First Bancshares of Texas, Inc.
and Subsidiaries

Financial Statements
Years Ended December 31, 2008 and 2007

Johnson Miller & Co.
Certified Public Accountants
A Professional Corporation

First Bancshares of Texas, Inc. and Subsidiaries

Contents

JOHNSON MILLER & CO., CPA's PC
Certified Public Accountants
A Professional Corporation
An Independent Member Of BDO Seidman Alliance

Odessa, Texas
Midland, Texas
Hobbs, New Mexico

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
First Bancshares of Texas, Inc. and Subsidiaries
Midland, Texas

We have audited the accompanying consolidated statements of financial condition of First Bancshares of Texas, Inc. (the "Company") and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Company'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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Bancshares of Texas, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Johnson Miller & Co., CPA's PC

Odessa, Texas
March 23, 2009

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Consolidated Financial Statements

First Bancshares of Texas, Inc. and Subsidiaries

Consolidated Statements of Financial Condition

December 31,		**2008**	2007
ASSETS			
Cash Equivalents (Notes 1 and 2)			
Cash and due from banks	$	**9,842,596**	13,919,364
Interest bearing deposits with banks		**4,661,350**	531,079
Federal funds sold		**-**	6,925,000
Total cash equivalents		**14,503,946**	21,375,443
Securities (Notes 1 and 3)			
Held to maturity		**30,348,459**	40,588,779
Available for sale		**14,732,210**	10,371,387
Restricted		**929,800**	1,076,900
Loans Held for Sale (Note 1)		**3,778,394**	2,758,816
Loans, Net (Notes 1 and 4)		**240,040,322**	157,609,377
Bank Premises and Equipment (Notes 1 and 5)		**10,597,124**	7,866,015
Investment in Unconsolidated Subsidiary (Notes 1 and 12)		**123,248**	117,505
Deferred Income Taxes (Notes 1 and 9)		**1,010,897**	720,041
Interest Receivable and Other Assets (Note 6)		**2,057,706**	1,798,096
Total assets	$	**318,122,106**	244,282,359
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Deposits			
Non-interest bearing demand	$	**87,828,888**	68,317,451
Interest bearing:			
Demand deposits		**96,593,976**	80,966,711
Savings accounts		**5,490,426**	4,116,531
Certificates of deposit (Note 7)		**91,853,672**	58,816,919
Total deposits		**281,766,962**	212,217,612
Securities sold under agreements to repurchase (Note 1)		**6,344,953**	3,858,570
Interest payable and other liabilities (Note 8)		**792,277**	798,118
Subordinated debentures (Note 12)		**3,093,000**	3,093,000
Total liabilities		**291,997,192**	219,967,300
Commitments and Contingencies (Notes 11, 13 and 14)			
Stockholders' Equity			
Common stock; $1 par value; 1,000,000 shares authorized; 6,665,614 and 6,662,614 shares issued; and 6,622,481 and 6,662,614 shares outstanding at December 31, 2008 and 2007, respectively		**6,665,614**	6,662,614
Capital surplus		**13,268,326**	13,220,249
Accumulated surplus		**6,363,565**	4,481,269
Treasury stock; 43,133 shares at cost at December 31, 2008		**(254,485)**	-
Accumulated other comprehensive income (loss)		**81,894**	(49,073)
Total stockholders' equity		**26,124,914**	24,315,059
Total liabilities and stockholders' equity	$	**318,122,106**	244,282,359

See accompanying notes to consolidated financial statements.

First Bancshares of Texas, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,		**2008**	2007
Interest Income:			
Loans	$	**14,433,379**	11,192,113
Securities		**1,891,758**	2,392,010
Deposits with banks		**138,376**	36,761
Federal funds sold		**88,591**	166,520
		16,552,104	13,787,404
Interest Expense:			
Deposits and securities sold under agreements to repurchase		**3,890,694**	3,950,502
Other borrowed funds		**191,010**	259,521
		4,081,704	4,210,023
Net interest income		**12,470,400**	9,577,381
Provision for Loan Losses (Note 4)		**1,390,000**	820,000
Net interest income after provision for loan losses		**11,080,400**	8,757,381
Noninterest Income:			
Real estate mortgage loan fees		**2,510,890**	1,320,212
Other service charges and fees		**737,378**	807,251
Income from fiduciary activities		**381,275**	295,682
Equity in income of unconsolidated subsidiary		**5,743**	7,803
Net gain on sale of assets		**637**	39,186
		3,635,923	2,470,134
Noninterest Expense:			
Salaries and employee benefits		**6,776,938**	4,996,038
Occupancy and equipment expense		**1,847,886**	1,306,808
Data processing		**561,771**	386,934
Advertising and promotion (Note 1)		**406,135**	329,991
Professional services		**373,346**	308,396
Director fees and other expense		**181,000**	147,296
Telephone		**174,712**	146,092
Supplies		**156,346**	126,363
Postage and freight		**145,569**	112,592
Regulatory fees		**81,600**	68,770
Other		**1,273,592**	926,296
		11,978,895	8,855,576
Income before income taxes		**2,737,428**	2,371,939
Income Tax Expense (Note 9)		**855,132**	709,939
NET INCOME	$	**1,882,296**	1,662,000

See accompanying notes to consolidated financial statements.

First Bancshares of Texas, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2008 and 2007		Common Stock	Capital Surplus	Accumulated Surplus	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance at January 1, 2007	$	3,874,518	4,447,276	2,819,269	-	(158,190)	10,982,873
Sale of Common Stock, 2,788,096 shares		2,788,096	8,772,973	-	-	-	11,561,069
Comprehensive Income:							
Net income for the year		-	-	1,662,000	-	-	1,662,000
Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity, net of tax of $1,350		-	-	-	-	2,621	2,621
Net change in unrealized depreciation on the Bank's available-for-sale securities, net of tax of $54,861		-	-	-	-	106,496	106,496
Total Comprehensive Income							1,771,117
Balance at December 31, 2007		6,662,614	13,220,249	4,481,269	-	(49,073)	24,315,059
Sale of Common Stock, 3,000 shares		3,000	9,750	-	-	-	12,750
Purchase of Common Stock 43,133 shares at $5.90		-	-	-	(254,485)	-	(254,485)
Stock Option Compensation		-	38,327				38,327
Comprehensive Income:							
Net income for the year		-	-	1,882,296	-	-	1,882,296
Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity, net of tax of $1,900		-	-	-	-	3,689	3,689
Net change in unrealized depreciation on the Bank's available-for-sale securities, net of tax of $65,567		-	-	-	-	127,278	127,278
Total Comprehensive Income							2,013,263
Balance at December 31, 2008	$	6,665,614	13,268,326	6,363,565	(254,485)	81,894	26,124,914

See accompanying notes to consolidated financial statements.

First Bancshares of Texas, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,		**2008**	2007
Increase in Cash and Cash Equivalents			
Cash flows from operating activities:			
Net income	$	**1,882,296**	1,662,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		**725,327**	559,018
Deferred income taxes		**(358,324)**	(261,363)
Net loss (gain) on sale of bank premises and equipment		**3,165**	(30,504)
Net gain on sale of repossessed assets		**-**	(17,000)
Net gain on calls of securities – held to maturity		**(2,089)**	-
Net (gain) loss on sales and calls of securities – available for sale		**(1,713)**	8,318
Net amortization of marketable securities		**150,139**	81,102
Provision for possible loan losses		**1,390,000**	820,000
Equity in undistributed earnings of unconsolidated subsidiary		**(5,743)**	(7,803)
Net increase in loans held for sale		**(1,019,578)**	(116,455)
Increase in interest receivable and other assets		**(131,695)**	(246,837)
(Decrease) increase in interest payable and other liabilities		**(5,841)**	189,340
Net cash provided by operating activities		**2,625,944**	2,639,816
Cash flows from investing activities:			
Purchases of securities – available for sale securities		**(9,679,111)**	-
Purchases of securities – restricted		**(665,600)**	(787,600)
Proceeds from calls and maturities of securities – held to maturity		**10,168,909**	4,181,416
Proceeds from sales, calls and maturities of securities – available for sale		**5,441,797**	5,803,151
Proceeds from calls and sales of securities – restricted		**812,700**	-
Net increase in loans		**(83,948,860)**	(76,143,077)
Purchase of bank premises and equipment		**(3,594,912)**	(4,265,233)
Proceeds from sale of bank premises and equipment		**135,311**	1,035,742
Net cash used in investing activities		**(81,329,766)**	(70,175,601)
Cash flows from financing activities:			
Net increase in non-interest bearing demand, NOW, savings and money market accounts		**36,512,597**	32,622,118
Net increase in certificates of deposits		**33,036,753**	33,109,146
Net increase (decrease) in securities sold under agreements to repurchase		**2,486,383**	(205,850)
Proceeds from issuance of common stock		**12,750**	11,561,069
Stock option compensation		**38,327**	-
Purchase of treasury stock		**(254,485)**	-
Net cash provided by financing activities		**71,832,325**	77,086,483
Net (decrease) increase in cash and cash equivalents		**(6,871,497)**	9,550,698
Cash and cash equivalents at beginning of year		**21,375,443**	11,824,745
Cash and cash equivalents at end of year	$	**14,503,946**	21,375,443
Cash paid during the year for:			
Interest	$	**4,300,174**	3,906,298
Income taxes		**1,229,501**	835,934
Noncash investing and financing activities:			
Changes in unrealized appreciation (depreciation) on available-for-sale securities and securities transferred from available for sale to held to maturity	$	**(198,435)**	(165,328)
Changes in available deferred tax on above securities		**67,468**	56,211
Loans transferred to other real estate and repossessed assets		**127,915**	-

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

First Bancshares of Texas, Inc. (the "Company") through its wholly-owned subsidiaries, First Midland Nevada Corp. ("Nevada"), the First National Bank of Midland (the "Bank") and First Bancshares of Texas Statutory Trust 1 (the "Trust"), conducts business in the commercial and consumer banking industry. The Company generates commercial and consumer loans and receives deposits from customers located in Midland, the surrounding Permian Basin, and the Panhandle of Texas.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the Company's more significant accounting policies follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries except for the Trust. In accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46R ("FIN 46R"), *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51*, the Company does not consolidate the Trust. FIN 46R requires the Company's investment in the Trust to be accounted for under the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers cash and due from banks, interest bearing deposits, and federal funds sold to be cash equivalents.

Securities Held to Maturity

Bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Any nontemporary declines in the fair value of individual held-to-maturity securities below their cost would result in write-downs on the individual securities to their fair value. The related write-downs, if any, have been included in earnings as realized losses. During 2008 and 2007, the Company was not required to write-down any securities for such market declines.

1. Summary of Significant Accounting Policies (Continued)

Securities Available for Sale

Available-for-sale securities consist of bonds, notes, debentures, and certain equity securities not classified as held-to-maturity securities. Such securities are carried at estimated fair value based on quoted market prices in active markets for identical assets. (Level 1, under the guidance of Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurement*).

Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in a separate component of shareholders' equity until realized.

Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Any nontemporary declines in the fair value of individual available-for-sale securities below their cost would result in write-downs on the individual securities to their fair value. The related write-downs, if any, have been included in earnings as realized losses. During 2008 and 2007, the Company was not required to write-down any securities for such market declines.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Restricted Securities

Restricted securities consist of stock in depository institutions, including the Federal Reserve Bank (FRB). Ownership in these stocks is restricted and such stocks do not have a readily determinable fair value. Accordingly, the Company reports these securities at cost.

Loans Held for Sale

Loans held for sale are comprised of mortgage loans and are stated at the lower of aggregate cost or market value. The determination of market value includes consideration of all open positions, outstanding commitments from investors, related fees paid and related hedging gains and losses, if any. Gains and losses on sales are recognized at settlement dates and are determined by the difference between sales proceeds and the carrying values of the mortgages. Gains and losses are recorded in noninterest income.

Loans Receivable

Loans receivable for which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

1. Summary of Significant Accounting Policies (Continued)

Loans Receivable (Continued)

Loan origination fees and certain direct origination costs are generally recognized in the period in which fees were received and/or costs were incurred. Under accounting principles generally accepted in the United States of America, such fees and costs are deferred and recognized over the life of the loan as an adjustment of the yield. As of December 31, 2008 and 2007, management believes that the effect of not deferring such fees and costs, and amortizing them over the life of the related loan does not materially affect the financial position of the Company.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

A loan is considered impaired when it is probable, based upon current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are accounted for at the net present value of expected future cash flows, discounted at the loan's effective interest rate, the observable market price of the loan or at the fair value of the collateral if the loan is collateral dependent.

1. Summary of Significant Accounting Policies (Continued)

Loans Receivable (Continued)

The Company grants commercial, real estate and consumer loans to customers primarily in Midland, the surrounding Permian Basin, and the Panhandle of Texas. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the general economic conditions of the area.

Bank Premises and Equipment

Land is stated at cost. Buildings, furniture and equipment are stated at cost less accumulated depreciation. Depreciation is recognized on the straight-line method over estimated useful lives of 20 years for buildings and 3 to 7 years for furniture and equipment. Gains or losses on dispositions are credited or charged to income. Maintenance, repairs and minor improvements are charged to expense as incurred.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating expenses.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Advertising Expenses

All advertising costs are expensed when incurred. Advertising expenses were approximately $406,000 and $330,000 for the years ended December 31, 2008 and 2007, respectively.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

1. Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments

The FASB's Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of the estimated fair value of an entity's financial instrument assets and liabilities. For the Company, as for most financial institutions, the bulk of its assets and liabilities are considered financial instruments as defined in SFAS No. 107. However, many of these instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments, other than available-for-sale securities, to maturity and not to engage in trading or sales activities with those instruments. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Fair values have been estimated using data that management considered the best available, as generally provided in the Company's Regulatory Reports, and the estimation methodologies deemed suitable for the pertinent category of financial instrument. The carrying amounts are the amounts at which the financial instruments are reported in the financial statements.

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents – The carrying amounts of cash and short-term instruments approximate their fair value.

Held-to-Maturity and Available-for-Sale Securities – Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

Loans Held for Sale – The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between loan origination and sale.

1. Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments (Continued)

Loans Receivable – For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on CDs to a schedule of aggregated expected monthly maturities.

Short-Term Borrowings - The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Long-Term Debt – The fair values of the Company's long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest – The carrying amounts of accrued interest approximate their fair values.

Off-Balance-Sheet Instruments – Fair values for off-balance-sheet lending commitments 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.

1. Summary of Significant Accounting Policies (Continued)

Securities Sold Under Agreements to Repurchase

The Company's repurchase agreements mature within 90 days. The Company requires collateral, i.e., the underlying securities, sufficient to cover the redemption of the repurchase agreements. At December 31, 2008, the repurchase agreements were secured by certain Bank available-for-sale securities, with fair values of approximately $6,929,000.

Stock Option Plan

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised), which requires companies to measure all stock-based compensation awards using a fair value method, and to recognize the related compensation cost in their financial statements.

Use of Estimates

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

Certain Reclassifications

Certain reclassifications have been made to conform to the 2008 presentation.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 — *Fair Value Measurement* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. However, for some entities, the application of SFAS No. 157 will change current practice. The definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

1. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

The provisions of this Statement are effective for financial statements issued for fiscal years beginning after November 15, 2007 (the Company's 2008 fiscal year) and interim periods within those fiscal years. The adoption of this Statement did not have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115* which permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (the Company's 2008 fiscal year). The Company did not adopt any of the elective features of this Statement.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* which establishes principles and requirements for how the business acquirer:

- Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree;
- Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and,
- Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* which establishes accounting and reporting standards that require:

- The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity.

1. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

- The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income.
- Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and SFAS No. 160 requires that they be accounted for similarly, as equity transactions.
- When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment.
- Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which SFAS No. 160 is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented.

Management does not believe these new standards will have a material impact on its financial statements.

2. Concentrations of Credit – Risk

The Company maintains cash balances including federal funds sold at several financial institutions located in the Southwest. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. Uninsured balances aggregate to approximately $4,955,000 and $3,986,000 at December 31, 2008 and 2007, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

2. Concentrations of Credit – Risk (Continued)

The Company was required to have $169,000 on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2008.

3. Investment Securities

Investment securities have been classified in the consolidated statement of financial condition according to management's intent. All fair values are based on quoted prices in active markets for identical assets (Level 1). The amortized cost of securities and their approximate fair values at December 31, 2008 and 2007 were as follows:

		2008	
		Amortized Cost	Fair Value
HELD-TO-MATURITY:			
Mortgage backed	$	**15,671,676**	**15,911,442**
Municipal bonds		**8,680,508**	**8,461,660**
U.S. Agency		**5,996,275**	**6,109,434**
	$	**30,348,459**	**30,482,536**
		Gross Unrealized Gains	Gross Unrealized Losses
HELD-TO-MATURITY:			
Mortgage backed	$	**242,600**	**(2,834)**
Municipal bonds		**53,618**	**(272,466)**
U.S. Agency		**113,938**	**(779)**
	$	**410,156**	**(276,079)**
		Amortized Cost	Fair Value
AVAILABLE-FOR-SALE:			
Mortgage backed	$	**11,576,010**	**11,684,020**
U.S. Agency		**3,013,981**	**3,048,190**
	$	**14,589,991**	**14,732,210**

3. Investment Securities (Continued)

		2008	
		Gross Unrealized Gains	Gross Unrealized Losses
AVAILABLE-FOR-SALE:			
Mortgage backed	$	**130,200**	**(22,190)**
U.S. Agency		**34,539**	**(330)**
	$	**164,739**	**(22,520)**

		2007	
		Amortized Cost	Fair Value
HELD-TO-MATURITY:			
Mortgage backed securities	$	18,193,256	18,083,965
Municipal bonds		9,039,841	9,036,318
U.S. Agency securities		13,355,682	13,396,979
	$	40,588,779	40,517,262

		Gross Unrealized Gains	Gross Unrealized Losses
HELD-TO-MATURITY:			
Mortgage backed securities	$	28,985	(138,276)
Municipal bonds		52,432	(55,955)
U.S. Agency securities		52,618	(11,321)
	$	134,035	(205,552)

		Amortized Cost	Fair Value
AVAILABLE-FOR-SALE:			
Mortgage backed securities	$	2,345,365	2,325,137
U.S. Agency securities		8,076,649	8,046,250
	$	10,422,014	10,371,387

		2007	
		Gross Unrealized Gains	Gross Unrealized Losses
AVAILABLE-FOR-SALE:			
Mortgage backed securities	$	5,824	(26,052)
U.S. Agency securities		3,201	(33,600)
	$	9,025	(59,652)

3. Investment Securities (Continued)

Investment securities also include restricted securities with a cost of $929,800 and $1,076,900 at December 31, 2008 and 2007, respectively. The carrying values approximate fair values.

Gross realized gains and losses on held-to-maturity securities called and on sales of available-for-sale securities were:

		2008	2007
Gross realized losses:			
HELD-TO-MATURITY			
Mortgage backed	$	2,089	-
Gross realized gains:			
AVAILABLE-FOR-SALE			
U.S. Agency	$	1,713	763
Gross unrealized losses:			
AVAILABLE-FOR-SALE			
Corporate	$	-	2,267
U.S. Agency		-	6,814
Mortgage backed		-	-
	$	-	9,081

The scheduled maturities of securities held-to-maturity and securities available-for-sale at December 31, 2008 were as follows:

		Held-to-Maturity	
		Carrying Value	Fair Value
Due in one year or less	$	5,914,564	6,004,804
Due in one to five years		7,064,047	6,980,346
Due in five to ten years		9,957,710	9,943,096
Due after ten years		7,412,138	7,554,290
	$	30,348,459	30,482,536

		Available-for-Sale	
		Amortized Cost	Fair Value
Due in one year or less	$	3,013,980	3,048,190
Due in one to five years		-	-
Due in five to ten years		870,966	881,635
Due after ten years		10,705,045	10,802,385
	$	14,589,991	14,732,210

3. Investment Securities (Continued)

The maturity distribution above is based on contractual lives of the underlying securities. The amortized cost and fair value of mortgage backed securities are presented by contractual maturity in the preceding table. Management believes a significant portion of the mortgage backed securities will pay down prior to the end of their contractual lives. Some securities have call dates which are not reflected in the above maturity distribution.

Investment securities with a carrying amount of approximately $10,708,000 and $7,139,000 at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following table discloses, as of December 31, 2008, the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	Less Than 12 Months		12 Months or Greater	
Category	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U. S. Agency – AFS	$ -	-	500,000	(330)
U. S. Agency – HTM	1,000,000	(779)	-	-
Mortgage backed – AFS	3,629,993	(15,808)	726,471	(6,382)
Mortgage backed – HTM	-	-	1,085,810	(2,834)
Municipal bonds – HTM	604,248	(82,030)	3,522,837	(190,436)
	$ 5,234,241	**(98,617)**	**5,835,118**	**(199,982)**

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) 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.

At December 31, 2008, two (2) U. S. Government agency securities have unrealized losses with aggregate depreciation of less than 1% from the Company's amortized cost basis. This unrealized loss is principally due to interest rates. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

3. Investment Securities (Continued)

At December 31, 2008, nine (9) mortgage backed securities have unrealized losses with aggregate depreciation of less than 1% from the Company's cost basis. These unrealized losses are principally due to interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

At December 31, 2008, nineteen (19) municipal obligations have unrealized losses with aggregate depreciation of approximately 6% from the Company's cost basis. These unrealized losses are principally due to interest rates. No credit issues have been identified that cause management to believe the declines in market value are other than temporary. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

4. Loans

Major classifications of loans are summarized as follows at December 31:

		2008	2007
Commercial	$	**107,997,516**	79,045,557
Real estate		**123,120,612**	71,190,948
Consumer		**12,147,748**	8,108,365
Agricultural		**131,840**	1,238,501
		243,397,716	159,583,371
Less – allowance for possible loan losses		**(3,357,394)**	(1,973,994)
Loans, net	$	**240,040,322**	157,609,377

Changes in the allowance for loan losses were as follows for the years ended December 31:

		2008	2007
Balance, beginning of year	$	**1,973,994**	1,241,103
Provision charged to earnings		**1,390,000**	820,000
Recoveries		**454**	4,276
Loans charged off		**(7,054)**	(91,385)
Balance, end of year	$	**3,357,394**	1,973,994

4. Loans (Continued)

Overdrawn demand deposits reclassified as loan balances totaled $23,406 and $13,194 at December 31, 2008 and 2007, respectively.

Loans considered to be impaired have carrying values of approximately $2,432,100 at December 31, 2008. The total allowance for loan losses related to these loans amounted to approximately $1,216,000 at December 31, 2008. No additional funds are committed to be advanced in connection with these loans. As of December 31, 2008, there were no loans ninety days past due and still accruing interest.

5. Bank Premises and Equipment

Major categories of bank premises and equipment are summarized as follows at December 31:

		2008	2007
Land and improvements	$	**1,462,577**	908,507
Building and improvements		**7,964,117**	2,604,447
Furniture and equipment		**3,548,082**	3,102,114
Construction in progress		**-**	3,341,957
		12,974,776	9,957,025
Less – accumulated depreciation		**(2,377,652)**	(2,091,010)
Total	$	**10,597,124**	7,866,015

Depreciation expense was $725,327 and $559,018 in 2008 and 2007, respectively.

6. Accrued Interest Receivable and Other Assets

Accrued interest receivable and other assets are summarized as follows at December 31:

		2008	2007
Accrued interest receivable:			
Loans	$	**341,419**	455,991
Investment securities		**1,067,293**	1,085,990
		1,408,712	1,541,981
Other assets		**648,994**	256,115
	$	**2,057,706**	1,798,096

7. Certificates of Deposit

The aggregate amount of certificates of deposit (CDs) issued in amounts of $100,000 or more, was approximately $52,643,000 and $36,679,000 at December 31, 2008 and 2007, respectively.

At December 31, 2008 the scheduled maturities of CDs are as follows:

2009	$	67,719,356
2010		23,118,644
2011		878,363
2012		-
2013		137,309
	$	91,853,672

8. Accrued Interest Payable and Other Liabilities

Accrued interest payable and other liabilities are summarized as follows at December 31:

		2008	2007
Accrued interest payable	**$**	**276,732**	495,201
Other liabilities		**515,545**	302,917
	$	**792,277**	798,118

9. Income Taxes

Taxes are provided on all revenues and expenses in the statement of earnings, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting and taxable income, or the effect of a valuation allowance on deferred tax assets.

The following reconciliation summarizes those differences:

		2008	2007
Tax expense at statutory federal rate on income before taxes	**$**	**930,726**	806,459
Permanent differences and other nontaxable interest income		**(83,193)**	(80,831)
Other, net		**7,599**	(15,689)
	$	**855,132**	709,939

The Bank's income tax expense (benefit) is comprised of the following components:

		2008	2007
Current provision	**$**	**1,213,456**	971,302
Deferred		**(358,324)**	(261,363)
	$	**855,132**	709,939

9. Income Taxes (Continued)

The main components of the net deferred tax asset (liability) consist of the following at December 31:

		2008	2007
Deferred tax assets (liabilities):			
Allowance for possible loan losses	$	**1,141,514**	671,158
Depreciation on premises and equipment		**(88,430)**	23,602
Net unrealized appreciation/deprecation on AFS securities and securities transferred to HTM		**(42,187)**	25,281
Net deferred tax asset	$	**1,010,897**	720,041

10. Related Party Transactions

The Company conducts banking transactions with its directors, officers, employees and their associates in the ordinary course of business. It is the Company's policy that all such loan and deposit transactions be on approximately the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with other customers. These related parties had aggregate loan balances of approximately $13,739,000 and $6,377,000, and deposit balances of approximately $19,105,000 and $14,592,000 at December 31, 2008 and 2007, respectively.

11. Employee Benefits

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 $225,463 and $161,672 for the years ended December 31, 2008 and 2007, respectively.

Stock Option Plan

Under the Company's 2002 stock option plan, the Company had granted options for 279,000 shares of its $1 par common stock to several key employees, officers and directors. As of December 31, 2005, options covering all 279,000 shares were fully vested and options for 229,000 shares had been exercised at an option rate of $2.00 to 2.10 per share. During 2007, the remaining 50,000 shares were exercised.

In 2007, the Company issued a new stock option plan which became effective January 31, 2007. Under the Plan, the Company granted options to fourteen Directors/key officers for an aggregate total of 109,500 shares of stock.

11. Employee Benefits (Continued)

Stock Option Plan (Continued)

The options are subject to a five year vesting period (the options begin vesting in 2008) and an option term of ten years. The exercise price of each option is $4.25 per share (which equals the market price of the Company's stock on the grant date) with the value of each option on the grant date being $1.75.

Subsequently, in 2008, the Company granted additional options to twelve key officers for an aggregate total of 41,000 shares of stock. The options are subject to a five year vesting period (the options begin vesting in 2009) and an option term of ten years. The exercise price of each option is $5.58 per share (which equals the market price of the Company's stock on the grant date) with the value of each option on the grant date being $2.28.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised). As a result of the 2007 Plan and the adoption of SFAS No. 123 (revised), the Company expects to recognize $252,705 of compensation expense between 2008 and 2013. Compensation expense for the year ended December 31, 2008 was $38,327.

The following is the Company's stock option activity and weighted average per share option prices for the years ended December 31, 2008 and 2007:

Options Activity		2008	2007
Beginning balance		**109,500**	50,000
Options granted		**41,000**	109,500
Options exercised		**(3,000)**	(50,000)
Options forfeited		**(17,000)**	-
Ending Balance		**130,500**	109,500
Vested (Exercisable) Options		**41,000**	-
Weighted Average Option Prices			
Beginning balance	**$**	**4.25**	2.10
Options granted		**5.58**	4.25
Options exercised		**4.25**	2.10
Ending option prices		**4.62**	4.25

During the year ended December 31, 2008, options representing 3,000 shares were exercised at $4.25 per share, or $12,750. Options representing 17,000 shares were forfeited. Such options had a weighted average exercise price of $4.64 per share.

12. Floating Rate Junior Subordinated Deferrable Interest Debentures

On December 30, 2003, the Company completed the placement of $3,093,000 in subordinated debentures to 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 $3,000,000.

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 7.844%). Also, the interest rate cannot exceed the maximum rate permitted by New York law.

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 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 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, 2008 and 2007, interest expense on the subordinated debentures was $191,010 and $259,521. Deferred debt financing costs of $60,691 were being amortized to the first call date of the debentures (December 30, 2008). Amortization of deferred debt financing costs for 2008 and 2007 was $12,138. Such costs were fully amortized at December 31, 2008.

13. Financial Instruments

Financial Instruments with Off-Balance-Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. At December 31, 2008 and 2007, unused commitments under standby letters of credit totaled approximately $3,969,000 and $2,662,000, respectively, and commitments to fund loans totaled approximately $63,185,000 and $50,381,000 respectively.

13. Financial Instruments (Continued)

Financial Instruments with Off-Balance-Sheet Risk

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Standby letters of credit are conditional commitments used by the bank to guarantee the performance of a customer to a third party. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments and letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments were as follows at December 31:

	2008	
	Carrying Amount	Fair Value
Financial assets (liabilities):		
Cash and short-term investments	$ 14,503,946	14,503,946
Securities available for sale	14,732,210	14,732,210
Securities held to maturity	30,348,459	30,482,536
Restricted securities	929,800	929,800
Loans held for sale	3,778,394	3,778,394
Loans receivable	240,040,322	244,692,606
Accrued interest receivable	1,408,712	1,408,712
Deposits	(281,766,962)	(282,057,338)
Accrued interest payable	(276,732)	(276,732)
Securities sold under agreement to repurchase	(6,344,953)	(6,344,953)
Subordinated debentures	(3,093,000)	(3,093,000)

13. Financial Instruments (Continued)

		2007	
		Carrying Amount	Fair Value
Financial assets (liabilities):			
Cash and short-term investments	$	21,375,443	21,375,443
Securities available for sale		10,371,387	10,371,387
Securities held to maturity		40,588,779	40,517,262
Restricted securities		1,076,900	1,076,900
Loans held for sale		2,758,816	2,758,816
Loans receivable		157,609,377	158,110,898
Accrued interest receivable		1,541,981	1,541,981
Deposits		(212,217,612)	(210,540,620)
Accrued interest payable		(495,201)	(495,201)
Securities sold under agreement to repurchase		(3,858,570)	(3,858,570)
Subordinated debentures		(3,093,000)	(3,093,000)

14. Commitments

Pursuant to terms of operating lease agreements, the Company leases three of its branch facilities and office equipment. Lease terms range from one to ten years. Future minimum lease payments are as follows:

2009	$	578,979
2010		578,979
2011		566,489
2012		520,599
2013		428,702
2014 and thereafter		1,898,238
	$	4,571,986

At December 31, 2008 and 2007, lease expense approximated $553,000 and $196,000, respectively.

15. Regulatory Matters

The Company 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 under-taken, could have a direct material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

15. Regulatory Matters (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) 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, 2008, that the Company meets all capital adequacy requirements to which it is subject.

As of August 4, 2008, the most recent notification from the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's (or the Company's) category.

	Actual	
	Amount 000s	Ratio
As of December 31, 2008:		
Total Capital (to Risk-Weighted Assets):		
Consolidated	$ **32,359**	**12.20%**
Bank	**29,222**	**11.02%**
Tier 1 Capital (to Risk-Weighted Assets):		
Consolidated	**29,043**	**10.95%**
Bank	**25,906**	**9.77%**
Tier 1 Capital (to Average-Assets):		
Consolidated	**29,043**	**9.46%**
Bank	**25,906**	**8.44%**

15. Regulatory Matters (Continued)

		For Capital Adequacy Purposes	
		Amount 000s	Ratio
As of December 31, 2008:			
Total Capital (to Risk-Weighted Assets):			
Consolidated	$	**21,216**	**8.00%**
Bank		**21,216**	**8.00%**
Tier 1 Capital (to Risk-Weighted Assets):			
Consolidated		**10,608**	**4.00%**
Bank		**10,608**	**4.00$**
Tier 1 Capital (to Average-Assets):			
Consolidated		**12,275**	**4.00%**
Bank		**12,275**	**4.00%**

		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount 000s	Ratio
As of December 31, 2008:			
Total Capital (to Risk-Weighted Assets):			
Consolidated	$	**N/A**	**N/A**
Bank		**26,520**	**10.00%**
Tier 1 Capital (to Risk-Weighted Assets):			
Consolidated		**N/A**	**N/A**
Bank		**15,912**	**6.00%**
Tier 1 Capital (to Average-Assets):			
Consolidated		**N/A**	**N/A**
Bank		**15,344**	**5.00%**

15. Regulatory Matters (Continued)

		Actual	
		Amount 000s	Ratio
As of December 31, 2007**:**			
Total Capital (to Risk-Weighted Assets):			
Consolidated	$	29,338	14.93%
Bank		23,870	12.15%
Tier 1 Capital (to Risk-Weighted Assets):			
Consolidated		27,364	11.96%
Bank		21,896	11.14%
Tier 1 Capital (to Average-Assets):			
Consolidated		27,364	11.96%
Bank		21,896	9.57%

		For Capital Adequacy Purposes	
		Amount 000s	Ratio
As of December 31, 2007:			
Total Capital (to Risk-Weighted Assets):			
Consolidated	$	15,723	8.00%
Bank		15,723	8.00
Tier 1 Capital (to Risk-Weighted Assets):			
Consolidated		7,861	4.00%
Bank		7,861	4.00%
Tier 1 Capital (to Average-Assets):			
Consolidated		9,309	4.00%
Bank		9,309	4.00%

15. Regulatory Matters (Continued)

		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount 000s	Ratio
As of December 31, 2007:			
Total Capital (to Risk-Weighted Assets):			
Consolidated	$	N/A	N/A
Bank		19,653	10.00%
Tier 1 Capital (to Risk-Weighted Assets):			
Consolidated		N/A	N/A
Bank		11,792	6.00%
Tier 1 Capital (to Average-Assets):			
Consolidated		N/A	N/A
Bank		11,636	5.00%

Supplementary Information

JOHNSON MILLER & CO., CPA's PC
Certified Public Accountants
A Professional Corporation
An Independent Member Of BDO Seidman Alliance

Odessa, Texas
Midland, Texas
Hobbs, New Mexico

Report of Independent Certified Public Accountants on Supplementary Information

The Board of Directors
First Bancshares of Texas, Inc. and Subsidiaries

Our report on our audits of the consolidated financial statements of First Bancshares of Texas, Inc. (the "Company") and Subsidiaries as of December 31, 2008 and 2007, and for the years then ended, is included separately herein. These audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating statement of financial condition information as of December 31, 2008, and the consolidating statement of income information for the year ended December 31, 2008, have been subjected to the auditing procedures applied in the audits 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.

Johnson Miller & Co., CPA's PC

Odessa, Texas
March 23, 2009

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audit@jmaudit.com

First Bancshares of Texas, Inc. and Subsidiaries

Consolidating Statement of Financial Condition Information

December 31, 2008

ASSETS

	First Bancshares of Texas, Inc.	First Midland Nevada Corp.	FNB Midland	Eliminations Debit	Eliminations Credit		Consolidated
CASH EQUIVALENTS							
Cash and due from banks	$ 1,520,656	889	9,299,713	-	978,662	1	9,842,596
Interest bearing deposits	-	-	4,661,350	-	-		4,661,350
Federal funds sold	-	-	-	-	-		-
SECURITIES							
Held to maturity	-	-	30,348,459	-	-		30,348,459
Available for sale	-	-	14,732,210	-	-		14,732,210
Restricted	-	-	929,800	-	-		929,800
LOANS HELD FOR SALE	-	-	3,778,394	-	-		3,778,394
LOANS, net	866,497	-	239,173,825	-	-		240,040,322
BANK PREMISES and equipment, net	-	-	10,597,124	-	-		10,597,124
INVESTMENT IN SUBSIDIARIES	26,112,394	25,988,256	-	-	4,012,509	3	-
	-	-	-	-	3,097,250	4	-
	-	-	-	-	35,200,250	4	-
	-	-	-	-	9,503,605	4	123,248
	-	-	-	-	163,788	5	-
DEFERRED INCOME TAXES	65,366	-	1,010,897	-	65,366	2	1,010,897
INTEREST RECEIVABLE and other assets	659,086	-	1,997,307	-	598,687	2	2,057,706
Total assets	$ 29,223,999	25,989,145	316,529,079	-	53,620,117		318,122,106

First Bancshares of Texas, Inc. and Subsidiaries

Consolidating Statement of Financial Condition Information (Continued)

December 31, 2008

LIABILITIES AND STOCKHOLDERS' EQUITY

	First Bancshares of Texas, Inc.	First Midland Nevada Corp.	FNB Midland	Eliminations Debit		Eliminations Credit	Consolidated
LIABILITIES							
Deposits							
Non-interest bearing demand	$ -	-	87,828,888	-		-	87,828,888
Demand deposits	-	-	97,572,638	978,662	1	-	96,593,976
Savings accounts	-	-	5,490,426	-		-	5,490,426
Certificates of deposit	-	-	91,853,672	-		-	91,853,672
Securities sold under agreements to repurchase	-	-	6,344,953	-		-	6,344,953
Interest payable and other liabilities	6,085	-	1,450,245	664,053	2	-	792,277
Subordinated debentures	3,093,000	-	-	-		-	3,093,000
Total liabilities	3,099,085	-	290,540,822	1,642,715		-	291,997,192
STOCKHOLDERS' EQUITY							
Common stock	6,665,614	1,000	3,096,250	3,097,250	4	-	6,665,614
Capital surplus	13,268,326	19,154,000	16,046,250	35,200,250	4	-	13,268,326
Accumulated surplus	6,363,565	6,752,251	6,763,863	9,503,605	4	-	6,363,565
				4,012,509	3		
Treasury stock	(254,485)	-	-	-		-	(254,485)
Accumulated other comprehensive income	81,894	81,894	81,894	163,788	5	-	81,894
Total stockholders' equity	26,124,914	25,989,145	25,988,257	51,977,402		-	26,124,914
Total liabilities and stockholders' equity	$ 29,223,999	25,989,145	316,529,079	53,620,117		-	318,122,106

First Bancshares of Texas, Inc. and Subsidiaries

Consolidating Statement of Income Information

Year Ended December 31, 2008

	First Bancshares of Texas, Inc.	First Midland Nevada Corp.	FNB Midland	Eliminations Debit		Eliminations Credit	Consolidated
Interest income:							
Loans	$ 70,042	-	14,363,337	-		-	14,433,379
Securities	-	-	1,891,758	-		-	1,891,758
Deposits with banks	-	-	138,376	-		-	138,376
Federal funds sold	-	-	88,591	-		-	88,591
	70,042	-	16,482,062	-		-	16,552,104
Interest expense:							
Deposit accounts and repurchase agreements	-	-	3,890,694	-		-	3,890,694
Subordinated debentures	191,010	-	-	-		-	191,010
Net interest income (loss)	(120,968)	-	12,591,368	-		-	12,470,400
Provision for loan losses	-	-	1,390,000	-		-	1,390,000
Net interest income (loss) after provision for loan losses	(120,968)	-	11,201,368	-		-	11,080,400
Noninterest income:							
Real estate mortgage loan fees	-	-	2,510,890	-		-	2,510,890
Other service charges and fees	54,003	-	683,375	-		-	737,378
Income from fiduciary activities	2,002,610	2,009,899	381,275	4,012,509	3	-	381,275
Equity in income of unconsolidated subsidiary	5,743	-	-	-		-	5,743
Net gain on sale of assets	-	-	637	-		-	637
	2,062,356	2,009,899	3,576,177	4,012,509		-	3,635,923

Consolidating Statement of Income Information (Continued)

Year Ended December 31, 2008

	First Bancshares of Texas, Inc.	First Midland Nevada Corp.	FNB Midland	Eliminations Debit	Eliminations Credit	Consolidated
Noninterest expense:						
Salaries and employee benefits	$ -	-	6,776,938	-	-	6,776,938
Occupancy and equipment expense	-	-	1,847,886	-	-	1,847,886
Data processing	-	-	561,771	-	-	561,771
Advertisement and promotion	-	-	406,135	-	-	406,135
Professional services	3,320	460	369,566	-	-	373,346
Directors fees and other expense	-	-	181,000	-	-	181,000
Telephone	-	-	174,712	-	-	174,712
Supplies	-	-	156,346	-	-	156,346
Postage and freight	-	-	145,569	-	-	145,569
Regulatory fees	-	-	81,600	-	-	81,600
Other	55,772	6,829	1,210,991	-	-	1,273,592
	59,092	7,289	11,912,514	-	-	11,978,895
Income before income taxes	1,882,296	2,002,610	2,865,031	-	-	2,737,428
Income tax expense	-	-	855,132	-	-	855,132
NET INCOME	$ 1,882,296	2,002,610	2,009,899	-	-	1,882,296

First Bancshares of Texas, Inc. and Subsidiaries

Description of Eliminating Entries

1. To eliminate intercompany cash and deposits
2. To eliminate intercompany accounts receivable/payable
3. To eliminate intercompany income
4. To eliminate the Company's investment in consolidated subsidiaries
5. To eliminate equity in accumulated comprehensive income of subsidiaries