements Of Condition			
Total Assets	$ 909,902	$ 989,961	-8.1%
Securities	183,223	150,997	21.3%
Loans	645,627	676,482	-4.6%
Deposits	717,513	789,567	-9.1%
Stockholders' Equity	61,588	66,830	-7.8%
Profitability and Dividends			
Net Loss	$ (9,943)	$ (25,401)	-60.9%
Cash Dividends Paid – Preferred Stock	1,106	0	100.0%
Cash Dividends Paid – Common Stock	0	363	-100.0%
Loss On Average Assets	(1.00%)	(2.60%)	
Loss On Average Equity	(15.7%)	(44.5%)	
Per Share Data			
Net Loss Available to Common Stockholders – Basic	$ (13.46)	$ (17.50)	-23.1%
Cash Dividends Paid:			
For Estimated Shareholders' Tax Liability	$ 0.00	$ 0.25	-100.0%
Total Dividends on Common Stock	$ 0.00	$ 0.25	-100.0%
Book Value – Assuming Preferred Shares Fully Converted	$ 12.02	$ 19.38	-38.0%
Weighted Average Common Shares Outstanding – Basic	1,458,652	1,451,652	0.5%
Capital Ratios			
Risk-Weighted Capital Ratio	14.0%	14.3%	
Regulatory Leverage Ratio	6.0%	6.1%	

Independent Auditor's Report

Certified Public Accountants, LLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ALIANT Financial Corporation
Alexander City, Alabama

We have audited the accompanying consolidated statements of condition of **ALIANT Financial Corporation and Subsidiaries** as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company'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 ALIANT Financial Corporation and Subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Birmingham, Alabama
February 18, 2011

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Consolidated Statements of Condition

(Dollars in thousands, except per share amounts)

	December 31	
	2010	**2009**
Assets		
Cash and noninterest bearing deposits	**$ 9,228**	13,156
Interest bearing deposits	**2,479**	95,003
Cash And Cash Equivalents	**11,707**	108,159
Securities available-for-sale – at fair value	**183,223**	133,780
Securities held-to-maturity – at cost (market value of $17,901 at December 31, 2009)	**0**	17,217
Loans held for sale	**7,703**	4,709
Loans	**637,924**	671,773
Allowance for loan losses	**(22,054)**	(26,549)
Net Loans	**615,870**	645,224
Premises and equipment	**21,064**	22,421
Cash surrender value of bank-owned life insurance	**11,692**	11,399
Other real estate	**22,658**	17,324
Deferred taxes	**20,599**	15,151
Goodwill	**1,243**	1,243
Other assets	**14,143**	13,334
Total	**$ 909,902**	$ 989,961
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest bearing	**$ 164,469**	$ 147,810
Interest bearing	**553,044**	641,757
Total Deposits	**717,513**	789,567
Other liabilities	**4,820**	6,711
Securities sold under agreement to repurchase	**6,268**	7,121
Long-term debt	**119,713**	119,732
Total Liabilities	**848,314**	923,131
Stockholders' equity:		
Preferred stock, no par value - authorized 2,000,000 shares; issued and outstanding 0 and 2,000,000 at December 31, 2010 and 2009, respectively	**0**	28,910
Common stock, $.12 1/2 par value - authorized 9,000,000 shares; issued and outstanding including treasury stock, 5,203,427 shares and 1,525,345 shares at December 31, 2010 and 2009, respectively	**650**	191
Capital surplus	**90,217**	43,298
Retained deficit	**(25,583)**	(5,956)
Accumulated other comprehensive income	**1,570**	5,601
Treasury stock, at cost – 80,198 and 76,367 shares at December 31, 2010, and 2009, respectively	**(5,266)**	(5,214)
Total Stockholders' Equity	**61,588**	66,830
Total	**$ 909,902**	$ 989,961

See notes to consolidated financial statements

Consolidated Statements of Operations

(Dollars in thousands, except per share amounts)

	Years Ended December 31		
	2010	**2009**	**2008**
Interest Revenue:			
Interest and fees on loans	**$ 33,742**	$ 37,702	$ 48,076
Interest on federal funds sold	**13**	0	3
Interest on deposits	**166**	130	58
Interest on securities:			
Taxable	**4,408**	3,250	3,845
Nontaxable	**1,623**	2,544	2,547
Total Interest Revenue	**39,952**	43,626	54,529
Interest Expense:			
Interest on deposits	**7,672**	12,907	16,393
Interest on short-term borrowings	**6**	94	1,087
Interest on long-term debt	**5,745**	4,499	5,496
Total Interest Expense	**13,423**	17,500	22,976
Net Interest Revenue	**26,529**	26,126	31,553
Provision For Loan Losses	**19,755**	37,033	12,406
Net Interest (Expense) Revenue After Provision For Loan Losses	**6,774**	(10,907)	19,147
Noninterest Revenue:			
Service charges on deposit accounts	**4,464**	4,565	4,583
Securities gains	**3,331**	0	0
Mortgage banking income	**2,728**	2,195	1,829
Other income	**1,606**	1,695	2,205
Total Noninterest Revenue	**12,129**	8,455	8,617
Noninterest Expense:			
Salaries and employee benefits	**16,199**	16,304	16,659
Occupancy expense	**2,025**	2,094	2,192
Furniture and fixture expense	**1,960**	2,044	2,014
Provision for losses on other real estate	**1,896**	4,175	231
Net losses on sales of other real estate	**1,086**	2,942	479
Loss on investment securities	**0**	0	1,701
Other operating expense	**11,122**	10,000	7,776
Total Noninterest Expense	**34,288**	37,559	31,052
Loss Before Applicable Income Tax Benefits	**(15,385)**	(40,011)	(3,288)
Income Tax Benefits	**(5,442)**	(14,610)	(497)
Net Loss	**$ (9,943)**	$ (25,401)	$ (2,791)
Loss Per Share – Basic:			
Net Loss	**$ (13.46)**	$ (17.50)	$ (1.91)
Loss Per Share – Assuming Dilution:			
Net Loss	**(13.46)**	$ (17.50)	$ (1.91)
Average number of shares outstanding:			
Basic	**1,458,652**	1,451,652	1,458,153
Assuming dilution	**1,458,652**	1,451,652	1,458,153

See notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

(Dollars in thousands, except per share amounts)

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2008	$ –	$ 190	$ 36,838	$ 31,577	$ 1,231	$ (3,942)	$ 65,894
Net Loss	–	–	–	(2,791)	–	–	(2,791)
Unrealized gain on securities available-for-sale	–	–	–	–	2,105	–	2,105
Net gain on derivatives	–	–	–	–	2,522	–	2,522
Comprehensive (loss) income	–	–	–	$ (2,791)	$ 4,627	–	$ 1,836
Cash dividends - $2.20 per share	–	–	–	(3,209)	–	–	(3,209)
Treasury stock purchases	–	–	–	–	–	(2,095)	(2,095)
Treasury stock sales	–	–	(152)	–	–	980	828
Stock-based compensation expense	–	1	334	–	–	–	335
Balance as of December 31, 2008	$ –	$ 191	$ 37,020	$ 25,577	$ 5,858	$ (5,057)	$ 63,589
Net Loss	–	–	–	(25,401)	–	–	(25,401)
Unrealized gain on securities available-for-sale	–	–	–	–	1,253	–	1,253
Reclassification of gain on derivatives to net income	–	–	–	–	(1,510)	–	(1,510)
Comprehensive loss	–	–	–	$(25,401)	$ (257)	–	$(25,658)
Cash dividends - $.25 per share	–	–	–	(363)	–	–	(363)
Preferred Stock issued, net of issuance cost	28,910	–	–	–	–	–	28,910
Treasury stock purchases	–	–	–	–	–	(157)	(157)
Reclassification of retained earnings at date of Subchapter S tax election revocation	–	–	5,769	(5,769)	–	–	–
Issuance of common stock warrants related to subordinated debentures payable	–	–	261	–	–	–	261
Stock-based compensation expense	–	–	248	–	–	–	248
Balance as of December 31, 2009	$ 28,910	$ 191	$ 43,298	$ (5,956)	$ 5,601	$ (5,214)	$ 66,830
Net Loss	–	–	–	(9,943)	–	–	(9,943)
Unrealized losses on securities available-for-sale	–	–	–	–	(2,610)	–	(2,610)
Reclassification of gain on derivatives to net income	–	–	–	–	(1,421)	–	(1,421)
Comprehensive loss	–	–	–	$ (9,943)	$ (4,031)	–	$(13,974)
Preferred stock dividends	–	–	–	(1,106)	–	–	(1,106)
Conversion of Series A Preferred Stock to Common Stock	(28,910)	250	28,660	–	–	–	–
Implied dividend for inducement to convert Series A Preferred Stock to Common Stock	–	88	8,490	(8,578)	–	–	–
Common Stock issued, net of issuance cost	–	121	9,691	–	–	–	9,812
Treasury stock purchases	–	–	–	–	–	(54)	(54)
Treasury stock sales	–	–	(2)	–	–	2	–
Stock-based compensation expense	–	–	80	–	–	–	80
Balance as of December 31, 2010	**$ –**	**$ 650**	**$ 90,217**	**$(25,583)**	**$ 1,570**	**$ (5,266)**	**$ 61,588**

See notes to consolidated financial statements

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Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) CONTINUED

(Dollars in thousands, except per share amounts)

The pretax, tax, and after-tax effects of the components of other comprehensive income (loss) for the years ended December 31, 2010, 2009, and 2008 are as follows:

	Pre-tax Amount	(Tax) Benefit	After-tax Amount
2008			
Unrealized gain on securities	$ 2,251	$ (146)	$ 2,105
Unrealized losses on derivatives:			
Unrealized holding gains during the period	2,775	(180)	2,595
Reclassification adjustment for derivatives included in net loss	(78)	5	(73)
Other comprehensive income	$ 4,948	$ (321)	$ 4,627
2009			
Unrealized gain on securities	$ 2,437	$ (158)	$ 2,279
Effect of revocation of Subchapter S election on accumulated other comprehensive income (loss)	0	(1,025)	(1,025)
Reclassification adjustment for derivative gains included in net loss	(1,616)	105	(1,511)
Other comprehensive loss	$ 821	$ (1,078)	$ (257)
2010			
Unrealized loss on securities	$ (747)	$ 269	$ (478)
Reclassification adjustment for securities gains included in net loss	(3,331)	1,199	(2,132)
Reclassification adjustment for derivative gains included in net loss	(1,520)	99	(1,421)
Other comprehensive loss	$ (5,598)	$ 1,567	$ (4,031)

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Years Ended December 31		
	2010	**2009**	**2008**
Operating Activities			
Net loss	**$ (9,943)**	$ (25,401)	$ (2,791)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Provision for loan losses	**19,755**	37,033	12,406
Provision for write-down of other real estate	**1,896**	4,175	231
Provision for loss of investment security	**0**	0	1,701
Provision for depreciation and amortization	**1,814**	1,945	1,855
Accretion of security discounts	**(201)**	(186)	(117)
Amortization of security premiums	**755**	171	285
Amortization of gain on derivatives	**(1,421)**	(1,511)	(73)
Amortization of discount on long-term debt	**52**	0	0
Stock-based compensation	**80**	248	335
Deferred income tax benefit	**(5,448)**	(14,118)	(491)
Proceeds from sale of loans held for sale	**113,192**	144,533	101,195
Originations of loans held for sale	**(116,187)**	(144,655)	(101,972)
Purchase of bank owned life insurance	**(52)**	(53)	0
Proceeds from bank owned life insurance death benefit	**0**	1,637	0
Increase in cash surrender value of bank owned life insurance	**(241)**	(343)	(476)
Losses on sales of other real estate owned	**1,085**	2,942	478
Losses on sales of premises and equipment	**0**	9	2
Securities gains	**(3,331)**	0	0
Net decrease in other assets	**1,078**	139	1,401
Net decrease in other liabilities	**(1,891)**	(837)	(3,419)
Net Cash Provided By Operating Activities	**992**	5,728	10,550
Investing Activities			
Proceeds from sales of securities available-for-sale	**90,089**	0	0
Proceeds from maturities of securities available-for-sale	**86,335**	29,524	25,857
Purchases of securities available-for-sale	**(210,106)**	(27,572)	(26,042)
Proceeds from maturities of securities held-to-maturity	**155**	1,445	3,535
Purchases of securities held-to-maturity	**0**	0	0
Net (increase) decrease in loans	**(5,439)**	29,246	(64,909)
Capitalized completion costs for other real estate	**(1,223)**	0	0
Proceeds from sale of other real estate	**7,948**	14,478	6,211
Proceeds from sale of derivative assets	**0**	0	5,709
Proceeds from sale of business unit	**0**	25	0
Purchases of premises and equipment	**(238)**	(1,086)	(3,151)
Proceeds from disposals of premises and equipment	**0**	0	88
Proceeds from redemption of Federal Reserve Bank Stock	**0**	0	0
Purchases of Federal Reserve Bank Stock	**(1,288)**	(235)	(13)
Proceeds from redemption of Federal Home Loan Bank Stock	**649**	0	13,540
Purchases of Federal Home Loan Bank Stock	**0**	(72)	(12,579)
Net Cash (Used In) Provided By Investing Activities	**(33,118)**	45,753	(51,754)
Financing Activities			
Net increase (decrease) in transaction and savings accounts	**43,286**	42,509	(108,272)
Net (decrease) increase in certificates of deposit and other time deposits	**(115,340)**	68,454	85,154
Net (decrease) increase in short-term borrowed funds	**(853)**	(98,143)	56,133
Proceeds from issuance of preferred stock	**0**	28,910	0
Proceeds from sale of common stock	**9,812**	0	0
Proceeds from sale of treasury stock	**0**	0	828
Purchase of treasury stock	**(54)**	(157)	(2,095)
Net proceeds from long-term debt issued	**0**	23,790	10,100
Payments on long-term debt	**(71)**	(21,767)	(1,314)
Cash dividends	**(1,106)**	(363)	(3,209)
Net Cash (Used In) Provided By Financing Activities	**(64,326)**	43,233	37,325
Increase (Decrease) In Cash And Cash Equivalents	**(96,452)**	94,714	(3,879)
Cash And Cash Equivalents At Beginning Of Year	**108,159**	13,445	17,324
Cash And Cash Equivalents At End Of Year	**$ 11,707**	$ 108,159	$ 13,445
Supplemental disclosures of cash flows information			
Cash paid for:			
Interest	**$ 14,635**	$ 18,310	$ 23,731
Income taxes	**$ 6**	$ 6	$ 451
Amounts transferred from loans to other real estate	**$ 15,040**	$ 25,478	$ 17,495

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 2010

NOTE 1 – Summary Of Significant Accounting Policies

ALIANT Financial Corporation and its subsidiaries ("ALIANT", "Company") provide banking, mortgage banking, and securities brokerage services to Alabama markets. The accounting and reporting policies of ALIANT conform to the accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following summarizes the most significant of these policies. In addition, Note 23 includes information regarding certain transactions during 2010 and 2009 that resulted in a change of control of the Company.

Basis of Presentation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed assets and deferred taxes, other-than-temporary impairments of securities, and the fair value of financial instruments.

ALIANT has evaluated all transactions, events, and circumstances for consideration or disclosure through February 18, 2011, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related notes as deemed appropriate.

Cash and Cash Equivalents: For the statement of cash flows, cash and cash equivalents include cash, noninterest bearing deposits in banks, and interest bearing deposits in banks.

Securities: Securities are classified as either available-for-sale or held-to-maturity. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designations as of each statement of condition date. Debt securities are classified as held-to-maturity when ALIANT has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are stated at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale represent those securities intended to be held for an indefinite period of time, including securities that management intends to use as part of its asset/liability strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors. Securities available-for-sale are recorded at market value with unrealized gains and losses, net of any tax effect, reported in accumulated other comprehensive income.

The amortized cost of debt securities classified as held-to-maturity and available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is included in interest income on securities. Realized gains and losses, and declines in value judged to be other-than-temporary, are included in net securities gains (losses). The cost of securities sold is based on the specific identification method.

Loans Held for Sale: Certain residential mortgage loans are originated for sale in the secondary mortgage loan market on a non-recourse basis and typically sold with servicing rights released. These loans are classified as loans held for sale and are carried at the lower of cost or fair value. The estimated fair value of mortgage loans held for sale is based on rates obtained in the respective secondary market for the type of loan held for sale. Loans are generally sold at a premium or discount from the carrying amount of the loan.

Loans: Loans are carried at their principal amount outstanding. Interest income is accrued on the outstanding principal balance. The recognition of interest income is discontinued when, in management's judgment, the interest will not be collectible in the normal course of business. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, unless management believes the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash-basis or cost-recovery method, until the loans are returned to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when it is probable, based on current information and events, ALIANT will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated probable loan losses in the loan portfolio. Management's methodology for the analysis of the adequacy of the allowance conforms to generally accepted accounting principles and regulatory guidelines. The methodology categorizes the loan portfolio for analysis purposes as significant classified loans, other classified loans, and all other loans. A specific allocation is made for estimated losses on significant classified loans by analyzing each loan with consideration given to estimated cash flows of the borrower, delinquency levels, and estimated collateral values. Other classified loans are categorized into certain credit risk groups and historical loss factors are applied to the total loans outstanding in each of these groups. All other (non-classified) loans are categorized by basic loan type and a four quarters moving average

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historical loss factor is applied to outstanding loans in each category. In addition to these allocations, an allocation is made based on management's estimates of the potential impact of such factors as trends in the loan portfolio, including the mix of loan types and delinquencies, level of classified assets, lending comments by internal loan review or regulators, economic conditions, and other specific events impacting loan losses. ALIANT's internal loan review function provides an independent review of the loan portfolio and the classifications assigned by management.

Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (3-35 years).

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the recorded investment in the loan or fair value at the date of foreclosure, less estimated costs to sell, establishing a new cost basis. Any excess of the recorded investment in the loan over fair value, less estimated costs to sell, is charged to the allowance for loan and lease losses at the time of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value, less estimated costs to sell.

Goodwill: Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill and other intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. In the event of impairment, the amount by which the carrying amount exceeds the fair value would be charged to earnings.

Securities Sold Under Agreements to Repurchase: Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements cannot be sold or pledged by the secured party.

Income Taxes: The Company accounts for income taxes in accordance with income tax accounting guidance (FASB ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The valuation allowance is subject to ongoing adjustment based on changes in circumstances that affect management's judgment about the realizability of the deferred tax asset. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense. As of December 31, 2010, a valuation allowance of $1 million has been recorded. See Note 17 – Income Taxes – for additional information.

Prior to November 1, 2009, ALIANT, with the consent of its stockholders, was taxed under sections of federal income tax law, which provide that, in lieu of corporate federal income taxes, the stockholders separately account for their pro rata shares of ALIANT's items of income, deductions, losses and credits for federal tax purposes. Such an election is typically referred to as a Subchapter S election. As a result, federal income tax prior to November 1, 2009 was not accounted for in the consolidated statements of operations. Effective October 31, 2009, ALIANT, with the consent of its stockholders, revoked its Subchapter S election and federal income taxes are accounted for in the consolidated statements of operations for the period following October 31, 2009. ALIANT recorded a tax benefit of approximately $5,862,000 upon revocation of the Subchapter S election as a result of corporate federal taxes applicable to the excess of ALIANT's tax basis in excess of net assets. See Note 17 – Income Taxes – for additional information..

Losses Per Share: Basic loss per share represents losses available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Losses available to common stockholders is increased by preferred stock dividends and the implied dividend to convert Series A Preferred Stock into common stock. Diluted losses per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and stock warrants, and are determined using the treasury stock method. Because of the net loss of the years December 31, 2010, 2009, and 2008, all potential common shares were considered antidilutive and not included in the computation of diluted losses per share. Note 15 provides a computation of losses per share.

Stock-Based Compensation: Stock compensation accounting guidance (FASB ASC 718, Compensation - Stock Compensation) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

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Derivatives: As part of its overall interest rate risk management, ALIANT uses derivative instruments, which can include interest rate swaps, caps, floors, and collars. Derivative accounting guidance (FASB ASC 815, Derivatives and Hedging Overview) requires all derivative instruments to be carried at fair value on the statement of condition. The accounting guidance provides special accounting provisions for derivative instruments that qualify for hedge accounting. To be eligible, ALIANT must specifically identify a derivative as a hedging instrument and identify the risk being hedged. The derivative instrument must be shown to meet specific requirements under the accounting guidance.

ALIANT designates the derivative on the date the derivative contract is entered into as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair-value" hedge) or (2) a hedge of a forecasted transaction of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash-flow" hedge). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair-value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current-period earnings. The effective portion of the changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). The remaining gain or loss on the derivative, if any, in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in earnings.

ALIANT formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the statements of condition or to specific firm commitments or forecasted transactions. ALIANT also formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, ALIANT discontinues hedge accounting prospectively, as discussed below. ALIANT discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is re-designated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

Recent Accounting Pronouncements: *Accounting Standards Update (ASU) No. 2009-16, "Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets."* ASU 2009-16 amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. ASU 2009-16 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The provisions of ASU 2009-16 became effective on January 1, 2010 and did not have a significant impact on ALIANT's financial statements.

ASU No. 2009-17, "Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. As further discussed below, ASU No. 2010-10, "Consolidations (Topic 810) – Amendments for Certain Investment Funds," deferred the effective date of ASU 2009-17 for a reporting entity's interests in investment companies. The provisions of ASU 2009-17 became effective on January 1, 2010 and did not have a significant impact on ALIANT's financial statements.

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for ALIANT beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for ALIANT on January 1, 2010. See Note 20 – Fair Value of Assets and Liabilities.

ASU No. 2010-20, "Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 will become effective for ALIANT's financial statements as of December 31, 2011. ASU 2011-01, "Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of a proposed accounting standards update related to troubled debt restructurings, which is currently expected to be effective for periods ending after June 15, 2011.

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ASU No. 2010-28, "Intangibles – Goodwill and Other (Topic 350) – When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 will be effective for ALIANT on January 1, 2011 and is not expected have a significant impact on ALIANT's financial statements.

NOTE 2 – Management's Plan of Action

The consolidated financial statements contemplate the realization of assets and discharge of liabilities in the normal course of business. Due to the Company's financial results for the three years ended December 31, 2010, 2009 and 2008, and the uncertainty throughout the banking industry, management has developed the following plan of action.

Operating Losses: For the years ended December 31, 2010, 2009, and 2008, the Company reported a consolidated net loss of approximately $9.9 million, $25.4 million, and $2.8 million respectively. These losses resulted largely from provision for loan losses of $19.8 million, $37 million, and $12.4 million recorded during 2010, 2009, and 2008, respectively. These provision amounts are substantially more than what has been recorded by the Company in normal economic times. The substantial amount of provision for loan losses that was recorded was directly attributable to the slowdown in the real estate market as well as the general economy. In addition, the Company recorded losses associated with foreclosed assets of approximately $2.9 million in 2010, $7.1 million in 2009, and $700 thousand in 2008. These losses arose from writing down the recorded value of foreclosed assets subsequent to foreclosure or selling these assets at a discount to the recorded value. The Company also incurred a substantial amount of collection costs associated with nonperforming loans as well as carrying costs of foreclosed properties in 2010, 2009, and 2008.

Operations were also negatively affected by the significant increase in insurance assessments charged by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC substantially increased the rates that all financial institutions were required to pay during 2010 and 2009. The increase in FDIC assessments the Company paid during 2010 and 2009 over the amount paid in 2008 was approximately $2 million dollars in each year. Net interest margins have also negatively affected the operations of the Company due to the increase of nonperforming assets as well as the earlier repricing of interest earning assets over interest bearing liabilities as general market interest rates declined. The negative impact to operations during 2009 was partially offset by an income tax benefit of $14.6 million recorded during the year. Included in the income tax benefit was $5,860,000 of benefit that resulted from the Company terminating its S Corporation status for federal income taxation during 2009. Note 17 "Income Taxes" more fully describes the income tax amounts recorded.

Capital Adequacy: As previously mentioned above, the Company incurred substantial losses during 2010, 2009 and 2008. To alleviate the adverse effect to its capital position resulting from the losses, the Company received net proceeds of $28.9 million from a preferred stock issuance during 2009. This offering is more fully described in Note 13, "Preferred Stock and Common Stock Warrants". In addition, the Company received net proceeds of $23.7 million from the issuance of subordinated debentures during 2009. The subordinated debenture issuance is more fully described in Note 12, "Long Term Debt". These subordinated debentures are included as Tier 2 Capital for regulatory capital purposes while the preferred stock is included as Tier 1 Capital. In 2010, the company received net proceeds of $9.8 million from the issuance of common stock. Also, during 2010, all the preferred stock issued in 2009 was converted to common stock. Note 18, "Regulatory Matters" provides a comparison of the Company's regulatory capital ratios at December 31, 2010 as well as the required minimum amounts. Management believes that the Company meets all capital requirements to which it is subject as of December 31, 2010 and 2009.

Liquidity: The primary sources of liquidity are cash and cash equivalents, deposits, scheduled repayments of loans, unpledged investment securities and available borrowings with the Federal Home Loan Bank and Federal Reserve and correspondent bank federal funds lines. Cash and cash equivalents at December 31, 2010 totaled $11.7 million. The Company has available combined borrowings with the Federal Home Loan Bank and the Federal Reserve Bank of approximately $135 million and $10 million of unused federal funds lines as of December 31, 2010. Based on current and expected liquidity needs and sources, management expects the Company to be able to meet all obligations as they become due.

Management has developed and implemented plans to improve the condition of the Company, including reducing adversely classified assets, improving net interest margin, and reducing operating expenses. To date, those plans are proving to be successful most notably in the improved financial performance of 2010 over 2009 and the reduction of classified assets in 2010 over 2009. However, due to current economic conditions, it is possible that the negative trends and losses experienced during the past three years could continue or increase which could increase the Company's capital needs. As discussed in Note 23, the Company received $24.3 million in capital from USAmeriBancorp, Inc., Largo, Florida ("USAB") during 2009 through the Company's $28.9 million preferred stock offering described above which resulted in USAB taking a 47.0% ownership stake in the Company. That ownership interest was increased by $10 million during 2010 through the sale of common stock to USAB which resulted in USAB's ownership interest increasing to approximately 61.7% which represents a controlling interest in the Company. Through its relationship with USAB, the Company expects to realize efficiencies and benefits from the combined resources of USAB and the Company as well as access to the capital resources of USAB should any additional capital be required.

NOTE 3 – Restrictions On Cash And Noninterest Bearing Deposits

ALIANT Financial Corporation's bank subsidiary is required to maintain average balances by the Federal Reserve Bank. The average amount of this reserve balance for the years ended December 31, 2010 and 2009, were approximately $1,948,000 and $1,812,000, respectively.

NOTE 4 – Securities

Securities available-for-sale and securities held-to-maturity at December 31, 2010 and 2009, are summarized as follows (dollars in thousands):

December 31, 2010	Securities Available-For-Sale			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	$ 30,005	$ 99	$ 0	$ 30,104
Obligations of states and political subdivisions	12,267	185	129	12,323
Mortgage-backed securities issued by U.S. Govt.-sponsored enterprises*	140,658	822	1,645	139,835
Total debt securities	182,930	1,106	1,774	182,262
Equity securities	896	65	0	961
TOTAL	$ 183,826	$ 1,171	$ 1,774	$ 183,223

December 31, 2009	Securities Available-For-Sale			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. government agencies	$ 19,973	$ 20	$ 21	$ 19,972
Obligations of states and political subdivisions	$ 49,032	$ 1,113	$ 181	$ 49,964
Mortgage-backed securities issued by U.S. Govt.-sponsored enterprises*	52,804	2,490	0	55,294
Total debt securities	121,809	3,623	202	125,230
Equity securities	8,496	54	0	8,550
TOTAL	$ 130,305	$ 3,677	$ 202	$ 133,780

December 31, 2009	Securities Held-To-Maturity			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government sponsored agency obligations	$ 58	$ 0	$ 0	$ 58
Obligations of states and political subdivisions	17,159	687	3	17,843
TOTAL	$ 17,217	$ 687	$ 3	$ 17,901

* Such as Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank.

During 2010, ALIANT transferred all remaining held-to-maturity securities to the available-for sale category. On the date of transfer, the securities had an amortized cost basis of approximately $17,043,000. The transferred securities were marked to estimated fair value through other comprehensive income (loss), net of tax on the date of transfer. All future purchases of securities will be classified as available-for-sale at the date of purchase.

At December 31, 2010, there were no securities of any single issuer (excluding the U.S. Government and federal agencies) with a book value that exceeded 10% of stockholders' equity. In addition, there were no private label mortgage-backed or collateralized debt obligation securities in the portfolio at December 31, 2010 and 2009.

Securities with a carrying value of $59,769,000 and $54,813,000 at December 31, 2010 and 2009, respectively, were pledged to secure public funds and securities sold under agreement to repurchase. Taxable interest income includes interest earned on U.S. Government sponsored agency securities. Nontaxable interest income is earned on state, county, and municipal securities. Proceeds from the sale of securities available for sale were $82,489,000 in 2010. Gross realized gains were $3,331,000 and no losses were realized. No securities were sold during the years 2009 and 2008.

As of December 31, 2010, there were 26 securities carried at an unrealized loss relating to the level of interest rates prevailing in the market. None of these securities have been carried at an unrealized loss for a period of twelve months or more at December 31, 2010. As of December 31, 2009, there were 12 securities carried at an unrealized loss relating to the level of interest rates prevailing in the market. Four of these securities had been carried at an unrealized loss for a period of twelve months or more and had net unrealized losses totaling $121,000 at December 31, 2009. Because of the credit-worthiness of the issuers and because the future direction of interest rates is unknown, the impairments are deemed to be temporary. The severity and duration of such impairments are determined by the level of interest rates set by the market. Additionally, ALIANT has the ability to retain these securities until maturity when full repayment would be received. There are no known current funding needs that would require their liquidation.

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Maturities of securities at amortized cost and estimated fair value at December 31, 2010 are summarized below (dollars in thousands). Actual maturities may differ from contractual maturities of mortgage-backed securities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Therefore these securities are not presented by maturity class.

	Cost	Estimated Fair Value
AVAILABLE-FOR-SALE		
Within one year	$ 980	$ 996
After one year through five years	34,750	34,995
After five years through ten years	3,019	3,009
After ten years	3,523	3,427
	42,272	42,427
Equity securities	896	961
Mortgage-backed securities	140,658	139,835
TOTAL	$ 183,826	$ 183,223

NOTE 5 – Loans, Loan Commitments, Concentrations of Credit Risk, Standby Letters Of Credit, and Other Real Estate Owned

Loans at December 31, 2010 and 2009, were as follows (dollars in thousands):

	2010	2009
Real estate-construction and land development	$ 86,655	$ 134,800
Real estate-mortgage	457,075	445,418
Commercial and financial	90,439	81,554
Installment	11,458	14,710
TOTAL	$ 645,627	$ 676,482

Loan commitments are made to accommodate the financial needs of the subsidiary bank's customers. Standby letters of credit commit the subsidiary bank to make payments on behalf of customers when certain specified future events occur. They are primarily issued to support commercial paper, medium and long-term notes, and debentures. Historically, more than 95% of standby letters of credit expire unfunded.

Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the subsidiary bank's normal credit policies. Collateral is obtained based on management's credit assessment of the customer.

The following is a summary of ALIANT's off-balance sheet loan commitments and standby letters of credit (dollars in thousands):

	December 31	
	2010	2009
Loan commitments	$ 113,717	$ 111,473
Standby letters of credit	$ 2,110	$ 1,450

The Company originates primarily commercial, commercial real estate, residential real estate, and consumer loans to customers in its primary market areas. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas. Eighty-four percent of the Company's loan portfolio is secured by real estate, of which a substantial portion is secured by real estate in the Company's market areas.

The Company, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined by banking regulations, or approximately $23,660,000, or on an unsecured basis in excess of 10% of capital, as defined by banking regulations, or approximately $11,830,000.

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual term of the loan. Impaired loans include loans modified in troubled debt restructuring where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following is a summary of information pertaining to impaired and nonaccrual loans (dollars in thousands):

	December 31	
	2010	2009
Impaired loans without a valuation allowance	$ 17,767	$ 38,895
Impaired loans with a valuation allowance	40,648	55,682
Total impaired loans	$ 58,415	$ 94,577
Valuation allowance related to impaired loans	$ 13,299	$ 15,858
Total nonaccrual loans	$ 31,683	$ 28,463
Total loans past due ninety days or more and still accruing	$ 663	$ 438

The average investment in impaired loans for the years ended December 31, 2010 and 2009 was approximately $75,526,000 and $61,100,000, respectively. For the years ended December 31, 2010, 2009, and 2008, interest income recognized on impaired loans was approximately $2,282,000, $3,908000, and $738,000, respectively.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2010, the Company had troubled debt restructurings totaling $14,574,000 including construction loans totaling $7,415,000. Total troubled debt restructurings included $6,706,000 in loans that were performing in compliance with the restructured terms.

At December 31, 2010 and 2009, loans to directors, executive officers, principal holders of equity securities, or associates of such persons aggregated $8,541,000 and $8,793,000, respectively. These loans were made at substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons.

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Other real estate owned represents properties acquired through, or in lieu of, foreclosure. Each property is carried at the lower of the amount of the loan satisfied or the fair value of the property less estimated costs to dispose. A summary of the other real estate owned activity for the years 2010, 2009, and 2008 follows (dollars in thousands):

	Year Ended December 31		
	2010	2009	2008
Balance at beginning of year	$ 17,324	$ 13,441	$ 2,864
Amounts transferred from loans	15,040	25,478	17,495
Capitalized completion costs	1,223	0	0
Sales proceeds	(7,948)	(14,478)	(6,211)
Net losses on sales	(1,085)	(2,942)	(476)
Provision for losses	(1,896)	(4,175)	(231)
Balance at end of year	$ 22,658	$ 17,324	$ 13,441

In addition to the losses on sale and provision for losses itemized in the above table, ALIANT incurred $1,478,000, $740,000, and $208,000 in costs to carry its other real estate portfolio during 2010, 2009, and 2008, respectively. That amount has been included in other operating expense in the consolidated statements of operations.

NOTE 6 – Allowance For Loan Losses

Changes in the allowance for loan losses are summarized as follows (dollars in thousands):

	Year Ended December 31		
	2010	2009	2008
Balance at beginning of year	$ 26,549	$ 13,249	$ 10,855
Provision charged to operations	19,755	37,033	12,406
Loan losses:			
Loans charged off	(25,084)	(24,115)	(10,153)
Recoveries	834	382	141
Net loan losses	(24,250)	(23,733)	(10,012)
Balance at end of year	$ 22,054	26,549	$ 13,249

NOTE 7 – Premises And Equipment

Premises and equipment at December 31, 2010 and 2009, are summarized as follows (dollars in thousands):

	2010	2009
Land	$ 5,440	$ 5,440
Bank premises	25,256	25,218
Furniture, equipment and vehicles	13,045	12,889
Leasehold improvements	628	628
	44,369	44,175
Less accumulated depreciation	23,305	21,754
TOTAL	$ 21,064	$ 22,421

The provision for depreciation charged to operating expense in 2010, 2009, and 2008, was approximately $1,596,000, $1,644,000, and $1,443,000, respectively. Certain facilities and equipment of ALIANT's subsidiary bank are leased under operating leases. These leases generally require ALIANT to pay maintenance, insurance, and property taxes. Rental expense was approximately $589,000 in 2010, $704,000 in 2009, and $715,000 in 2008. Future minimum rental commitments under non-cancelable leases are $366,000 in 2011, $297,000 in 2012, $274,000 in 2013, $128,000 in 2014, $60,000 in 2015, and $161,000 thereafter.

NOTE 8 – Goodwill

Goodwill of approximately $1,243,000 was acquired in 2005 and is related to ALIANT's acquisition of Southern Capital Resources, Inc. As discussed in Note 1, goodwill is not amortized but instead annually tested for impairment. As of December 31, 2010 and 2009, ALIANT determined its goodwill of approximately $1,243,000, to be unimpaired. In 2009, ALIANT sold a business unit that had previously been purchased and recovered the $25,000 of goodwill that had been recognized at the time of purchase of that business unit.

NOTE 9 – Other Assets

The following is a summary of other assets at December 31, 2010 and 2009 (dollars in thousands):

	2010	2009
Federal Reserve Bank stock	$ 2,156	$ 869
Federal Home Loan Bank stock	5,441	6,090
Accrued interest and dividends receivable	2,961	3,603
Other	3,585	2,772
TOTAL	$ 14,143	$ 13,334

As a condition to borrowing funds from the Federal Home Loan Bank of Atlanta (FHLB), ALIANT is required to purchase stock in the FHLB. No ready market exists for the stock, and it has no quoted market value. The investment in FHLB stock can only be redeemed by the FHLB at face value.

As a condition of membership in the Federal Reserve Bank (FRB), ALIANT is required to purchase stock in the FRB. No ready market exists for the stock, and it has no quoted market value. The investment in FRB stock can only be redeemed by the FRB at face value.

NOTE 10 – Deposits

The aggregate amount of time certificates of deposit and other time deposits of $100,000 or more were $154,589,000 and $238,689,000 at December 31, 2010 and 2009, respectively. Brokered deposits totaled $16,000,000 and $21,984,000 at December 31, 2010 and 2009, respectively. The scheduled maturities of all time deposits at December 31, 2010 are as follows (dollars in thousands):

2011	$ 285,710
2012	19,499
2013	9,574
2014	2,338
2015 and thereafter	1,454

At December 31, 2010, and 2009, overdraft deposits reclassified to loans totaled approximately $344,000 and $270,000, respectively.

NOTE 11 – Securities Sold Under Repurchase Agreements and Other Short-Term Borrowed Funds

Securities sold under agreement to repurchase are sold for one business day only. Securities sold under these agreements are held in custody by the subsidiary bank and may not be pledged, assigned, sold, or otherwise transferred or utilized by the customer. Interest rates on securities sold under agreement to repurchase are determined daily by the subsidiary bank. As of December 31, 2010 and 2009, ALIANT had no other short-term borrowed funds.

NOTE 12 – Long-Term Debt

Long-term debt at December 31, 2010 and 2009, is summarized as follows (dollars in thousands):

	2010	2009
ALIANT Financial Corporation:		
Floating rate subordinated debentures payable due December 15, 2036	$ 15,464	$ 15,464
8% subordinated debentures payable due September 1, 2016	3,400	3,400
10% subordinated debentures payable due December 1, 2019	24,515	24,463
Subsidiary bank:		
4.94% note payable due July 25, 2018	374	394
5.24% note payable due August 6, 2018	960	1,011
3.806% note payable due December 6, 2017	10,000	10,000
4.05% note payable due August 1, 2017	10,000	10,000
4.1675% note payable due August 1, 2017	10,000	10,000
4.165% note payable due September 11, 2012	15,000	15,000
4.05% note payable due November 25, 2020	25,000	25,000
2.8125% note payable due February 13, 2013	5,000	5,000
TOTAL	$ 119,713	$ 119,732

The floating rate subordinated debentures payable due December 15, 2036 are unsecured obligations. The interest rate is equal to the 3-month LIBOR rate plus 1.80% and is reset quarterly on the 15th of March, June, September and December. The maximum interest rate is 12.50% until December 15, 2011, at which time the debentures are callable. Accrued interest is payable quarterly. The weighted average interest rate was 2.17% for the year 2010. ALIANT has the right to elect to defer the payment of interest on these debentures for up to 20 consecutive calendar quarters. ALIANT has elected to defer the payment of interest beginning with the payment due for December 15, 2010 and may continue to do so in the future. The interest is compounded quarterly during any period where the election to defer payment has been made and accrued in the statements of operations.

The 8% subordinated debentures payable due September 1, 2016 are unsecured obligations. Interest is payable quarterly on September, December, March, and June 1. These debentures are callable on September 1, 2010 and quarterly thereafter.

The 10% subordinated debentures payable due December 31, 2019 are unsecured obligations. Interest is payable quarterly on March, June, September, and December 15 commencing on March 15, 2010. These debentures are callable at any time on or after December 31, 2012, in whole or in part. Detachable warrants were issued with the 10% subordinated debentures payable issued in 2009. The warrants are for the purchase of up to 138,150 shares of common stock at a price of $19.55 per share. The warrants expire December 31, 2014. The Company calculated the fair value of the warrants to be $262,000 using the Black-Scholes option pricing model using a risk-free rate of 2.01%, and expected dividend yield of 0.0%, an expected life of 2.5 years and an expected volatility of 24.81%.

The notes payable by the subsidiary bank are payable to the Federal Home Loan Bank of Atlanta, Georgia. These notes payable are secured by the Federal Home Loan Bank stock owned by ALIANT Bank with a carrying value of approximately $5,441,000 and a pledge of loans owned by ALIANT Bank secured by first and second liens on one-to-four unit single family dwellings and multifamily dwellings. These pledged loans had a carrying value at December 31, 2010, of approximately $157,169,000.

Principal and accrued interest are payable monthly in equal payments on the 4.94% note payable due July 25, 2018 and the 5.24% note payable due August 6, 2018. Accrued interest is payable monthly on the 4.05% note payable November 25, 2020. Accrued interest is payable quarterly on all other notes payable.

Scheduled maturities of all long-term debt are approximately $75,000 in 2011, $15,079,000 in 2012, $5,084,000 in 2013, $89,000 in 2014, $94,000 in 2015, and $99,292,000 thereafter.

ALIANT and subsidiaries have available unused lines of credit with a financial institution totaling $10,000,000 at December 31, 2010. In addition, ALIANT's subsidiary bank has borrowing capacity with the Federal Home Loan Bank of Atlanta totaling approximately $6,415,000 and with the Federal Reserve Bank of Atlanta totaling approximately $128,426,000 at December 31, 2010.

NOTE 13 — Preferred Stock and Common Stock Warrants

On November 30, 2009, ALIANT sold 2,000,000 shares of preferred stock for $30 million. The proceeds, less issuance costs, were generally contributed to the subsidiary bank as capital. The preferred stock is noncumulative, nonredeemable, and mandatorily convertible to Class A common stock no later than five years from the date of issuance. Dividends are payable quarterly solely at the discretion of ALIANT's Board of Directors at the rate of 3-month London Interbank Offered Rate (LIBOR) plus 4% subject to a cap on LIBOR of 6%. Each preferred share will convert into one share of common stock subject to customary anti-dilution adjustments for stock splits, stock dividends and similar events. The preferred shares are entitled to vote on an as-if-converted basis with the holders of common stock as a single class.

On December 31, 2010, the preferred stock was converted to Class A common shares. To induce the preferred stock shareholders to convert, ALIANT, with the consent of a majority of its shareholders, agreed to reduce the conversion price from $15.00 per share to $11.11 per share. This resulted in ALIANT issuing 700,272 shares more than would have been issued under the original terms of the preferred stock. The $8.6 million value attributed to the additional shares was considered a non-cash implied dividend to holders of the Series A Preferred and resulted in no net impact to total stockholders' equity. For 2010, the noncash implied dividend of

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$8.6 million was an additional deduction in arriving at net loss applicable to common stockholders on the consolidated statement of operations and was considered in the determination of basic and diluted loss per common share.

On November 30, 2009, ALIANT issued common stock purchase warrants to certain purchasers of the preferred stock. The warrants are for the purchase of up to 100,000 shares of the Company's common stock at an exercise price of $19.50 per share. The warrants expire ten years from the date of issuance and are subject to customary anti-dilution adjustments for stock splits, stock dividends and similar events. The estimated fair value of the warrants was determined to be immaterial and is therefore not accounted for separately from the preferred shares in the Company's financial statements.

On December 31, 2010, ALIANT issued common stock purchase warrants to USAmeriBancorp, Inc. in conjunction with USAmeriBancorp's purchase of 975,610 shares of ALIANT's Class A common stock. The warrants are for the purchase of up to 40,000 shares of the Company's common stock at an exercise price of $10.25 per share. The warrants expire ten years from the date of issuance and are subject to customary anti-dilution adjustments for stock splits, stock dividends and similar events.

In connection with the conversion of the preferred stock and the issuance of common stock to USAmeriBancorp, Inc., the Class A and Class B common shares of ALIANT were adjusted into one class of common stock. Therefore, common stock disclosures have been presented as a single class of stock in the consolidated financial statements for all periods presented.

NOTE 14 — Restrictions On Transfers Of Funds

ALIANT's principal source of funds for dividend payments and for repayment of long-term debt and interest thereon is dividends received from the subsidiary bank. Statutory limits are placed on the amount of dividends banks can pay without prior bank regulatory approval. Under these limitations, ALIANT's subsidiary bank cannot make dividend payments to the parent company without bank regulatory approval. In addition to dividend restrictions, federal statutes prohibit unsecured loans from banks to the parent. Because of these limitations, all the net assets of ALIANT's subsidiary bank are restricted.

NOTE 15 – Losses Per Common Share

The following sets forth the computation of loss per common share-basic and loss per common share-assuming dilution (dollars in thousands, except per share amounts):

	Year Ended December 31		
	2010	**2009**	**2008**
Loss per share – basic:			
Numerator:			
Net loss	$ (9,943)	$ (25,401)	$ (2,791)
Less cash dividends on Preferred Stock	(1,106)	0	0
Less implied dividend to induce conversion of Preferred Stock to Common Stock	(8,578)	0	0
Net loss available to Common Stockholders	(19,627)	(25,401)	(2,791)
Denominator:			
Weighted-average shares outstanding during year	1,458,652	1,451,652	1,458,153
Loss per share – basic	$ (13.46)	$ (17.50)	$ (1.91)
Loss per share – assuming dilution:			
Numerator:			
Net loss	$ (9,943)	$ (25,401)	$ (2,791)
Less dividends on Preferred Stock	(1,106)	0	0
Less implied dividend to induce conversion of Preferred Stock to Common Stock	(8,578)	0	0
Net loss available to Common Stockholders	(19,627)	(25,401)	(2,791)
Denominator:			
Weighted-average shares outstanding during year	1,458,652	1,451,652	1,458,153
Effect of dilutive employee stock options	0	0	0
Warrants	0	0	0
Denominator for loss per share – assuming dilution	1,458,652	1,451,652	1,458,153
Losses per share – assuming dilution	$ (13.46)	$ (17.50)	$ (1.91)

NOTE 16 – Stock-based Compensation Plans

In 1999, ALIANT established a nonqualified stock option plan for key employees that provides for the granting of options up to 60,000 shares of ALIANT's common stock. The terms of options granted are determined by the Compensation Committee of the Board of Directors; however no options may be granted after ten years from the plan's adoption and no options may be exercised beyond ten years from the date granted. There were no available options under this plan at December 31, 2010.

In 2005, ALIANT established a stock-based incentive plan that provides for the granting of stock incentive awards up to 60,000 shares of its common stock. In 2008, ALIANT shareholders approved an additional 60,000 shares of common stock under this plan. The terms of awards granted are determined by the Compensation Committee of the Board of Directors and may take the form of incentive stock options, nonqualified stock options, stock awards, stock appreciation rights, dividend equivalent rights, performance unit awards or phantom shares. At December 31, 2010, nonqualified stock options awarded under this plan totaled 69,500, restricted shares awarded totaled 22,350 and stock awards totaled 5,550. No option awards granted under this plan have been exercised. Option awards for 18,000 shares and restricted share awards for 3,300 have been forfeited. There were 43,900 shares available under this plan at December 31, 2010.

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values.

Stock-based compensation expense recognized by ALIANT during the years 2010, 2009, and 2008 consisted of the following:

	2010	2009	2008
Restricted share awards	$ 104,000	$ 115,000	$ 180,000
Stock awards	17,000	0	25,000
Non-qualified stock option awards	(41,000)	133,000	130,000
Total stock-based compensation expense recognized	$ 80,000	$ 248,000	$ 335,000

ALIANT's stock option awards generally are subject to "cliff" vesting where the award becomes vested only at the end of the vesting period. ALIANT's vesting period for stock option awards is generally four years. If the employee does not remain employed throughout the vesting period, the stock option awards are generally forfeited. At December 31, 2010, ALIANT had unrecognized stock-based compensation costs related to share awards totaling $234,000 which is expected to be recognized over a weighted average period of 2.33 years.

Cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for the applicable options (excess tax benefit) are to be classified as financing cash flows. For the years ended December 31, 2010, 2009 and 2008, the excess tax benefit resulting from the exercise of stock options was immaterial.

The following table summarizes the status of restricted stock granted under ALIANT's stock-based compensation plans as of December 31, 2010.

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2009	7,100	$62.85
Forfeited	(300)	$74.75
Vested	(1,250)	$14.00
Granted	2,500	$14.00
Nonvested at December 31, 2010	8,050	$54.82

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NOTE 16 – Stock-based Compensation Plans (continued)

The following tables summarize the status of non-qualified stock options granted under ALIANT's stock-based compensation plans. The intrinsic value for the options exercised for the years ended December 31, 2008 was $139,650. There were no options exercised during 2010 or 2009.

Year ended December 31, 2010	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	57,500	$66.41	5.78	$0
Granted	20,000	$14.00	–	–
Forfeited	(15,500)	$65.74	–	–
Outstanding at end of year	62,000	$49.67	6.49	$0
Exercisable at end of year	34,250	$64.35	4.59	$0

Year ended December 31, 2009	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	67,500	$64.60	6.03	$139
Expired	(8,000)	$49.50	–	–
Forfeited	(2,000)	$73.00	–	–
Outstanding at end of year	57,500	$66.41	5.78	$0
Exercisable at end of year	14,500	$49.90	2.89	$0

Year ended December 31, 2008	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	78,000	$60.55	6.12	$1,107
Granted	7,000	$66.39	–	–
Exercised	(17,500)	$47.27	–	–
Forfeited	0	$0.00	–	–
Outstanding at end of year	67,500	$64.60	6.03	$139
Exercisable at end of year	22,500	$49.76	2.63	$139

Options Outstanding at December 31, 2010

Range of Exercise Price	Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value (in thousands)
$14.00	20,000	9.63	$14.00	$0
$43.00 - $59.00	13,500	3.56	$52.57	$0
$73.00 - $74.25	28,500	5.67	$73.33	$0
Total	62,000	6.49	$49.67	$0

Exercisable Options at December 31, 2010

Range of Exercise Price	Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value (in thousands)
$14.00	1,250	9.34	$14.00	$0
$43.00 - $59.00	10,500	2.31	$51.81	$0
$73.00	22,500	5.38	$73.00	$0

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The fair value of the options granted was calculated using the Black-Scholes-Merton option valuation model using the assumptions shown in the following table. The expected term of the stock options was derived using the midpoint of the average vesting period and contractual life. The expected dividend yield is the annualized yield on ALIANT's common stock on the date of grant. Expected volatility is based on historical volatility of ALIANT's stock price. For the years 2010 and 2008 the following table includes the weighted-average assumptions for option awards. There were no option awards in 2009.

	Year Ended December 31	
	2010	2008
Risk free interest rate	2.31%	2.97%
Estimated life of the options (in years)	7	7
Expected dividends (as a percentage of the fair value of the stock)	0.00%	2.65%
Expected volatility	32.47%	6.22%
Fair value	$5.47	$4.55

Detachable warrants were issued with the subordinated debentures payable issued in 2009. The warrants are for the purchase of up to 138,150 shares of common stock at a price of $19.55 per share. The warrants expire December 31, 2014. See Note 12 – Long Term Debt – for additional information. Detachable warrants were issued with the preferred stock issued in 2009. The warrants are for the purchase of up to 100,000 shares of common stock at a price of $19.50 per share. The warrants expire November 30, 2014. Detachable warrants were issued with common stock sold in 2010. The warrants are for the purchase of up to 40,000 shares of common stock at a price of $10.25. The warrants expire December 31, 2020.

NOTE 17 – Income Taxes

For the period January 1, 1999 to November 1, 2009, ALIANT, with the consent of its stockholders, elected to be taxed under sections of federal income tax law which provide that, in lieu of corporate federal income taxes, the stockholders separately account for their pro rata shares of ALIANT's items of income, deductions, losses and credits for federal tax purposes. Such an election is typically referred to as a Subchapter S election. As a result, federal income taxes prior to November 1, 2009 have not been accounted for in the consolidated statements of operations. Effective October 31, 2009, ALIANT, with the consent of its stockholders, revoked its Subchapter S election and federal income taxes are accounted for in the consolidated statements of operations for the period November 1, 2009 through December 31, 2009 and for the year 2010. ALIANT recorded a tax benefit in 2009 of approximately $5,862,000 upon revocation of the Subchapter S election as a result of federal taxes applicable to the excess of ALIANT's tax basis over its net assets.

Significant components of the provision for income taxes are as follows (dollars in thousands):

	Year Ended December 31		
	2010	2009	2008
Current taxes	$ 6	$ (439)	$ (6)
Deferred taxes	(6,448)	(8,309)	$ (491)
Effect of Subchapter S revocation	0	(5,862)	0
Deferred tax valuation allowance	1,000	0	0
TOTAL	$ (5,442)	$(14,610)	$ (497)

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows (dollars in thousands):

	December 31	
	2010	2009
Deferred tax assets:		
Allowance for loan and lease losses	$ 7,940	$ 9,558
Allowance for losses on other real estate	1,210	1,172
Allowance for losses on letters of credit	60	0
Deferred compensation	656	881
Stock compensation	263	239
Net operating loss carryforward	12,032	4,037
Total deferred tax assets before valuation allowance	22,161	15,887
Valuation allowance	(1,000)	0
Total deffered tax assets	21,161	15,887
Deferred tax liabilities:		
Premises and equipment book and tax basis differences	319	502
Goodwill amortization for tax purposes	165	137
Other	78	97
Total deferred tax liabilities	562	736
Net deferred tax asset	$ 20,599	$ 15,151

ALIANT has a net operating loss carryforward for federal and state taxes at December 31, 2010, totaling approximately $33,424,000. The state net operating loss carryforward will expire in seven years and the federal net operating loss carryforward will expire in nineteen years.

The valuation allowance was established based upon a determination that it was not more likely than not the deferred tax assets would be fully realizeable primarily as a result of the state net operating loss carryforward and the limitations placed on the ability to realize the associated deferred tax asset by state tax regulations. State tax regulations allow the net operating loss carryforward for state purposes to be carried forward eight years in contrast to the federal tax regulations which allow the net operating loss carryforward for federal purposes to be carried forward twenty years.

ALIANT made income tax payments of $6,000 in 2010 and 2009, and $451,000 during 2008.

The difference between the income tax benefit and the amount computed by applying the statutory federal income tax rate of 34% to net loss before taxes is as follows (dollars in thousands):

Net loss before taxes	$ (15,385)
Gains on derivatives previously taxed	(1,421)
Tax exempt increase in cash surrender value of bank owned life insurance	(241)
Nondeductible expenses	160
Tax exempt income on obligations of states and political subdivisions	(1,787)
State tax benefit recognized for federal tax purposes	700
Totals	$ (17,974)
Applicable tax rate	34%
Provision for federal income tax benefit	$ (6,111)
Provision for state income tax benefit	(331)
Provision for deferred tax asset valuation allowance	1,000
Total provision for income tax benefit	$ (5,442)

NOTE 18 – Regulatory Matters

ALIANT Financial Corporation and ALIANT Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on ALIANT Financial Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, ALIANT Financial Corporation and ALIANT Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and the classification of capital amounts of ALIANT Financial Corporation and ALIANT Bank are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require ALIANT Financial Corporation and ALIANT Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). These minimum amounts and ratios are presented in the table below along with actual capital amounts and ratios for ALIANT Financial Corporation and ALIANT Bank. Management believes, as of December 31, 2010, that ALIANT Financial Corporation meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the regulatory authorities categorized ALIANT Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I to average assets (leverage ratio) ratios as set forth in the following table and must not be subject to any written agreement, order or capital directive issued by federal banking regulators. There are no conditions or events since the notification that management believes have changed ALIANT Bank's category.

ALIANT Financial Corporation's and ALIANT Bank's actual capital amounts and ratios are presented in the following table.

	As of December 31, 2010					
(dollars in thousands)	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (To Risk-Weighted Assets):						
ALIANT Financial Corporation	$ 91,654	14.0%	$ 52,486	8.0%	N/A	N/A
ALIANT Bank	87,472	13.4%	52,261	8.0%	$ 65,326	10.00%
Tier 1 Capital (To Risk-Weighted Assets):						
ALIANT Financial Corporation	$ 55,386	8.4%	$ 26,249	4.0%	N/A	N/A
ALIANT Bank	79,102	12.1%	26,128	4.0%	$ 39,192	6.00%
Tier 1 Capital (To Average Assets):						
ALIANT Financial Corporation	$ 55,386	6.0%	$ 27,555	3.0%	N/A	N/A
ALIANT Bank	79,102	8.7%	36,369	4.0%	$ 45,461	5.00%

	As of December 31, 2009					
(dollars in thousands)	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (To Risk-Weighted Assets):						
ALIANT Financial Corporation	$ 96,832	14.3%	$ 54,172	8.0%	N/A	N/A
ALIANT Bank	88,106	13.1%	53,805	8.0%	$ 67,256	10.00%
Tier 1 Capital (To Risk-Weighted Assets):						
ALIANT Financial Corporation	$ 60,276	8.9%	$ 27,090	4.0%	N/A	N/A
ALIANT Bank	79,446	11.8%	26,931	4.0%	$ 40,396	6.00%
Tier 1 Capital (To Average Assets):						
ALIANT Financial Corporation	$ 60,276	6.1%	$ 29,644	3.0%	N/A	N/A
ALIANT Bank	79,446	8.1%	39,233	4.0%	$ 49,041	5.00%

NOTE 19 – Employee Benefit Plans

ALIANT established an Employee Stock Ownership Plan that became effective January 1, 1999 covering substantially all its employees. Contributions are authorized by the Compensation Committee of the Board of Directors and are based on each eligible employee's annual compensation. Outstanding shares allocated to participants at December 31, 2010 totaled 124,402. These shares are treated as outstanding for purposes of calculating earnings per share and dividends on these shares are included in the Consolidated Statements of Stockholder's Equity. No contributions were authorized for 2010, 2009, or 2008.

ALIANT has a 401(k) deferred compensation plan covering substantially all its employees. Contributions are authorized by the Compensation Committee of the Board of Directors and are based on each eligible employee's annual compensation. No contributions were authorized for 2010, 2009, or 2008.

NOTE 20 – Fair Value of Assets and Liabilities

ALIANT uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are not quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there is a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash, Noninterest Bearing Deposits, and Interest Bearing Deposits: For cash, noninterest bearing deposits, and interest bearing deposits, the carrying value is a reasonable estimate of fair value.

Securities: For securities, fair values are based on the quoted market prices. If quoted market price is not available, fair value is estimated using quoted market prices of similar securities.

Loans: The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit quality and for similar remaining maturities.

Deposits: The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-rate certificates of deposit is estimated using a discounted cash flow calculation based on rates currently offered for deposits of similar remaining maturities.

Other Short-term Borrowed Funds: Rates currently available to ALIANT and it subsidiaries for short-term borrowings with similar terms and remaining maturities are used to estimate fair value of existing other short-term borrowed funds.

Long-term Debt: Rates currently available to ALIANT and its subsidiaries for debt with similar terms and remaining maturities are used to estimate fair value of existing long-term debt.

Commitments to Extend Credit and Letters of Credit: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the present credit worthiness of the counterpart. The fair value of letters of credit is based on fees currently charged for similar agreements, or on the estimated cost to terminate them, or otherwise settle the obligations with the counterpart at the reporting date.

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Assets and liabilities measured at fair value on a recurring basis at December 31, 2010 and 2009, are summarized below (dollars in thousands):

		Fair value measurements using:		
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2010				
Assets:				
Securities available for sale	$ 183,223	$ 961	$ 182,262	$ 0
Liabilities:	$ 0	$ 0	$ 0	$ 0
December 31, 2009				
Assets:				
Securities available for sale	$ 133,780	$ 8,550	$ 125,230	$ 0
Liabilities:	$ 0	$ 0	$ 0	$ 0

Under certain circumstances we make adjustments to fair value for our assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded (dollars in thousands):

		Fair value measurements using:			
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Gains (Losses)
December 31, 2010					
Assets:					
Impaired loans	$ 44,574	$ 0	$ 0	$ 44,574	$ (21,786)
Other real estate	$ 22,658	$ 0	$ 0	$ 22,658	$ (3,362)
Liabilities:	$ 0	$ 0	$ 0	$ 0	$ 0
December 31, 2009					
Assets:					
Impaired loans	$ 42,095	$ 0	$ 0	$ 42,095	$ (19,646)
Other real estate	$ 17,324	$ 0	$ 0	$ 17,324	$ (3,255)
Liabilities:	$ 0	$ 0	$ 0	$ 0	$ 0

In accordance with the provisions of the loan impairment guidance (FASB ASC 310-10-35), individual loans with a carrying amount of $53,060,000 were written down to their fair value of $44,574,000, resulting in an impairment charge of $21,786,000. Loans applicable to write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions.

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Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed assets as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The carrying value and estimated fair value of the financial instruments of ALIANT and its subsidiaries were as follows (dollars in thousands):

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and noninterest bearing deposits	$ 9,228	$ 9,228	$ 13,156	$ 13,156
Interest bearing deposits	2,479	2,479	95,003	95,003
Securities available for sale	183,223	183,223	133,780	133,780
Securities held to maturity	0	0	17,217	17,901
Net loans and loans held for sale	623,573	602,199	649,933	677,006
Financial liabilities:				
Deposits	717,513	718,497	789,567	792,572
Securities sold under agreement to repurchase	6,268	6,268	7,121	7,121
Other short-term borrowed funds	0	0	0	0
Long-term debt	119,713	114,640	119,732	121,301

NOTE 21 – Derivatives

ALIANT entered into an interest rate swap with a notional amount of $25 million in order to fix the interest rate on a corresponding amount of its floating-rate loans. The interest rate swap was designated as a cash flow hedge and, as such, the changes in fair value are reflected in other comprehensive income net of tax. Under the terms of the swap, which was to expire in October 2010, ALIANT was to receive monthly a fixed interest rate of 7.4307% and pay monthly the variable interest rate of Wall Street Journal Prime. In September 2008, the counterparty defaulted on this derivative. At the time of default, ALIANT determined the value of the derivative to be zero.

ALIANT entered into an interest rate swap with a notional amount of $25 million in order to fix the interest rate on a corresponding amount of its floating-rate loans. The interest rate swap was designated as a cash flow hedge and, as such, the changes in fair value are reflected in other comprehensive income net of tax. Under the terms of the swap, which was to expire in February 2012, ALIANT was to receive monthly a fixed interest rate of 7.85% and pay monthly the variable interest rate of Wall Street Journal Prime. In December 2008, ALIANT terminated this derivative and received a pre-tax value of $2,805,000 which will be reclassified into income from other comprehensive income in equal monthly amounts over the remaining term of the original derivative contract. At December 31, 2010, the remaining amount carried in other comprehensive income, net of taxes, was $892,000.

ALIANT entered into an interest rate floor with a notional amount of $25 million in order to fix the minimum interest rate on a corresponding amount of its floating-rate loans. The interest rate floor was designated as a cash flow hedge and, as such, the changes in fair value are reflected in other comprehensive income net of tax. Under the terms of the floor, which was to expire in May 2013, ALIANT was to receive monthly a fixed rate of interest of 7.50% if the Wall Street Journal Prime rate falls to that rate or lower. In December 2008, ALIANT terminated this derivative and received a pre-tax value of $3,000,000 which will be reclassified into income from other comprehensive income in equal monthly amounts over the remaining term of the original derivative contract. At December 31, 2010, the remaining amount carried in other comprehensive income, net of taxes, was $1,064,000.

ALIANT entered into an interest rate swap with a notional amount of $15,464,000 in order to fix the interest rate on its floating rate subordinated debentures. The interest rate swap was designated as a fair value hedge and, as such, the changes in fair value are reflected in net income. Under the terms of the swap, which was to expire February 11, 2018, ALIANT was to receive quarterly a floating rate of interest equal to the 3-month LIBOR rate plus 1.80% and pay quarterly a fixed interest rate of 6.04%. In September 2008, the counterparty defaulted on this derivative. At the time of default, ALIANT determined the fair value of the derivative to be zero.

ALIANT uses derivatives to hedge interest rate exposures associated with mortgage loans held for sale and mortgage loans in process. ALIANT regularly enters into derivative financial instruments in the form of forward contracts, as part of its normal asset/liability management strategies. ALIANT's obligations under forward contracts consist of "best effort" commitments to deliver mortgage loans originated in the secondary market at a future date. Interest rate lock commitments related to loans that are originated for later sale are classified as derivatives. In the normal course of business, ALIANT regularly extends these rate lock commitments to customers during the loan origination process. The fair values of ALIANT's forward contract and rate lock commitments to customers as of December 31, 2010 and 2009 were not material and have not been recorded.

NOTE 22 – Parent Company Financials

The following information presents the condensed statement of condition as of December 31, 2010 and 2009 and statements of operations and cash flows of ALIANT Financial Corporation for the periods ended December 31, 2010, 2009, and 2008.

Condensed Statements of Condition
(dollars in thousands)

	December 31	
	2010	**2009**
Assets		
Cash	$ 1,704	$ 7,824
Loans	1,287	0
Investment in subsidiaries	98,546	101,000
Other real estate	2,037	98
Deferred tax assets	502	76
Other assets	1,243	1,410
Total assets	$ 105,319	$ 110,408
Liabilities and stockholders' equity		
Long-term debt	43,380	43,327
Other liabilities	351	251
Stockholders' equity	61,588	66,830
Total liabilities and stockholders' equity	$ 105,319	$ 110,408

Condensed Statements of Operations
(dollars in thousands)

	Year Ended December 31		
	2010	**2009**	**2008**
Income			
Cash dividends from subsidiary bank	$ 0	$ 1,000	$ 6,168
Interest on balances due from banks	11	0	0
Interest on loan to subsidiary	0	0	200
Interest on other loans	9	0	0
Other income	11	13	24
Total income	$ 31	$ 1,013	$ 6,392
Expenses			
Interest	$ 3,578	$ 1,389	$ 1,481
Provision for loan losses	$ 12	$ 0	$ 0
Cost to carry other real estate	$ 155	$ 0	$ 0
Other expense	146	238	165
Total expenses	$ 3,891	$ 1,627	$ 1,646
(Loss) Income before tax benefit and net loss of subsidiaries	$ (3,860)	$ (614)	$ 4,746
Applicable income tax benefit	(420)	(190)	(105)
(Loss) income before net loss of subsidiaries	$ (3,440)	$ (424)	$ 4,851
Equity in net loss of subsidiaries	(6,503)	(24,977)	(7,642)
Net loss	$ (9,943)	$ (25,401)	$ (2,791)

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Condensed Statements of Cash Flows
(dollars in thousands)

	Year Ended December 31		
	2010	2009	2008
Net loss	$ (9,943)	$ (25,401)	$ (2,791)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Net loss of subsidiaries	6,503	24,977	7,642
Provision for loan losses	12	0	0
Amortization long-term debt discount	53	0	0
Deferred income tax benefit	(426)	0	0
Net decrease (increase) in other assets	167	(75)	(5)
Net increase (decrease) in other liabilities	100	170	(150)
Other, net	0	0	11
Net cash (used in) provided by operating activities	$ (3,534)	$ (329)	$ 4,707
Cash flows from investing activities:			
Net decrease in loan to subsidiary	$ 0	$ 0	$ 3,931
Net increase in other loans	(1,299)	0	0
Purchase of other real estate from subsidiary bank	(3,404)	0	0
Proceeds from sales of other real estate	1,431	0	0
Proceeds from rental of other real estate	33	0	0
Investment in subsidiary	(8,000)	(42,400)	0
Net cash (used in) provided by investing activities	$ (11,239)	$ (42,400)	$ 3,931
Cash flows from financing activities:			
Decrease in short-term borrowings	$ 0	$ 0	$ (9,175)
Repayment of long-term debt	0	(1,700)	(750)
Net proceeds from issuance of long-term debt	0	23,790	5,100
Net proceeds from issuance of preferred stock	0	28,910	0
Proceeds from issuance of common stock	9,812	0	828
Payment to repurchase common stock	(54)	(157)	(2,095)
Dividends paid	(1,105)	(364)	(3,209)
Net cash provided by (used in) financing activities	$ 8,653	$ 50,479	$ (9,301)
Net (decrease) increase in cash	$ (6,120)	$ 7,750	$ (663)
Cash at beginning of year	7,824	74	737
Cash and cash equivalents at end of year	$ 1,704	$ 7,824	$ 74

NOTE 23 – Business Combination

As described in Note 2, ALIANT initiated a capital raise during 2009 in which it sold $28.9 million in Series A Preferred stock. USAB subscribed to $24.3 million of the preferred stock. The investment gave USAB a 47% ownership interest in ALIANT. During 2010, the preferred stock was converted into common stock and USAB also invested an additional $10 million in common stock into ALIANT. This additional investment, which occurred on December 31, 2010, gave USAB 61.7% controlling interest in ALIANT and is considered a business combination. Under business combination accounting rules, ALIANT's assets and liabilities were marked to fair value on December 31, 2010. However, these fair value adjustments were not included on ALIANT's consolidated statements of condition as "push down" accounting, the process of recording the effects of a business combination onto the books of an acquired subsidiary, is not permitted in business combinations of less than 80%. Rather, the effects of the business combination including the fair value adjustments are recorded onto the books of USAB where ALIANT is consolidated with and into USAB for financial reporting purposes.

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