FIRST BANCSHARES OF TEXAS, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTAL INFORMATION

together with

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARIES

CONTENTS

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Report of Independent Auditors

To the Shareholders of
First Bancshares of Texas, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial condition of **First Bancshares of Texas, Inc. and Subsidiaries** (the Company) as of December 31, 2009, and the related consolidated statement of income, comprehensive income, shareholders' equity, and cash flows for the year then ended. 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 audit. The consolidated financial statements of the Company as of December 31, 2008, were audited by other auditors whose report dated March 23, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the institution's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides 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 **First Bancshares of Texas, Inc.** at December 31, 2009, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Davis Kinard & Co, PC

DAVIS KINARD & CO, PC

Abilene, Texas
March 26, 2010

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2009 and 2008

Assets	2009	2008
Cash and due from banks	$ 9,703,958	$ 9,299,713
Federal funds sold	4,734,000	-
Cash and cash equivalents	14,437,958	9,299,713
Interest bearing deposits in banks	42,742,148	5,204,233
Securities available for sale, at fair value	17,231,230	14,732,210
Securities held to maturity (fair value approximates $22,157,195 in 2009 and $30,482,536 in 2008)	21,679,256	30,348,459
Restricted investment held at cost	1,070,200	929,800
Investment in First Bancshares of Texas Statutory Trust I	93,000	93,000
Loans held for sale	8,096,383	3,778,394
Loans receivable, net of allowance for loan losses of $3,158,994 in 2009 and $3,357,394 in 2008	257,255,913	240,040,322
Accrued interest receivable	1,439,168	1,411,092
Premises and equipment	10,022,428	10,597,124
Deferred tax asset, net	1,082,402	1,010,897
Foreclosed assets, net	178,361	122,840
Prepaid FDIC assessment	1,649,359	-
Other assets	603,246	523,774
	$ 377,581,052	$ 318,091,858
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 92,726,256	$ 86,850,227
Interest bearing	246,571,047	194,916,736
Total deposits	339,297,303	281,766,963
Accrued expenses and other liabilities	703,644	792,277
Securities sold under agreement to repurchase	5,820,673	6,344,953
Subordinated debentures	3,093,000	3,093,000
Total liabilities	348,914,620	291,997,193
Shareholders' equity		
Common stock, $1 par value; 10,000,000 shares authorized; 6,665,614 shares issued; 6,665,614 and 6,627,141 shares outstanding in 2009 and 2008, respectively	6,665,614	6,665,614
Capital surplus	13,330,595	13,268,326
Retained earnings	8,484,486	6,333,316
Treasury stock, at cost	-	(254,485)
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	194,112	93,864
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	(8,375)	(11,970)
Total shareholders' equity	28,666,432	26,094,665
	$ 377,581,052	$ 318,091,858

The accompanying notes are an integral part
of these consolidated financial statements.

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2009 and 2008

	2009	2008
Interest income		
Loans, including fees	$ 15,907,219	$ 14,417,340
Debt securities		
Taxable	1,333,758	1,593,942
Tax exempt	319,353	297,816
Federal funds sold	25,398	88,591
Deposits with banks	194,699	208,419
Total interest income	17,780,427	16,606,108
Interest expense		
Deposits	3,263,359	3,888,101
Federal funds purchased	2,460	2,593
Subordinated debentures	119,309	191,010
Total interest expense	3,385,128	4,081,704
Net interest income	14,395,299	12,524,404
Provision for loan losses	2,500,000	1,390,000
Net interest income after provision for loan losses	11,895,299	11,134,404
Noninterest income		
Trust department income	329,966	381,275
Service charges on deposit accounts	426,338	374,912
Other service charges and fees	344,018	306,363
Net realized gain on sales of available for sale securities	38,892	-
Real estate mortgage fees	3,966,301	2,510,890
Gain on sale of foreclosed assets	11,112	-
Gain on sale of loans	75,327	-
Total noninterest income	5,191,954	3,573,440
Noninterest expenses		
Salaries and employee benefits	7,725,121	6,855,448
Occupancy and equipment expense	2,120,515	1,845,786
Advertising	229,018	350,892
Data processing	298,465	280,310
Legal and professional	402,376	369,566
FDIC assessments	663,998	150,600
Other expense	2,456,761	2,073,482
Total noninterest expenses	13,896,254	11,926,084
Income before income taxes	3,190,999	2,781,760
Income tax expense	1,039,829	905,207
Net income	$ 2,151,170	$ 1,876,553

The accompanying notes are an integral part
of these consolidated financial statements.

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2009 and 2008

	2009	2008
Net income	$ 2,151,170	$ 1,876,553
Other items of comprehensive income		
Change in unrealized appreciation on investment securities available for sale	190,783	192,845
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	5,447	5,589
Reclassification adjustment for realized gains on investment securities included in net income	(38,892)	-
Total other items of comprehensive income	157,338	198,434
Comprehensive income before tax	2,308,508	2,074,987
Income tax expense related to other items of comprehensive income	(53,495)	(67,467)
Comprehensive income	$ 2,255,013	$ 2,007,520

The accompanying notes are an integral part
of these consolidated financial statements.

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2009 and 2008

	Common Stock	Capital Surplus
Balance at December 31, 2007	$ 6,662,614	$ 13,220,249
Comprehensive income:		
Net income for 2008		
Net changes in unrealized appreciation on available for sale securities, net of taxes of $65,567		
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of $1,900		
Total comprehensive income		
Issuance of common stock	3,000	9,750
Purchase of treasury stock		
Stock based compensation		38,327
Balance at December 31, 2008	6,665,614	13,268,326
Comprehensive income:		
Net income for 2009		
Net changes in unrealized appreciation on available for sale securities, net of taxes of $51,643		
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of $1,852		
Total comprehensive income		
Purchase of treasury stock		
Sale of treasury stock		12,778
Stock based compensation		49,491
Balance at December 31, 2009	$ 6,665,614	$ 13,330,595

The accompanying notes are an integral part
of these consolidated financial statements.

Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income - Unrealized Gain (Loss) on Available for Sale Securities	Accumulated Other Comprehensive Income - Unrealized Loss on Securities Transferred to Held to Maturity	Total Shareholders' Equity
$ 4,456,763	$ -	$ (33,414)	$ (15,659)	$ 24,290,553
1,876,553				1,876,553
		127,278		127,278
			3,689	3,689
				2,007,520
				12,750
	(254,485)			(254,485)
				38,327
6,333,316	(254,485)	93,864	(11,970)	26,094,665
2,151,170				2,151,170
		100,248		100,248
			3,595	3,595
				2,255,013
	(402,035)			(402,035)
	656,520			669,298
				49,491
$ 8,484,486	$ -	$ 194,112	$ (8,375)	$ 28,666,432

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net income	$ 2,151,170	$ 1,876,553
Adjustments to reconcile net income to		
net cash (used in) provided by operating activities		
Provision for loan losses	2,500,000	1,390,000
Net amortization of securities	273,969	148,426
Depreciation	970,878	725,327
Net realized gain on sales of available for sale securities	(38,892)	-
Net loss on disposition of fixed assets	-	3,165
Gain on sales of foreclosed assets	(11,112)	-
Gain on sales of loans	(75,327)	-
Deferred income taxes	(125,000)	(358,324)
Stock based compensation	49,491	38,327
Net change in		
Loans held for sale	(4,317,989)	(1,019,578)
Accrued interest receivable	(28,076)	130,889
Prepaid FDIC assessment	(1,649,359)	-
Other assets	(79,472)	(267,659)
Accrued expenses and other liabilities	(88,633)	(5,843)
Net cash (used in) provided by operating activities	(468,352)	2,661,283
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(37,537,915)	(4,673,154)
Activity in available for sale securities		
Sales	1,944,465	-
Maturities, prepayments and calls	7,532,558	5,441,797
Purchases	(12,010,883)	(9,679,111)
Activity in held to maturity securities		
Maturities, prepayments and calls	111,328,892	10,166,819
Purchases	(102,702,588)	-
Net change in restricted investments held at cost	(140,400)	147,100
Loan originations and principal collections, net	(21,082,565)	(83,943,783)
Proceeds from sales of foreclosed assets	133,952	-
Proceeds from sales of loans	1,263,940	-
Proceeds from sales of fixed assets	-	135,311
Additions to premises and equipment	(396,182)	(3,594,912)
Net cash used in investing activities	(51,666,726)	(85,999,933)
Cash flows from financing activities		
Net increase in deposits	57,530,340	69,549,351
Net change in securities sold under agreements to repurchase	(524,280)	2,486,383
Proceeds from issuance of common stock	-	12,750
Proceeds from sale of treasury stock	669,298	-
Purchases of treasury stock	(402,035)	(254,485)
Net cash provided by financing activities	57,273,323	71,793,999
Net change in cash and cash equivalents	5,138,245	(11,544,651)
Cash and cash equivalents at beginning of period	9,299,713	20,844,364
Cash and cash equivalents at end of period	$ 14,437,958	$ 9,299,713

The accompanying notes are an integral part
of these consolidated financial statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

First Bancshares of Texas, Inc. (the Company) and its subsidiaries, First Midland Nevada Corp. (Nevada) and First National Bank of Midland (the Bank) provide a variety of financial services to individuals and businesses primarily in the Texas cities of Midland, Lubbock and Amarillo and their respective surrounding areas. The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles and to general practices of the banking industry. Policies and practices which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial position 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 real estate, and deferred tax assets.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold, all of which mature within ninety days.

The Bank is required to maintain a reserve balance with the Federal Reserve Bank. The Bank properly maintained sufficient vault cash to satisfy the reserve requirement at December 31, 2009. The Bank properly maintained amounts in excess of required reserves of $169,000 as of December 31, 2008.

Interest-Bearing Deposits in Banks

Interest bearing deposits in banks mature within one year and are carried at cost.

NOTE 1: Summary of Significant Accounting Policies – continued

Significant Group Concentration of Credit Risk

Most of the Company's activities are with customers located within the Permian Basin and the Panhandle of Texas. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

Effective November 2008, and as a result of the Federal Deposit Insurance Corporation (FDIC) sponsored Temporary Liquidity Guarantee Program (TLGP), all funds in non-interest bearing transaction deposit accounts held in domestic offices of FDIC insured financial institutions will be fully guaranteed provided the financial institution holding the deposits did not opt out of the TLGP. This insurance is in excess of, and in addition to, the $250,000 FDIC coverage normally provided, which will be available to cover non-transaction, interest bearing accounts held at FDIC insured financial institutions. For financial institutions that opted to accept the additional deposit insurance under the TLGP, the coverage will last through June 30, 2010.

The majority of cash and cash equivalents of the Company are maintained with major financial institutions in the United States and all of the transaction accounts held by the Company are at financial institutions participating in the TLGP. As such, interest bearing, non-transaction account deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Bank periodically evaluates the stability of the financial institutions with which it has deposits. At December 31, 2009 and 2008, the deposits, as reported by the banks, were $48,576,761 and $4,955,000, respectively.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Financial Accounting Standards Board recently issued accounting guidance related to the recognition and presentation of other-than-temporary impairment. Prior to the adoption of the recent accounting guidance, management considered, in determining whether other-than-temporary impairment exists, (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 1: Summary of Significant Accounting Policies – continued

Securities - continued

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the Company does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Gains and losses on loan sales (sale proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at loan origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Texas cities of Midland, Lubbock and Amarillo and their respective surrounding areas. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

NOTE 1: Summary of Significant Accounting Policies - continued

Financial Instruments

In the ordinary course of business the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded**.**

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated cost to sell at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan loss. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell and depreciation is not recorded.

Impairment losses on property to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value and depreciated based on the remaining useful life. Costs of significant property improvements are capitalized, whereas cost related to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to lower of its costs or fair value less costs to sell.

Banking Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2009 and 2008 amounted to $229,018 and $350,892, respectively.

Troubled Debt Restructured Loans

A troubled debt restructured loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired.

NOTE 1: Summary of Significant Accounting Policies - continued

Income Taxes

Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

The Company adopted authoritative guidance related to uncertain tax positions on January 1, 2009. The Company had no unrecognized tax benefits that would require an adjustment to the January 1, 2009, beginning balance of retained earnings. The Company had no unrecognized tax benefits at January 1, 2009 and December 31, 2009.

The Company recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense. During the year ended December 31, 2009 the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2005.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the rights (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 43,133 shares at December 31, 2008. There were no shares of treasury stock held at December 31, 2009.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully described in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or market conditions could significantly affect the estimates.

NOTE 1: Summary of Significant Accounting Policies - continued

Stock Compensation Plans

Authoritative accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the grant date fair value of the equity or liability instruments issued. The 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. The guidance permits entities to use any option-pricing model that meets the fair value objective in the guidance.

The Company elected to adopt the guidance on January 1, 2006 under the modified prospective method. The Company did not have any awards outstanding prior to January 1, 2006.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within one year from the transaction date and are presented at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Recently Issued Authoritative Accounting Guidance

GAAP Codification

On July 1, 2009, the Financial Accounting Standards Board's (FASB) Generally Accepted Accounting Principles (GAAP) Codification became effective as the sole authoritative source of GAAP. This codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in the compilation of the GAAP Codification.

The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards, Emerging Issues Task Force statements, FASB Staff Positions, FASB Interpretations, FASB Derivative Implementation Guides, American Institute of Certified Public Accountants Statement of Positions, Accounting Principles Board Opinions and Accounting Research Bulletins along with the remaining body of GAAP effective as of June 30, 2009. Financial statements issued for all interim and annual periods ending after September 15, 2009, will need to reference accounting guidance embodied in the Codification as opposed to referencing the previously authoritative pronouncements.

NOTE 1: Summary of Significant Accounting Policies - continued

Uncertain Tax Positions

In June 2006, the FASB issued authoritative guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. The guidance requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. Any difference between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the unrecognized benefit. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in the tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit.

The determination of uncertain tax positions for financial statements prior to the implementation of the guidance mentioned above uses the tax judgments reported on the Company's tax returns which were based on the requirements for filing tax returns under the various taxing authority requirements for the applicable fiscal period. These filings may be subject to amendment or change during an examination by the various taxing authorities, which has not been considered in the determination of the Company's tax assets or liabilities included in those consolidated financial statements.

In examining its tax positions under the guidance, the Company will assume the positions will be examined by the appropriate taxing authority, and the taxing authority would have full knowledge of all relevant information. The technical merits of the Company's tax positions are derived from sources of authorities in the tax law (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax positions.

Past administrative practices and precedents of the taxing authority in its dealings with the Company or similar enterprises that are widely understood will also be taken into account. Each tax position will be evaluated without consideration of the possibility of offset or aggregation with other positions. The measurement of tax positions will be based on management's best judgment of the amount the taxpayer would ultimately accept in a settlement with taxing authorities. Interest expense related to tax liabilities will be recognized in the first period that it would begin to accrue according to the relevant tax law. The amount of interest to be recognized will be computed by applying the statutory rate of interest to the difference between the tax position recognized under the guidance and the amount previously taken or expected to be taken in a tax return. In addition, the Company will recognize an expense for any applicable penalties in the period in which the Company claims or expects to claim the position in the tax return.

NOTE 1: Summary of Significant Accounting Policies - continued

Uncertain Tax Positions - continued

The Company will create a liability for uncertain tax positions it believes to be a potential future obligations. In the case of a net operating carry-forward or a refund, the amount of such carry-forward or refund will be reduced. The liability created under the guidance will not be combined with deferred tax liabilities or assets.

The adoption of this guidance did not have a material effect on the Company's financial position, results of operations or cash flows.

Fair Value Measurement

In September 2006, the FASB issued authoritative guidance that establishes a framework for measuring fair value and expands disclosures about fair value measurements. The guidance clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

This guidance is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years for financial assets and liabilities such as derivatives measured at fair value and investments in securities, under its corresponding authoritative guidance. The guidance is effective for fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities such as asset retirement obligations measured at fair value at initial recognition and long-lived asset groups, liabilities for exit or disposal activities, all measured by their corresponding guidance. The implementation of this guidance did not have a significant impact on the Company's consolidated financial statements.

Fair Value Measurements and Disclosures – Measuring Liabilities at Fair Value

In August 2009, the FASB issued authoritative guidance that provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. The guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The guidance was effective for the first reporting period (including interim periods) beginning after the third quarter 2009. The adoption of the guidance did not have a material effect on the Company's consolidated financial position or results of operations.

NOTE 1: Summary of Significant Accounting Policies - continued

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued authoritative guidance that (a) establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and the deconsolidation of a subsidiary; (b) changes the way the consolidated income statement is presented; (c) establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation; (d) requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated; and (e) requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. The accounting provisions of this guidance must be applied prospectively and the presentation and disclosure requirements must be applied retrospectively to provide comparability in the financial statements. Early adoption is prohibited. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The implementation of this new guidance did not have a significant impact on the Company's consolidated financial statements.

Subsequent Events

In May 2009, the FASB issued authoritative guidance which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. This guidance sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This new guidance was effective for the period ended December 31, 2009 and did not have a significant impact on the Company's consolidated financial statements.

Transfers of Financial Assets

In June 2009, the FASB issued authoritative guidance to improve the information included in an entity's financial statements about a transfer of financial assets and the effects of a transfer on its financial position, financial performance and cash flows. The guidance eliminates the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. The guidance is effective for the first reporting period (including interim periods) that begins after November 15, 2009. The Company does not expect that the adoption of this guidance will have a material effect on its financial position, results of operations or cash flows.

NOTE 1: Summary of Significant Accounting Policies - continued

Other-Than-Temporary Impairment

The Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment. This recent accounting guidance amends the recognition guidance for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the "intent and ability" indication in current guidance by specifying that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

As a result of this guidance, the Company's consolidated statement of income reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale and held-to-maturity debt securities that management has no intent to sell and believes that it more-likely-than-not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the non-credit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. The adoption of the guidance did not have a material effect on the Company's consolidated financial statements. Note 2 provides additional disclosures related to the Company's investment in securities and other-than-temporary impairments.

NOTE 2: Securities

The amortized cost and fair value of the Company's available for sale investment securities, with gross unrealized gains and losses, are presented below:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Debt securities:				
Mortgage-backed	$ 16,937,121	$ 338,239	$ (44,130)	$ 17,231,230
Total securities available for sale	$ 16,937,121	$ 338,239	$ (44,130)	$ 17,231,230
Held to Maturity				
Debt securities:				
Mortgage-backed	$ 10,596,226	$ 283,110	$ -	$ 10,879,336
Municipal bonds	10,583,876	196,279	(11,161)	10,768,994
U.S. Government and agency	499,154	9,711	-	508,865
Total securities held to maturity	$ 21,679,256	$ 489,100	$ (11,161)	$ 22,157,195

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Debt securities:				
Mortgage-backed	$ 11,576,010	$ 130,200	$ (22,190)	$ 11,684,020
U.S. Government and agency	3,013,981	34,539	(330)	3,048,190
Total securities available for sale	$ 14,589,991	$ 164,739	$ (22,520)	$ 14,732,210
Held to Maturity				
Debt securities:				
Mortgage-backed	$ 15,671,676	$ 242,600	$ (2,834)	$ 15,911,442
Municipal bonds	8,680,508	53,618	(272,466)	8,461,660
U.S. Government and agency	5,996,275	113,938	(779)	6,109,434
Total securities held to maturity	$ 30,348,459	$ 410,156	$ (276,079)	$ 30,482,536

NOTE 2: Securities – continued

For the year ended December 31, 2009, proceeds from sales of securities available for sale amounted to $1,944,465. For the year ended December 31, 2009, gross realized gains amounted to $38,892. There were no realized losses for the year ended December 31, 2009. There were no sales of securities available for sale for the year ended December 31, 2008.

At December 31, 2009 and 2008, securities with a carrying value of $10,782,035 and $10,708,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year	$	$	$ 1,570,290	$ 1,602,155
Due from one to five years			4,340,362	4,431,349
Due in five to ten years			3,172,356	3,238,554
Due over ten years			2,000,022	2,005,801
Mortgage-backed securities	16,937,121	17,231,230	10,596,226	10,879,336
Total	$ 16,937,121	$ 17,231,230	$ 21,679,256	$ 22,157,195

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009:

	Less than 12 Months		Over 12 Months	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed (9, 0)	$ 7,449,239	$ 44,130	$ -	$ -
Muncipal bonds (1, 4)	521,008	8,490	945,522	2,671
Total	$ 7,970,247	$ 52,620	$ 945,522	$ 2,671

NOTE 2: Securities – continued

Mortgage-backed securities
The unrealized losses on the Company's investment in nine mortgage-backed securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2009.

Muncipal bonds
The unrealized losses on the Company's investment in five municipal bonds were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2009.

Other-than-temporary impairment
Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2009, no investment securities were other-than-temporarily impaired.

NOTE 3: Loans

A summary of the balances of loans follows:

	December 31, 2009	December 31, 2008
Commercial	$ 90,706,821	$ 107,997,516
Real estate	157,434,507	123,120,612
Consumer	12,156,857	12,147,748
Agricultural	116,722	131,840
Subtotal	260,414,907	243,397,716
Less: Allowance for loan losses	(3,158,994)	(3,357,394)
Loans, net	$ 257,255,913	$ 240,040,322

An analysis of the allowance for loan losses follows:

	December 31, 2009	December 31, 2008
Balance at beginning of year	$ 3,357,394	$ 1,973,994
Provision for loan losses	2,500,000	1,390,000
Loans charged off	(2,730,284)	(7,054)
Recoveries of loans previously charged off	31,884	454
Balance at end of year	$ 3,158,994	$ 3,357,394

A loan is considered impaired, in accordance with the impairment accounting guidance, 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 terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings when 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.

NOTE 3: Loans – continued

The Company did not have any loans that qualified as troubled debt restructurings as of December 31, 2009 and 2008. The Company has no commitments to loan additional funds to the borrowers whose loans have been modified.

The following table presents the Company's impaired loans at December 31, 2009 and 2008:

	December 31,	
	2009	2008
Impaired loans without a valuation allowance	$ 1,365,265	$ -
Impaired loans with a valuation allowance	2,671,890	2,432,100
Total impaired loans	$ 4,037,155	$ 2,432,100
Valuation allowance related to impaired loans	$ 637,000	$ 1,216,000
Total nonaccrual loans	$ 3,355,309	$ -
Total loans past-due ninety days or more and still accruing	$ -	$ -

	Years Ended December 31,	
	2009	2008
Average investment in impaired loans	$ 3,234,628	$ 1,287,248
Interest income recognized on impaired loans	$ 425,554	$ 206,540
Interest income recognized on a cash basis on impaired loans	$ -	$ -

NOTE 4: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is presented below:

	December 31,	
	2009	2008
Land	$ 1,462,577	$ 1,462,577
Bank premises	8,147,830	7,964,117
Furniture and equipment	3,387,288	3,548,082
Premises and equipment, at cost	12,997,695	12,974,776
Accumulated deprecation	(2,975,267)	(2,377,652)
Net premises and equipment	$ 10,022,428	$ 10,597,124

Depreciation expense for the years ended December 31, 2009 and 2008 amounted to $970,878 and $725,327, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2009, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ended December 31,	
2010	$ 596,979
2011	587,529
2012	548,379
2013	459,279
2014	459,279
Thereafter	1,576,743
	$ 4,228,188

Various leases contain options to extend for periods of five years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2009 and 2008 was $584,238 and $507,073, respectively.

NOTE 5: Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2009 and 2008 was $106,642,811 and $52,643,000, respectively. At December 31, 2009, the scheduled maturities of time deposits were as follows:

Year Ended December 31,		
2010	$	125,045,595
2011		15,218,825
2012		58,520
2013		138,913
2014		191,091
Thereafter		-
	$	140,652,944

NOTE 6: Income Taxes

The allocation of income taxes between current and deferred portions is as follows:

	December 31,			
		2009		2008
Current federal income tax	$	1,043,829	$	1,213,456
Current state income tax		121,000		50,075
Deferred income tax		(125,000)		(358,324)
Total income tax expense	$	1,039,829	$	905,207

Income exempt from federal income tax is the primary reason the effective tax rate differs from statutory federal income tax rates.

NOTE 6: Income Taxes - continued

The components of the deferred tax asset are as follows:

	2009	2008
Deferred tax assets		
Loans	$ 1,074,058	$ 1,141,514
Unrealized gain on securities transferred from held to maturity to available for sale	4,314	6,167
Other	136,159	-
	1,214,531	1,147,681
Deferred tax liabilities		
Premises and equipment	32,132	88,430
Investment securities marked to market	99,997	48,354
Other	-	-
	132,129	136,784
Net deferred tax asset	$ 1,082,402	$ 1,010,897

NOTE 7: Off-Balance-Sheet Activities – Credit-Related Financial Instruments

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

	Unused Contracted Amount	
	2009	2008
Commitments to extend credit	$ 54,919,000	$ 63,185,000
Standby letters of credit	3,315,000	3,969,000

NOTE 7: Off-Balance-Sheet Activities – Credit-Related Financial Instruments – continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

NOTE 8: Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements.

NOTE 9: Employee Benefit Plans

401(k) Plan
The Company has a 401(k) plan in which substantially all employees may participate. The Company matches employees’ contributions based on a percentage of salary contributed by participants. The Company’s expense for the plan was $272,404 and $225,463 for the years ended December 31, 2009 and 2008, respectively.

Stock Option Plan
Under the Company's 2007 stock option plan, the Company may grant options to purchase its common stock to its directors, officers and employees for up to 600,000 shares of common stock. These stock option grants are primarily incentive-based in order to attract and retain qualified and highly productive employees. The exercise price of each stock option is determined on the date of the grant. The Company’s stock option agreements are for a maximum term of ten years. The options vest over a period of five years following the date of the grant.

NOTE 9: Employee Benefit Plans - continued

Stock Option Plan – continued
Effective January 1, 2006, the Company adopted authoritative accounting guidance which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the years ended December 31, 2009 and 2008, the Company recognized $49,491 and $38,327, respectively, in compensation expense for stock options, which is included as a part of salaries and employee benefits on the statement of income. As of December 31, 2009, the remaining compensation expense to be recognized for outstanding stock options was $228,794. This compensation expense is to be fully recognized by the year ended December 31, 2014.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2009	2008
Dividend yield	-	-
Expected life	10 years	10 years
Expected volatility	15.0%	18.2%
Risk-free interest rate	3.2%	4.3%

The expected volatility is based on the Company’s historical volatility of its common stock. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the ten year term or the historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

An analysis of stock option activity is presented below:

	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	130,500	$ 4.62	109,500	$ 4.25
Granted	31,500	6.08	41,000	5.58
Exercised	-	-	(3,000)	4.25
Cancelled	-	-	(17,000)	5.58
Outstanding, end of year	162,000	$ 4.90	130,500	$ 4.62
Exercisable at end of year	63,900	$ 4.40	37,800	$ 4.25

NOTE 9: Employee Benefit Plans - continued

Stock Option Plan – continued
The following table summarizes information concerning outstanding and vested stock options as of December 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise	Shares Exercisable	Weighted Average Exercise
$4.00 - $5.00	94,500	7.1 years	$ 4.25	56,700	$ 4.25
$5.00 - $6.00	36,000	8.3 years	5.58	7,200	5.58
$6.00 - $7.00	31,500	9.3 years	6.08	-	-
	162,000	7.8 years	$ 4.90	63,900	$ 4.40

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock options, December 31, 2008	92,700	$ 1.96
Granted	31,500	2.03
Vested	(26,100)	1.90
Forfeited	-	-
Non-vested stock options, December 31, 2009	98,100	$ 2.00

NOTE 10: Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends for the year 2010 to the extent of the Bank's earnings for 2010 plus $4,027,723 of available earnings from prior years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 11: Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to $13,078,365 at December 31, 2009 and $13,739,000 at December 31, 2008. During the year ended December 31, 2009, total principal additions were $3,162,817 and total principal payments were $3,823,452.

Deposits from related parties held by the Bank at December 31, 2009 and 2008 amounted to $9,280,878 and $19,105,000, respectively.

NOTE 12: Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification 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 the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2009, the most recent notification from the Office of the Comptroller of the Currency categorized the 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 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

NOTE 12: Minimum Regulatory Capital Requirements - continued

The Bank's actual capital amounts and ratios as of December 31, 2009 and 2008 are also presented in the table (in thousands).

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009						
Total Capital to Risk Weighted Assets Bank	$ 32,854	11.4 %	$ 22,988	8.0 %	$ 28,735	10.0 %
Tier I Capital to Risk Weighted Assets Bank	29,695	10.3	11,494	4.0	17,241	6.0
Tier I Capital to Average Total Assets Bank	29,695	8.1	14,602	4.0	18,253	5.0
December 31, 2008						
Total Capital to Risk Weighted Assets Bank	$ 29,222	11.0 %	$ 21,216	8.0 %	$ 26,520	10.0 %
Tier I Capital to Risk Weighted Assets Bank	25,906	9.8	10,608	4.0	15,912	6.0
Tier I Capital to Average Total Assets Bank	25,906	8.4	12,275	4.0	15,344	5.0

NOTE 13: Fair Value of Financial Instruments

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

NOTE 13: Fair Value of Financial Instruments - continued

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available for Sale Securities - Securities classified as available for sale are reported at fair value utilizing Level 1, Level 2, and Level 3 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans - Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

Loans Held for Sale - These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds based on sales contracts and commitments and are considered Level 2 inputs.

Foreclosed Assets – Foreclosed real estate held for sale is reported at fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by real estate appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities available for sale	$ -	$ 17,231,230	$ -	$ 17,231,230
Loans held for sale	-	8,096,383	-	8,096,383
Total financial assets	$ -	$ 25,327,613	$ -	$ 25,327,613

NOTE 13: Fair Value of Financial Instruments - continued

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table summarizes financial assets and financial liabilities measured at fair value on a nonrecurring basis as of December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 3,400,155	$ 3,400,155
Total financial assets	-	-	3,400,155	3,400,155
Non-financial assets:				
Foreclosed assets	$ -	$ 178,361	$ -	$ 178,361
Total non-financial assets	-	178,361	-	178,361

During the year ended December 31, 2009, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of $4,037,155 were reduced by specific valuation allowance allocations totaling $637,000 to a total reported fair value of $3,400,155 based on collateral valuations utilizing Level 3 valuation inputs.

Other real estate owned is valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market condition from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level 3 classification of the inputs for determining fair value. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above. During the year ended December 31, 2009 there were no write-downs on real estate owned.

Those financial instruments not subject to the implementation of this guidance, are required to have their fair value disclosed, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at December 31, 2009, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments not covered by these recently issued accounting guidance.

NOTE 13: Fair Value of Financial Instruments - continued

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 14,437,958	$ 14,437,958	$ 9,299,713	$ 9,299,713
Interest bearing deposits in banks	42,742,148	42,742,148	5,204,233	5,204,233
Securities available for sale	17,231,230	17,231,230	14,732,210	14,732,210
Securities held to maturity	21,679,256	22,157,195	30,348,459	30,482,536
Restricted investments held at cost	1,070,200	1,070,200	929,800	929,800
Loans held for sale	8,096,383	8,096,383	3,778,394	3,778,394
Loans receivable	257,255,913	266,584,617	240,040,322	244,692,606
Accrued interest receivable	1,439,168	1,439,168	1,411,092	1,411,092
Financial liabilities:				
Deposit liabilities	339,297,303	340,374,000	281,766,963	282,057,338
Accrued interest payable	216,557	216,557	276,729	276,729
Securities sold under agreements to repurchase	5,820,673	5,820,673	6,344,953	6,344,953
Subordinated debentures	3,093,000	3,093,000	3,093,000	3,093,000
Off-balance sheet financial instruments:				
Commitments to extend credit	-	54,086	-	120,798
Standby letters of credit	-	18,736	-	19,505

The following methods and assumptions were used by the Company in estimating the fair value of the above classes of financial instruments.

Cash and Cash Equivalents, Interest Bearing Deposits in Banks, Loans Held for Sale, Accrued Interest Receivable, Accrued Interest Payable and Securities Sold Under Agreements to Repurchase - The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Securities Available for Sale and Securities Held to Maturity - Fair value estimates are based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Restricted Investments Held at Cost - The carrying value of these investments approximates fair value based on the redemption provisions contained in each.

NOTE 13: Fair Value of Financial Instruments - continued

Loans Receivable- Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans, and risk adjustments on the remaining portfolio based on credit loss experience.

Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

Deposits and Time Certificates of Deposit - The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Subordinated Debentures – The fair value of the Company's debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective December 31, 2009, if the borrowings repriced according to their stated terms.

Off-balance-sheet instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

NOTE 14: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $5,820,673 and $6,344,953 at December 31, 2009 and 2008, respectively. Such agreements mature on a daily basis and are secured by U.S. government securities with a fair value of $6,706,684 as of December 31, 2009.

NOTE 15: Rate Lock Commitments and Forward Contracts

The Company enters into commitments to extend mortgage credit to borrowers for generally a 30-day or 60-day period, whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Some of these rate lock commitments will ultimately expire without being completed. To the extent that a mortgage loan is ultimately granted and the borrower accepts the terms of the loan, these rate lock commitments expose the company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value with changes to the fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on the fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates.

To mitigate interest rate risk related to the use of these derivatives, the Company enters into forward contracts with investors at the same time a rate lock commitment is extended. The investors agree to purchase acceptable mortgage loans at the interest rate commitment once the loan is funded. These forward contracts are also considered to be derivatives. The contracts are recorded at fair value and accounted for in a similar manner as the rate lock commitments, which ultimately reduces the gain or loss associated with the loans to a nominal amount.

The notional amount of interest rate lock commitments was $8,443,821 and $6,673,065 at December 31, 2009 and 2008, respectively. The notional amount of forward contracts was $8,443,821 and $6,673,065 at December 31, 2009 and 2008, respectively.

NOTE 16: Subordinated Debentures

On December 30, 2003, the Company completed the placement of $3,093,000 in subordinated debentures to First Bancshares of Texas Statutory Trust I (the Trust). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank National Association with a liquidation value of $3,093,000.

Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on June 17, 2004. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 2.85% (currently 3.10%). Also, the interest rate cannot exceed the maximum rate permitted by New York law.

NOTE 16: Subordinated Debentures – continued

Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in March 2034 unless the Company elects and obtains regulatory approval to accelerate the maturity date to as early as December 30, 2008.

Subordinated debt may be included in regulatory Tier I capital subject to a limitation that such amounts do not exceed 25% of Tier I capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

For the years ended December 31, 2009 and 2008, interest expense on the subordinated debentures was $119,309 and 191,010, respectively.

NOTE 17: Lines of Credit

The Company has an unused line of credit with a correspondent bank totaling $10,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds. The agreement does not contain a stated expiration date, but may be terminated at any time at the discretion of the correspondent bank. As of December 31, 2009, no advances were made under this agreement.

The Company has a second unused line of credit with a correspondent bank totaling $10,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first ten (10) days and on the eleventh (11) day, the Company must furnish collateral in the form of government securities. The agreement expires March 6, 2011. As of December 31, 2009, no advances were made under this agreement.

The Company has a third unused line of credit with a correspondent bank totaling $5,000,000 at a variable interest rate quoted on the day any advances are drawn. The line of credit is unsecured and the agreement expires August 1, 2010. As of December 31, 2009, no advances were made under this agreement.

NOTE 18: Subsequent Events

Stock Offering
The Company completed a private stock offering on March 15, 2010. As a result of the offering, the Company issued an additional 1,254,151 shares of common stock and 377,150 shares of preferred stock. Total proceeds from the offering were $11,735,359.

The Company has evaluated all subsequent events through March 26, 2010, the date the consolidated financial statements were available to be issued.

NOTE 19: Supplementary Cash Flow Information

The following is a summary of supplemental cash flow information:

	2009	2008
Interest paid	$ 3,445,300	$ 4,300,174
Assets acquired through foreclosure	178,361	122,840
Income taxes paid	1,008,286	1,229,501
Cash received upon exercise of stock options	-	12,750

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Report of Independent Auditors On Supplemental Information

To the Shareholders of
First Bancshares of Texas, Inc.

Our report on our audit of the consolidated financial statements of **First Bancshares of Texas, Inc.** for the year ended December 31, 2009 appears on page 1. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating, parent company, intermediate holding company, and bank financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating, parent company, intermediate holding company and bank financial statements for the year ended December 31, 2009 have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The parent company, intermediate holding company and bank financial statements for the year ended December 31, 2008 were audited by other auditors whose report dated March 23, 2009, expressed an unqualified opinion on those statements.

Davis Kinard & Co, PC

DAVIS KINARD & CO, PC

Abilene, Texas
March 26, 2010

SUPPLEMENTAL INFORMATION – CONSOLIDATING

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidating Statement of Financial Condition
December 31, 2009

Assets	First Bancshares of Texas Inc.	First Midland Nevada Corporation
Cash and due from banks	$ 562,595	$ 541
Federal funds sold		
Cash and cash equivalents	562,595	541
Interest bearing deposits in banks	547,580	
Securities available for sale		
Securities held to maturity		
Investment in First Bancshares of Texas Statutory Trust I	93,000	
Investment in subsidiary	29,880,940	29,880,399
Restricted invement held at cost		
Loans held for sale		
Loans receivable, net of allowance for loan losses	596,486	
Accrued interest receivable	2,663	
Premises and equipment		
Deferred tax asset, net		
Foreclosed assets, net		
Prepaid FDIC assessment		
Other assets	86,726	
	$ 31,769,990	$ 29,880,940
Liabilities and Shareholders' Equity		
Noninterest bearing	$	$
Interest bearing		
Total deposits		
Accrued expenses and other liabilities	10,558	
Subordinated debentures	3,093,000	
Securities sold under agreement to repurchase		
Total liabilities	3,103,558	
Shareholders' equity		
Common stock	6,665,614	1,000
Capital surplus	13,330,595	20,654,000
Retained earnings	8,484,486	9,040,203
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	194,112	194,112
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	(8,375)	(8,375)
Total shareholders' equity	28,666,432	29,880,940
	$ 31,769,990	$ 29,880,940

First National Bank of Midland	Eliminations	Consolidated
$ 9,703,958	$ (563,136)	$ 9,703,958
4,734,000		4,734,000
14,437,958	(563,136)	14,437,958
42,194,568		42,742,148
17,231,230		17,231,230
21,679,256		21,679,256
-		93,000
-	(59,761,339)	-
1,070,200		1,070,200
8,096,383		8,096,383
256,659,427		257,255,913
1,436,505		1,439,168
10,022,428		10,022,428
1,082,402		1,082,402
178,361		178,361
1,649,359		1,649,359
523,078	(6,558)	603,246
$ 376,261,155	$ (60,331,033)	$ 377,581,052
$ 93,289,392	$ (563,136)	$ 92,726,256
246,571,047		246,571,047
339,860,439	(563,136)	339,297,303
699,644	(6,558)	703,644
-		3,093,000
5,820,673		5,820,673
346,380,756	(569,694)	348,914,620
3,096,250	(3,097,250)	6,665,614
17,546,250	(38,200,250)	13,330,595
9,052,162	(18,092,365)	8,484,486
194,112	(388,224)	194,112
(8,375)	16,750	(8,375)
29,880,399	(59,761,339)	28,666,432
$ 376,261,155	$ (60,331,033)	$ 377,581,052

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidating Statement of Income
Year Ended December 31, 2009

	First Bancshares of Texas Inc.	First Midland Nevada Corporation
Interest income		
Loans, including fees	$ 48,371	$
Debt securities		
Taxable		
Tax exempt		
Federal funds sold		
Deposits with banks	8,738	
Total interest income	57,109	
Interest expense		
Deposits		
Fed funds purchased		
Subordinated debentures	119,309	
Total interest expense	119,309	
Net interest (loss) income	(62,200)	
Provision for loan losses		
Net interest (loss) income after provision for loan losses	(62,200)	
Noninterest income		
Trust department income		
Service charges on deposit accounts		
Other service charges and fees		
Net realized gain on sales of available for sale securities		
Equity in earnings of subsidiary	2,287,952	2,288,299
Real estate mortgage fees		
Gain on sale of foreclosed assets		
Gain on sale of loans		
Total noninterest income	2,287,952	2,288,299
Noninterest expenses		
Salaries and employee benefits	49,491	
Occupancy and equipment expense		
Advertising		
Data processing		
Legal and professional		
FDIC assessment		
Other expense	25,091	347
Total noninterest expenses	74,582	347
Income before income taxes	2,151,170	2,287,952
Income tax expense		
Net income	$ 2,151,170	$ 2,287,952

First National Bank of Midland	Eliminations	Consolidated
$ 15,858,848	$	$ 15,907,219
1,333,758		1,333,758
319,353		319,353
25,398		25,398
185,961		194,699
17,723,318		17,780,427
3,263,359		3,263,359
2,460		2,460
-		119,309
3,265,819		3,385,128
14,457,499		14,395,299
2,500,000		2,500,000
11,957,499		11,895,299
329,966		329,966
426,338		426,338
344,018		344,018
38,892		38,892
-	(4,576,251)	-
3,966,301		3,966,301
11,112		11,112
75,327		75,327
5,191,954	(4,576,251)	5,191,954
7,675,630		7,725,121
2,120,515		2,120,515
229,018		229,018
298,465		298,465
402,376		402,376
663,998		663,998
2,431,323		2,456,761
13,821,325		13,896,254
3,328,128	(4,576,251)	3,190,999
1,039,829		1,039,829
$ 2,288,299	$ (4,576,251)	$ 2,151,170

FIRST BANCSHARES OF TEXAS, INC AND SUBSIDIARIES
Consolidating Statement of Cash Flows
Year Ended December 31, 2009

	First Bancshares of Texas Inc.	First Midland Nevada Corporation
Cash flows from operating activities		
Net income	$ 2,151,170	$ 2,287,952
Adjustments to reconcile net income to net		
cash provided by (used in) operating activities		
Provision for loan losses		
Net amortization of securities		
Depreciation		
Net realized gains on sales of available for sale securities		
Gain on sales of foreclosed assets		
Gain on sales of loans		
Deferred income taxes		
Stock option compensation expense	49,491	
Equity in undistributed earnings of subsidiary	(2,287,952)	(2,288,299)
Net change in		
Loans held for sale		
Accrued interest receivable	(284)	
Prepaid FDIC assessment		
Other assets	635,347	
Accrued expenses and other liabilities	4,473	
Net cash provided by (used in) operating activities	552,245	(347)
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(4,697)	
Capital contributions to subsidiary	(1,500,000)	(1,500,000)
Activity in available for sale securities		
Sales		
Maturities, prepayments and calls		
Purchases		
Activity in held to maturity securities		
Maturities, prepayments and calls		
Purchases		
Net change in restricted investments held at cost		
Loan originations and principal collections, net	270,011	
Proceeds from sales of foreclosed assets		
Proceeds from sales of loans		
Additions to premises and equipment		
Net cash used in investing activities	(1,234,686)	(1,500,000)
Cash flows from financing activities		
Capital contribution from parent company		1,500,000
Net increase in deposits		
Net change in securities sold under agreements to repurchase		
Proceeds from sale of treasury stock	669,298	
Purchases of treasury stock	(402,035)	
Net cash provided by financing activities	267,263	1,500,000
Net change in cash and cash equivalents	(415,178)	(347)
Cash and cash equivalents at beginning of year	977,773	888
Cash and cash equivalents at end of year	$ 562,595	$ 541

First National Bank of Midland	Eliminations	Consolidated
$ 2,288,299	$ (4,576,251)	$ 2,151,170
2,500,000		2,500,000
273,969		273,969
970,878		970,878
(38,892)		(38,892)
(11,112)		(11,112)
(75,327)		(75,327)
(125,000)		(125,000)
		49,491
-	4,576,251	-
(4,317,989)		(4,317,989)
(27,792)		(28,076)
(1,649,359)		(1,649,359)
(57,324)	(657,495)	(79,472)
(750,601)	657,495	(88,633)
(1,020,250)		(468,352)
(37,533,218)		(37,537,915)
	3,000,000	-
1,944,465		1,944,465
7,532,558		7,532,558
(12,010,883)		(12,010,883)
111,328,892		111,328,892
(102,702,588)		(102,702,588)
(140,400)		(140,400)
(21,352,576)		(21,082,565)
133,952		133,952
1,263,940		1,263,940
(396,182)		(396,182)
(51,932,040)	3,000,000	(51,666,726)
1,500,000	(3,000,000)	-
57,114,815	415,525	57,530,340
(524,280)		(524,280)
-		669,298
-		(402,035)
58,090,535	(2,584,475)	57,273,323
5,138,245	415,525	5,138,245
9,299,713	(978,661)	9,299,713
$ 14,437,958	$ (563,136)	$ 14,437,958

SUPPLEMENTAL INFORMATION – **First Bancshares of Texas, Inc.**
(Parent Company)

FIRST BANCSHARES OF TEXAS, INC
(PARENT COMPANY)
Statements of Financial Condition
December 31, 2009 and 2008

Assets	2009	2008
Cash and cash equivalents	$ 562,595	$ 977,773
Interest bearing deposits in banks	547,580	542,883
Investment in Statutory Trust I	93,000	93,000
Loans receivable, net of allowance for loan losses	596,486	866,497
Investment in subsidiary	29,880,940	25,989,145
Accrued interest receivable	2,663	2,379
Other assets	86,726	722,073
	$ 31,769,990	$ 29,193,750

Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	$ 10,558	$ 6,085
Subordinated debentures	3,093,000	3,093,000
Total liabilities	3,103,558	3,099,085
Shareholders' equity		
Common stock	6,665,614	6,665,614
Capital surplus	13,330,595	13,268,326
Retained earnings	8,484,486	6,333,316
Treasury stock	-	(254,485)
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	194,112	93,864
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	(8,375)	(11,970)
Total shareholders' equity	28,666,432	26,094,665
	$ 31,769,990	$ 29,193,750

FIRST BANCSHARES OF TEXAS, INC
(PARENT COMPANY)
Statements of Income
Years Ended December 31, 2009 and 2008

	2009	2008
Interest income		
Loans, including fees	$ 48,371	$ 54,003
Deposits with banks	8,738	70,043
Total interest income	57,109	124,046
Expenses		
Interest on subordinated debentures	119,309	191,010
Salaries and employee benefits	49,491	38,325
Other expense	25,091	20,767
Total expense	193,891	250,102
Loss before equity earnings of subsidiary	(136,782)	(126,056)
Equity in earnings of subsidiary		
Undistributed earnings of subsidiary	2,287,952	2,002,609
Total equity in earnings of subsidiary	2,287,952	2,002,609
Net income	$ 2,151,170	$ 1,876,553

FIRST BANCSHARES OF TEXAS, INC
(PARENT COMPANY)
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net income	$ 2,151,170	$ 1,876,553
Adjustments to reconcile net income to		
net cash provided by (used in) operating activities		
Stock based compensation	49,491	38,327
Equity in undistributed earnings of subsidiary	(2,287,952)	(2,002,609)
Net change in		
Accrued interest receivable	(284)	1,066
Other assets	635,347	(413,425)
Accrued expenses and other liabilities	4,473	(4,021)
Net cash provided by (used in) operating activities	552,245	(504,109)
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(4,697)	(11,804)
Capital contributions to subsidiary	(1,500,000)	(2,007,000)
Loan originations and principal collections, net	270,011	(371,781)
Net cash used in investing activities	(1,234,686)	(2,390,585)
Cash flows from financing activities		
Proceeds from issuance of common stock	-	12,750
Proceeds from sale of treasury stock	669,298	-
Purchases of treasury stock	(402,035)	(254,485)
Net cash provided by (used in) financing activities	267,263	(241,735)
Net change in cash and cash equivalents	(415,178)	(3,136,429)
Cash and cash equivalents at beginning of period	977,773	4,114,202
Cash and cash equivalents at end of year	$ 562,595	$ 977,773

SUPPLEMENTAL INFORMATION – **First Midland Nevada Corp.**
(Intermediate Holding Company)

FIRST MIDLAND NEVADA CORPORATION
(INTERMEDIATE HOLDING COMPANY)
Statements of Financial Condition
December 31, 2009 and 2008

Assets	2009	2008
Cash and cash equivalents	$ 541	$ 888
Investment in subsidiary	29,880,399	25,988,257
	$ 29,880,940	$ 25,989,145
Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	$ -	$ -
Total liabilities	-	-
Shareholders' equity		
Common stock	1,000	1,000
Capital surplus	20,654,000	19,154,000
Retained earnings	9,040,203	6,752,251
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	194,112	93,864
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	(8,375)	(11,970)
Total shareholders' equity	29,880,940	25,989,145
	$ 29,880,940	$ 25,989,145

FIRST MIDLAND NEVADA CORPORATION
(INTERMEDIATE HOLDING COMPANY)
Statements of Income
Years Ended December 31, 2009 and 2008

	2009	2008
Income		
Other income	$ -	$ -
Total income	-	-
Expenses		
Other expenses	347	7,290
Total expenses	347	7,290
Earnings before income taxes and equity in earnings of subsidiary	(347)	(7,290)
Income tax expense	-	-
Income before equity in earnings of subsidiary	(347)	(7,290)
Equity in earnings of subsidiary		
Undistributed earnings of subsidiary	2,288,299	2,009,899
Total equity in earnings of subsidiary	2,288,299	2,009,899
Net income	$ 2,287,952	$ 2,002,609

FIRST MIDLAND NEVADA CORPORATION
(INTERMEDIATE HOLDING COMPANY)
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net income	$ 2,287,952	$ 2,002,609
Adjustments to reconcile net income to net cash used in operating activities		
Equity in undistributed earnings of subsidiary	(2,288,299)	(2,009,899)
Net cash used in operating activities	(347)	(7,290)
Cash flows from investing activities		
Capital contributions to subsidiary	(1,500,000)	(2,000,000)
Net cash used in investing activities	(1,500,000)	(2,000,000)
Cash flows from financing activities		
Capital contributions from parent company	1,500,000	2,007,000
Net cash provided by financing activities	1,500,000	2,007,000
Net change in cash and cash equivalents	(347)	(290)
Cash and cash equivalents at beginning of year	888	1,178
Cash and cash equivalents at end of year	$ 541	$ 888

SUPPLEMENTAL INFORMATION – **First National Bank of Midland**

FIRST NATIONAL BANK OF MIDLAND
Statements of Financial Condition
December 31, 2009 and 2008

Assets	2009	2008
Cash and due from banks	$ 9,703,958	$ 9,299,713
Federal funds sold	4,734,000	-
Cash and cash equivalents	14,437,958	9,299,713
Interest bearing deposits in banks	42,194,568	4,661,350
Securities available for sale	17,231,230	14,732,210
Securities held to maturity	21,679,256	30,348,459
Restricted investments held at cost	1,070,200	929,800
Loans held for sale	8,096,383	3,778,394
Loans receivable, net of allowance for loan losses	256,659,427	239,173,825
Accrued interest receivable	1,436,505	1,408,713
Premises and equipment	10,022,428	10,597,124
Deferred tax asset, net	1,082,402	1,010,897
Foreclosed assets, net	178,361	122,840
Prepaid FDIC assessment	1,649,359	-
Other assets	523,078	465,754
	$ 376,261,155	$ 316,529,079
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 93,289,392	$ 87,828,888
Interest bearing	246,571,047	194,916,736
Total deposits	339,860,439	282,745,624
Accrued expenses and other liabilities	699,644	1,450,245
Securities sold under agreements to repurchase	5,820,673	6,344,953
Total liabilities	346,380,756	290,540,822
Shareholders' equity		
Common stock	3,096,250	3,096,250
Capital surplus	17,546,250	16,046,250
Undivided profits	9,052,162	6,763,863
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	194,112	93,864
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	(8,375)	(11,970)
Total shareholders' equity	29,880,399	25,988,257
	$ 376,261,155	$ 316,529,079

FIRST NATIONAL BANK OF MIDLAND
Statements of Income
Years Ended December 31, 2009 and 2008

	2009	2008
Interest income		
Loans, including fees	$ 15,858,848	$ 14,363,337
Debt securities		
Taxable	1,333,758	1,593,942
Tax exempt	319,353	297,816
Federal funds sold	25,398	88,591
Deposits with banks	185,961	138,376
Total interest income	17,723,318	16,482,062
Interest expense		
Deposits	3,263,359	3,888,101
Federal funds purchased	2,460	2,593
Total interest expense	3,265,819	3,890,694
Net interest income	14,457,499	12,591,368
Provision for loan losses	2,500,000	1,390,000
Net interest income after provision for loan losses	11,957,499	11,201,368
Noninterest income		
Trust department income	329,966	381,275
Service charges on deposit accounts	426,338	374,912
Other service charges and fees	344,018	306,363
Net realized gain on sales of available for sale securities	38,892	-
Real estate mortgage fees	3,966,301	2,510,890
Gain on sale of foreclosed assets	11,112	-
Gain on sale of loans	75,327	-
Total noninterest income	5,191,954	3,573,440
Noninterest expenses		
Salaries and employee benefits	7,675,630	6,817,123
Occupancy and equipment expense	2,120,515	1,845,786
Advertising	229,018	350,892
Data processing	298,465	280,310
Legal and professional	402,376	369,566
FDIC assessments	663,998	150,600
Other expense	2,431,323	2,045,425
Total noninterest expenses	13,821,325	11,859,702
Income before income taxes	3,328,128	2,915,106
Income tax expense	1,039,829	905,207
Net income	$ 2,288,299	$ 2,009,899

FIRST NATIONAL BANK OF MIDLAND
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net income	$ 2,288,299	$ 2,009,899
Adjustments to reconcile net income to		
net cash (used in) provided by operating activities		
Provision for loan losses	2,500,000	1,390,000
Net amortization of securities	273,969	148,426
Depreciation	970,878	725,327
Net realized gain on sales of available for sale securities	(38,892)	-
Net realized losses on sales fixed assets	-	3,165
Gain on sale of foreclosed assets	(11,112)	-
Gain on sale of loans	(75,327)	-
Deferred income taxes	(125,000)	(358,324)
Net change in		
Loans held for sale	(4,317,989)	(1,019,578)
Accrued interest receivable	(27,792)	129,823
Prepaid FDIC assessment	(1,649,359)	-
Other assets	(57,324)	(169,263)
Accrued expenses and other liabilities	(750,601)	313,207
Net cash (used in) provided by operating activities	(1,020,250)	3,172,682
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(37,533,218)	(4,661,350)
Activity in available for sale securities		
Sales	1,944,465	-
Maturities, prepayments and calls	7,532,558	5,441,797
Purchases	(12,010,883)	(9,679,111)
Activity in held to maturity securities		
Maturities, prepayments and calls	111,328,892	10,166,819
Purchases	(102,702,588)	-
Net change in restricted investments held at cost	(140,400)	147,100
Loan originations and principal collections, net	(21,352,576)	(83,572,002)
Proceeds from sales of foreclosed assets	133,952	-
Proceeds from sales of loans	1,263,940	-
Proceeds from sale of fixed assets	-	135,311
Additions to premises and equipment	(396,182)	(3,594,912)
Net cash used in investing activities	(51,932,040)	(85,616,348)
Cash flows from financing activities		
Capital contributions from parent company	1,500,000	2,000,000
Net increase in deposits	57,114,815	66,412,632
Net change in securities sold under agreements to repurchase	(524,280)	2,486,383
Net cash provided by financing activities	58,090,535	70,899,015
Net change in cash and cash equivalents	5,138,245	(11,544,651)
Cash and cash equivalents at beginning of year	9,299,713	20,844,364
Cash and cash equivalents at end of year	$ 14,437,958	$ 9,299,713