FIRST BANCSHARES OF TEXAS, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

together with

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY

CONTENTS

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of First Bancshares of Texas, Inc. and Subsidiary which comprise the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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. and Subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Davis Kinard & Co, PC
Certified Public Accountants

Abilene, Texas
March 12, 2013

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
December 31, 2012 and 2011

Assets	2012	2011
Cash and due from banks	$ 19,650,073	$ 11,991,643
Federal funds sold	3,529,000	14,631,000
Cash and cash equivalents	23,179,073	26,622,643
Interest bearing deposits in banks	157,873,769	123,894,436
Securities available for sale, at fair value	35,422,687	25,024,450
Securities held to maturity (fair value approximates $26,769,026 in 2012 and $40,373,275 in 2011)	25,047,069	39,051,182
Investment in partnerships	247,642	144,194
Restricted investment held at cost	2,022,000	1,610,400
Investment in First Bancshares of Texas Statutory Trust I	93,000	93,000
Investment in FirstCapital GP, LLC	1,046,000	1,046,000
Loans held for sale	62,807,920	14,974,820
Loans and leases receivable, net of allowance for loan and lease losses of $5,200,842 in 2012 and $4,612,000 in 2011	383,452,963	341,345,836
Accrued interest receivable	2,205,321	1,998,615
Premises and equipment	10,973,360	9,309,759
Deferred tax asset, net	1,512,946	1,100,077
Foreclosed assets	25,000	-
Cash surrender value of life insurance	7,447,477	7,213,693
Prepaid FDIC assessment	520,817	772,877
Other assets	962,998	628,747
	$ 714,840,042	$ 594,830,729
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 228,922,706	$ 165,178,988
Interest bearing	396,321,852	373,416,311
Total deposits	625,244,558	538,595,299
Advances from Federal Home Loan Bank	10,000,000	-
Accrued expenses and other liabilities	1,212,925	1,239,442
Securities sold under agreement to repurchase	2,534,869	2,684,210
Subordinated debentures	3,093,000	3,093,000
Total liabilities	642,085,352	545,611,951
Shareholders' equity		
Common stock, $1 par value; 15,000,000 shares authorized; 9,439,992 and 8,009,815 shares issued; 9,426,237 and 7,994,419 shares outstanding in 2012 and 2011, respectively	9,439,992	8,009,815
Preferred stock, $1 par value; 1,100,000 shares authorized; 937,044 and 377,150 shares issued and outstanding in 2012 and 2011, respectively; total liquidation value of $9,370,440 and $3,771,500 in 2012 and 2011, respectively	937,044	377,150
Capital surplus	39,881,107	24,066,082
Retained earnings	21,913,726	15,979,995
Treasury stock, at cost	(129,159)	(121,167)
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	711,980	908,043
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	(1,140)
Total shareholders' equity	72,754,690	49,218,778
	$ 714,840,042	$ 594,830,729

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

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidated Statements of Income
Years Ended December 31, 2012 and 2011

	2012	2011
Interest income		
Loans and leases, including fees	$ 23,542,302	$ 20,290,044
Debt securities		
Taxable	948,193	1,244,349
Tax exempt	687,085	571,721
Federal funds sold	24,662	30,075
Deposits with banks	719,675	655,564
Other interest	77,387	4,130
Total interest income	25,999,304	22,795,883
Interest expense		
Deposits	2,034,874	2,717,364
Securities sold under agreement to repurchase	8,858	-
Subordinated debentures	104,164	99,104
Total interest expense	2,147,896	2,816,468
Net interest income	23,851,408	19,979,415
Provision for loan and lease losses	1,500,000	1,700,000
Net interest income after provision for loan and lease losses	22,351,408	18,279,415
Noninterest income		
Trust department income	428,983	408,054
Service charges on deposit accounts	576,078	661,570
Other service charges and fees	722,834	631,002
Net realized gain on sales of available for sale securities	35,416	60,207
Appreciation in cash surrender value of life insurance	233,784	175,909
Gain on sales of loans	4,283,634	3,239,718
Loss on sale of foreclosed assets	-	(554)
Total noninterest income	6,280,729	5,175,906
Noninterest expenses		
Salaries and employee benefits	11,654,304	9,095,900
Occupancy and equipment expense	2,455,903	2,264,788
Advertising	357,622	489,094
IT and data processing	727,515	612,231
Legal, accounting and exam fees	1,136,964	856,585
FDIC assessments	317,700	448,255
Reduction in value of foreclosed assets	303,849	-
Other expense	2,481,446	2,698,198
Total noninterest expenses	19,435,303	16,465,051
Income before income taxes	9,196,834	6,990,270
Income tax expense	2,784,861	2,150,823
Net income	$ 6,411,973	$ 4,839,447

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

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

	2012	2011
Net income	$ 6,411,973	$ 4,839,447
Other items of comprehensive income		
Change in unrealized appreciation on investment securities available for sale	(246,947)	917,385
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	1,727	7,068
Reclassification adjustment for realized gains on investment securities included in net income	(50,118)	(99,952)
Total other items of comprehensive income	(295,338)	824,501
Comprehensive income before tax	6,116,635	5,663,948
Income tax benefit (expense) related to other items of comprehensive income	100,415	(280,330)
Comprehensive income	$ 6,217,050	$ 5,383,618

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

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2012 and 2011

	Common Stock	Preferred Stock	Capital Surplus
Balance at January 1, 2011	$ 7,937,013	$ 377,150	$ 23,509,469
Comprehensive income:			
Net income for 2011			
Net changes in unrealized appreciation on on available for sale securities, net of taxes of $277,927			
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of $2,403			
Issuance of common stock	67,602		463,592
Dividends paid			
Exercise of stock options	5,200		22,520
Purchase of treasury stock			
Sale of treasury stock			6,235
Stock based compensation			64,266
Balance at December 31, 2011	8,009,815	377,150	24,066,082
Comprehensive income:			
Net income for 2012			
Net changes in unrealized appreciation on on available for sale securities, net of taxes of ($101,002)			
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of taxes of $587			
Issuance of common stock	1,430,177		10,704,409
Issuance of preferred stock		559,894	5,025,041
Dividends accrued			
Purchase of treasury stock			
Sale of treasury stock			23,994
Stock based compensation			61,581
Balance at December 31, 2012	$ 9,439,992	$ 937,044	$ 39,881,107

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
$ 11,366,838	$ -	$ 368,537	$ (5,805)	$ 43,553,202
4,839,447				4,839,447
		539,506		539,506
			4,665	4,665
				531,194
(226,290)				(226,290)
				27,720
	(203,304)			(203,304)
	82,137			88,372
				64,266
15,979,995	(121,167)	908,043	(1,140)	49,218,778
6,411,973				6,411,973
		(196,063)		(196,063)
			1,140	1,140
				12,134,586
				5,584,935
(478,242)				(478,242)
	(150,239)			(150,239)
	142,247			166,241
				61,581
$ 21,913,726	$ (129,159)	$ 711,980	$ -	$ 72,754,690

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income	$ 6,411,973	$ 4,839,447
Adjustments to reconcile net income to		
net cash (used in) provided by operating activities		
Provision for loan and lease losses	1,500,000	1,700,000
Net amortization of securities	976,658	642,138
Depreciation	1,121,655	999,225
Net realized gain on sales of available for sale securities	(35,416)	(60,207)
Gain on sales of loans	(4,283,634)	(3,239,718)
Appreciation in cash surrender value of life insurance	(233,784)	(175,909)
Loss on sales of foreclosed assets	-	554
Reduction in value of foreclosed assets	303,849	-
Charitable gift of foreclosed assets	-	104,500
Deferred income taxes	(312,455)	(331,570)
Stock based compensation	61,581	64,266
Net change in		
Loans held for sale	(43,549,466)	(1,611,832)
Accrued interest receivable	(206,706)	(102,705)
Prepaid FDIC assessment	252,060	346,882
Other assets	(334,251)	(96,622)
Accrued expenses and other liabilities	(110,501)	195,190
Net cash (used in) provided by operating activities	(38,438,437)	3,273,639
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(33,979,333)	(30,532,640)
Activity in available for sale securities		
Sales	602,056	1,476,338
Maturities, prepayments and calls	107,348,088	205,552,504
Purchases	(119,259,838)	(203,063,127)
Activity in held to maturity securities		
Maturities, prepayments and calls	14,582,286	5,616,558
Purchases	(903,295)	(21,198,278)
Activity in investment in partnerships		
Purchases	(103,448)	(71,065)
Net change in restricted investments held at cost	(411,600)	(411,900)
Purchase of life insurance policies	-	(7,037,784)
Loan originations and principal collections, net	(43,996,127)	(52,234,577)
Proceeds from sales of foreclosed assets	60,151	230,866
Additions to premises and equipment	(2,785,256)	(529,856)
Investment in FirstCapital GP, LLC	-	(786,000)
Net cash used in investing activities	(78,846,316)	(102,988,961)

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

		2012		2011
Cash flows from financing activities				
Net increase in deposits	$	86,649,259	$	104,578,207
Net increase in advances from Federal Home Loan Bank		10,000,000		-
Net change in securities sold under agreements to repurchase		(149,341)		(1,544,287)
Proceeds from issuance of common stock		12,134,586		531,194
Proceeds from issuance of preferred stock		5,584,935		-
Exercise of stock options		-		27,720
Proceeds from sale of treasury stock		166,241		88,372
Purchases of treasury stock		(150,239)		(203,304)
Dividends paid		(394,258)		(226,290)
Net cash provided by financing activities		113,841,183		103,251,612
Net change in cash and cash equivalents		(3,443,570)		3,536,290
Cash and cash equivalents at beginning of period		26,622,643		23,086,353
Cash and cash equivalents at end of period	$	23,179,073	$	26,622,643

NOTE 1: Summary of Significant Accounting Policies

Nature of Operation

First Bancshares of Texas, Inc. (the Company) and its subsidiary, FirstCapital Bank of Texas, N.A. (the Bank), provide a variety of financial services to individuals and businesses primarily in the Texas cities of Midland, Odessa, 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 subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

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 and lease losses, the valuation of foreclosed real estate, and deferred tax assets.

Investment in FirstCapital GP, LLC

The Company is a fifty percent owner in FirstCapital GP, LLC, which owns an airplane. As of December 31, 2012 and 2011, the Company has an investment in FirstCapital GP, LLC in the amount of $1,046,000. The Company accounts for the ownership based on the equity method of accounting.

Investment in Partnerships

In 2009, the Company purchased a partnership interest in Independent Bankers Capital Fund II, L.P. for $37,500 and committed to purchase a total of $250,000. At December 31, 2012 and 2011, the carrying value of the investment in the partnership was $150,328 and $85,006, respectively.

In 2011, the Company purchased a partnership interest in Valesco Commerce Street Capital, L.P. for $53,188 and committed to purchase a total of $500,000. At December 31, 2012 and 2011, the carrying value of the investment in the partnership was $97,314 and $59,188, respectively.

In 2012, the Company committed to purchase a partnership interest in Pharos III, L.P. for a total of $1,500,000. At December 31, 2012, no interest had been purchased.

NOTE 1: Summary of Significant Accounting Policies – continued

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 Company is required to maintain average balances on hand or with the Federal Reserve Bank. The Company properly maintained amounts in excess of required reserves of $501,000 and $415,000 as of December 31, 2012 and 2011, respectively.

Interest-Bearing Deposits in Banks

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

Significant Group Concentration of Credit Risk

Most of the Company's activities are with customers located within the Texas cities of Midland, Odessa, Lubbock and Amarillo, and their surrounding areas. 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.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At December 31, 2012 and 2011, the deposits, as reported by the banks, were $157,166,381 and $138,103,292, respectively. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

Securities

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers whether the Company intends to sell the security or will, more likely than not, have to sell the security before its fair value is recovered. If either of these conditions is met, an other-than-temporary impairment is recognized.

NOTE 1: Summary of Significant Accounting Policies – continued

Securities – continued

In determining whether other-than-temporary impairment exists, management considers many factors, including (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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investments in equity securities are carried at cost. Any changes to the cost basis of these investments are recorded in the income statement. These investments are reviewed annually to determine if an impairment charge is necessary. As of December 31, 2012 and 2011, no impairment charges were recorded.

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 and Leases Receivable

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, Odessa, 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 which are measured at historical cost are generally reported at their outstanding unpaid principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Unearned income is amortized to interest income using a level yield methodology.

The Company adopted new disclosure guidance, effective for the Company's December 31, 2011 year-end reporting, that addresses disclosures of loans and other financing receivables and the related allowance. The new accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Company's portfolio segments are Real Estate, Commercial, Consumer, Other loans, and Leases receivable. The classes of financing receivables within the real estate segment are 1-4 Residential, Commercial Real Estate, Construction, and Land Development. The remaining portfolio segments contain a single class of financing receivables. Under this new accounting guidance, the allowance is presented by portfolio segment.

NOTE 1: Summary of Significant Accounting Policies – continued

Loans and Leases Receivable – continued

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.

Allowance for Loan and Lease Losses

The allowance for credit losses, which includes the allowance for loan and lease losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan and lease losses does not include amounts related to accrued interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The allowance for loan and lease losses represents the estimated probable credit losses in funded consumer and commercial loans and leases while the reserve for unfunded lending commitments, including standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts. Management evaluates the adequacy of the allowance for loan and lease losses based on the combined total of these two components.

The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations. Loss forecast models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes.

The attributes that are most significant to the probability of default and are used to estimate default include the loan-to-value, borrower credit score, months since origination, geography, and present collection status. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards and the regulatory environment.

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan and Lease Losses – continued

The allowance on the remaining portfolio segments (commercial and consumer) is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). If necessary, a specific allowance is established for these loans if they are deemed to be impaired. 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 delay, the reason 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.

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 the loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 subject of a restructuring agreement.

In addition to the allowance for loan and lease losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments.

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan and Lease Losses – continued

Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for credit losses related to the loan and lease portfolio is reported as a part of loans in the consolidated balance sheet whereas the reserve for unfunded lending commitments, if any, is reported on the consolidated balance sheet in accrued expenses and other liabilities. Provision for credit losses related to the loan and lease portfolio and unfunded lending commitments, if any, is reported separately in the consolidated statement of income.

Nonperforming Loans and Leases, Charge-Offs and Delinquencies

Nonperforming loans and leases generally include loans and leases that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans, including all classes of financing receivables within the real estate portfolio segment, that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The estimated property value, less costs to sell, is determined utilizing appraisals or broker price opinions of the fair value of the collateral.

The outstanding balance of loans within the remaining loan segments (commercial and consumer) are charged off no later than the end of the month in which the account becomes 120 days past due. For secured loans, accounts are written down to the collateral value.

The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. For unsecured loans, the outstanding balance is written off.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on nonaccruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months.

NOTE 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans and Leases, Charge-Offs and Delinquencies – continued

TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

The allowance for loan and lease losses is established as losses are estimated to have occurred through a provision for loan and lease 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 and lease 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.

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 in the year of modification and will be assessed periodically for continued impairment.

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.

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.

NOTE 1: Summary of Significant Accounting Policies – continued

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling cost 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 and lease losses. 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 as 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 costs relating 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 a property to the lower of its cost or fair value less cost to sell.

Common Stock

The Company has authorized 15,000,000 shares of common stock with a par value of $1.00 for which there are 9,426,237 and 7,994,419 shares outstanding as of December 31, 2012 and 2011, respectively.

Preferred Stock

The Company has the authority to issue up to 1,100,000 shares of preferred stock, $1.00 par value per share. The preferred stock was available for issuance from time to time for various purposes as determined by the board of directors, including making future acquisitions, raising additional equity capital and financing. The following class of preferred stock has been designated and issued:

Series 2009 Preferred Stock
The Company had designated 1,100,000 of authorized shares as Series 2009 Preferred Stock.

The Series 2009 Preferred Stock had a subscription price of $10.00 per share and a par value of $1.00 per share. Dividends are calculated at an annual rate of 6% based upon the subscription price of $10.00 and paid quarterly. Dividends are noncumulative. If the board of directors does not declare a dividend for a particular quarterly period, the Company has no obligation to pay dividends for that quarter.

The holders of the Series 2009 Preferred Stock have no voting rights, except in connection with (1) the creation of a class or series of stock ranking prior to the Series A in the payment of dividends or in the distribution of assets on its liquidation, dissolution, or winding up; (2) certain mergers and consolidations between the Company and another entity; (3) amendments to the Company's Articles. Holders also do not have any preemptive or subscription rights to acquire additional shares of Company stock.

NOTE 1: Summary of Significant Accounting Policies – continued

Preferred Stock – continued

The Series 2009 Preferred Stock has no maturity date and the Company is not obligated to redeem them. The Company may, at its option, and subject to the prior approval of the Federal Reserve Bank, redeem the Series 2009 Preferred Stock in whole or in part at any time at a cash redemption price of $10.00 per share.

As of December 31, 2012 and 2011, the Company had issued 937,044 and 377,150 shares of Series 2009 Preferred Stock, respectively.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 13,755 shares in 2012 and 15,396 shares in 2011, respectively.

Income Taxes

On January 1, 2009, the Company adopted accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The Company's income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rate and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any.

A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

NOTE 1: Summary of Significant Accounting Policies – continued

Income Taxes – continued

The Company recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense. During the year ended December 31, 2012 the Company recognized no interest and penalties. The Company has no unrecognized tax benefits at December 31, 2012 and 2011.

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 2008.

In May of 2006, the State of Texas implemented a new tax on taxable margin, effective for years ended after December 31, 2006. For the Company, taxable margin is revenue less interest expense. The margin tax was insignificant for the years ended December 31, 2012 and 2011. The deferred tax component of this tax is insignificant.

Cash Surrender Value of Life Insurance

Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for fair value. The adjustment to fair value increases or decreases the carrying value of the policies and is recorded as income or expense on the statements of income.

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.

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 16. 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.

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (FASB ASC 815, Derivatives and Hedging). Loan commitments that are derivatives are recognized at fair value on the balance sheet in other assets and other liabilities with changes in their fair values recorded in noninterest income.

Forward Loan Sale Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under FASB ASC 815 as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan sale commitments are recognized at fair value on the balance sheet in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

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, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Debt securities:				
Mortgage-backed	$ 23,197,546	$ 1,027,692	$ (4,705)	$ 24,220,533
Municipal bonds	11,146,384	110,693	(54,923)	11,202,154
Total securities available for sale	$ 34,343,930	$ 1,138,385	$ (59,628)	$ 35,422,687
Held to Maturity				
Debt securities:				
Mortgage-backed	$ 5,658,581	$ 301,659	$ -	$ 5,960,240
Municipal bonds	17,363,185	1,400,984	-	18,764,169
U.S. Government and agency	2,025,303	19,314	-	2,044,617
Total securities held to maturity	$ 25,047,069	$ 1,721,957	$ -	$ 26,769,026

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Debt securities:				
Mortgage-backed	$ 23,648,628	$ 1,375,822	$ -	$ 25,024,450
Total securities available for sale	$ 23,648,628	$ 1,375,822	$ -	$ 25,024,450
Held to Maturity				
Debt securities:				
Mortgage-backed	$ 17,508,426	$ 497,089	$ -	$ 18,005,515
Municipal bonds	19,490,065	813,726	(18,201)	20,285,590
U.S. Government and agency	2,052,691	29,479	-	2,082,170
Total securities held to maturity	$ 39,051,182	$ 1,340,294	$ (18,201)	$ 40,373,275

NOTE 2: Securities – continued

For the years ended December 31, 2012 and 2011, proceeds from sales of securities available for sale amounted to $602,056 and $1,476,338, respectively. For the years ended December 31, 2012 and 2011, gross realized gains amounted to $35,416 and $60,207, respectively. There were no realized losses for the years ended December 31, 2012, and 2011.

At December 31, 2012 and 2011, securities with a carrying value of $10,593,348 and $14,812,624, 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, 2012 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year	$ -	$ -	$ 145,000	$ 145,000
Due from one to five years	-	-	2,692,687	2,715,150
Due in five to ten years	-	-	10,907,957	11,749,634
Due over ten years	11,146,384	11,202,154	5,642,844	6,199,002
Mortgage-backed securities	23,197,546	24,220,533	5,658,581	5,960,240
Total	$ 34,343,930	$ 35,422,687	$ 25,047,069	$ 26,769,026

NOTE 2: Securities – continued

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, 2012 and 2011:

	December 31, 2012			
	Less than 12 Months		Over 12 Months	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed (3)	$ 4,585,845	$ 4,705	$ -	$ -
Municipal bonds (3)	3,178,731	54,923	-	-
Total	$ 7,764,576	$ 59,628	$ -	$ -

	December 31, 2011			
	Less than 12 Months		Over 12 Months	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Municipal bonds (4, 1)	$ 1,376,469	$ 17,423	$ 627,290	$ 778
Total	$ 1,376,469	$ 17,423	$ 627,290	$ 778

Mortgage-backed securities

The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases and increases in prepayment speeds. 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 increases in prepayment speeds 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, 2012.

NOTE 2: Securities – continued

Municipal bonds

The unrealized losses on the Company's investment in 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, 2012 and 2011.

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, 2012 and 2011, no investment securities were other-than-temporarily impaired.

NOTE 3: Loans and Leases Receivable

A summary of the balances of loans and leases receivable follows:

	December 31,	
	2012	2011
Commercial	$ 110,730,759	$ 173,317,767
Real estate	267,696,991	151,761,966
Consumer	8,779,810	10,917,827
Other loans	421,680	5,031,229
Leases receivable	1,024,565	4,929,047
Subtotal	388,653,805	345,957,836
Less: Allowance for loan and lease losses	(5,200,842)	(4,612,000)
Loans, net	$ 383,452,963	$ 341,345,836

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding the activity in the allowance for loan and lease losses for the year ended December 31, 2012 (in thousands):

	December 31, 2012					
	Real Estate	Consumer	Commercial	Other Loans	Leases Receivable	Total
Allowance for loan and lease losses:						
Beginning balance	$ 1,356	$ 155	$ 1,742	$ 1,359	$ -	$ 4,612
Charge-offs	(2)	(99)	(1,266)	-	-	(1,367)
Recoveries	2	21	433	-	-	456
Provision	1,038	87	1,732	(1,357)	-	1,500
Ending balance	2,394	164	2,641	2	-	5,201
Ending balance allocated to loans and leases individually evaluated for impairment	$ -	$ -	$ 45	$ -	$ -	$ 45
Ending balance allocated to loans and leases collectively evaluated for impairment	$ 2,394	$ 164	$ 2,596	$ 2	$ -	$ 5,156
Loans and leases receivable:						
Ending balance of loans and leases individually evaluated for impairment	$ -	$ -	$ 302	$ -	$ -	$ 302
Ending balance of loans and leases collectively evaluated for impairment	267,697	8,780	110,429	422	1,024	388,352
Ending balance	$ 267,697	$ 8,780	$ 110,731	$ 422	$ 1,024	$ 388,654

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2011 (in thousands):

	December 31, 2011					
	Real Estate	Consumer	Commercial	Other Loans	Leases Receivable	Total
Allowance for loan and lease losses:						
Beginning balance	$ 864	$ 137	$ 1,623	$ 858	$ -	$ 3,482
Charge-offs	(8)	(71)	(523)	-	-	(602)
Recoveries	-	32	-	-	-	32
Provision	500	57	642	501	-	1,700
Ending balance	1,356	155	1,742	1,359	-	4,612
Ending balance allocated to loans and leases individually evaluated for impairment	$ -	$ -	$ 308	$ -	$ -	$ 308
Ending balance allocated to loans and leases collectively evaluated for impairment	$ 1,356	$ 155	$ 1,434	$ 1,359	$ -	$ 4,304
Loans and leases receivable:						
Ending balance of loans and leases individually evaluated for impairment	$ -	$ 13	$ 909	$ -	$ -	$ 922
Ending balance of loans and leases collectively evaluated for impairment	151,762	10,905	172,409	5,031	4,929	345,036
Ending balance	$ 151,762	$ 10,918	$ 173,318	$ 5,031	$ 4,929	$ 345,958

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans and leases are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

NOTE 3: Loans and Leases Receivable – continued

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credit rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

Credits rated loss are those that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

NOTE 3: Loans and Leases Receivable – continued

The following tables set forth information regarding the internal classifications of the loan portfolio, the primary credit quality indicator, as of December 31, 2012 and 2011:

	December 31, 2012					
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 Residential	$ 114,464,287	$ -	$ 338,034	$ -	$ -	$ 114,802,321
Commercial	93,245,537	2,785,315	1,319,284	-	-	97,350,136
Construction	31,507,961	-	-	-	-	31,507,961
Land development	23,657,512	379,061	-	-	-	24,036,573
Consumer	8,730,843	9,774	39,193	-	-	8,779,810
Commercial	106,706,804	525,538	3,196,894	301,523	-	110,730,759
Other loans	421,680	-	-	-	-	421,680
Leases receivable	1,024,565	-	-	-	-	1,024,565
Total	$ 379,759,189	$ 3,699,688	$ 4,893,405	$ 301,523	$ -	$ 388,653,805

	December 31, 2011					
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 Residential	$ 76,320,061	$ -	$ 341,795	$ -	$ -	$ 76,661,856
Commercial	28,175,908	2,884,720	2,243,437	-	-	33,304,065
Construction	17,100,352	209,970	-	-	-	17,310,322
Land development	22,907,809	1,577,914	-	-	-	24,485,723
Consumer	10,890,685	2,536	11,552	13,054	-	10,917,827
Commercial	169,577,409	741,085	2,090,626	908,647	-	173,317,767
Other loans	5,031,229	-	-	-	-	5,031,229
Leases receivable	4,929,047	-	-	-	-	4,929,047
Total	$ 334,932,500	$ 5,416,225	$ 4,687,410	$ 921,701	$ -	$ 345,957,836

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding the credit risk profile based on payment activity of the loan portfolio, as of December 31, 2012 and 2011:

	December 31, 2012			December 31, 2011		
	Credit Risk Profile Based on Payment Activity			Credit Risk Profile Based on Payment Activity		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Real estate:						
1-4 Residential	$ 114,802,321	$ -	$ 114,802,321	$ 76,661,856	$ -	$ 76,661,856
Commercial	97,350,136	-	97,350,136	33,304,065	-	33,304,065
Construction	31,507,961	-	31,507,961	17,310,322	-	17,310,322
Land development	24,036,573	-	24,036,573	24,485,723	-	24,485,723
Consumer	8,779,810	-	8,779,810	10,904,773	13,054	10,917,827
Commercial	110,429,236	301,523	110,730,759	172,409,120	908,647	173,317,767
Other loans	421,680	-	421,680	5,031,229	-	5,031,229
Leases receivable	1,024,565	-	1,024,565	4,929,047	-	4,929,047
Total	$ 388,352,282	$ 301,523	$ 388,653,805	$ 345,036,135	$ 921,701	$ 345,957,836

The following table sets forth information regarding the delinquencies within the loan and lease portfolio as of December 31, 2012:

	December 31, 2012					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans and Leases	Recorded Investment > 90 Days and Still Accruing
Real estate:						
1-4 Residential	$ 2,176,846	$ -	$ 2,176,846	$ 112,625,475	$ 114,802,321	$ -
Commercial	-	-	-	97,350,136	97,350,136	-
Construction	-	-	-	31,507,961	31,507,961	-
Land development	-	-	-	24,036,573	24,036,573	-
Consumer	146,664	-	146,664	8,633,146	8,779,810	-
Commercial	249,690	-	249,690	110,481,069	110,730,759	-
Other loans	11,000	-	11,000	410,680	421,680	-
Leases receivable	-	-	-	1,024,565	1,024,565	-
Total	$ 2,584,200	$ -	$ 2,584,200	$ 386,069,605	$ 388,653,805	$ -

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding the delinquencies within the loan portfolio as of December 31, 2011:

	December 31, 2011					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans and Leases	Recorded Investment > 90 Days and Still Accruing
Real estate:						
1-4 Residential	$ -	$ -	$ -	$ 76,661,856	$ 76,661,856	$ -
Commercial	-	-	-	33,304,065	33,304,065	-
Construction	-	-	-	17,310,322	17,310,322	-
Land development	-	-	-	24,485,723	24,485,723	-
Consumer	366,959	13,055	380,014	10,537,813	10,917,827	-
Commercial	444,479	478,508	922,987	172,394,780	173,317,767	-
Other loans	-	-	-	5,031,229	5,031,229	-
Leases receivable	-	-	-	4,929,047	4,929,047	-
Total	$ 811,438	$ 491,563	$ 1,303,001	$ 344,654,835	$ 345,957,836	$ -

The following table sets forth information regarding the nonaccrual status within the loan and lease portfolio as of December 31, 2012 and 2011:

	December 31,	
	2012	2011
Real estate:		
1-4 Residential	$ -	$ -
Commercial	-	-
Construction	-	-
Land Development	-	-
Consumer	-	13,054
Commercial	301,523	908,647
Other loans	-	-
Leases receivable	-	-
Total	$ 301,523	$ 921,701

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. The Company did not recognize any interest income on a cash basis on impaired loans during the years ended December 31, 2012 and 2011.

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding impaired loans as of December 31, 2012:

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 Residential	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	-	-	-	6,527	-
Commercial	-	-	-	22,641	-
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
With a related allowance:					
Real estate:					
1-4 Residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	301,523	301,523	45,288	582,445	-
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
Total:					
Real estate:					
1-4 Residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Land Development	-	-	-	-	-
Consumer	-	-	-	6,527	-
Commercial	301,523	301,523	45,288	605,086	-
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
	$ 301,523	$ 301,523	$ 45,288	$ 611,613	$ -

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding impaired loans as of December 31, 2011:

	December 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 Residential	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	13,054	13,054	-	13,383	768
Commercial	45,281	45,281	-	46,421	3,418
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
With a related allowance:					
Real estate:					
1-4 Residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	863,366	863,366	308,227	885,097	13,941
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
Total:					
Real estate:					
1-4 Residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Land Development	-	-	-	-	-
Consumer	13,054	13,054	-	13,383	768
Commercial	908,647	908,647	308,227	931,518	17,359
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
	$ 921,701	$ 921,701	$ 308,227	$ 944,901	$ 18,127

NOTE 3: Loans and Leases Receivable – continued

The following table sets forth information regarding modifications within the loan portfolio as of December 31, 2012:

	December 31, 2012		
	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2012			
Troubled debt restructuring			
Real estate			
1-4 Residential	-	$ -	$ -
Commercial	-	-	-
Construction	-	-	-
Land development			
Consumer	-	-	-
Commercial	1	509,647	301,523
Other loans	-	-	-
Leases receivable	-	-	-
Total	1	509,647	301,523

	Number	Recorded Investment
Troubled debt restructurings that subsequently defaulted:		
Real estate		
1-4 Residential	-	$ -
Commercial	-	-
Construction	-	-
Land development	-	-
Consumer	-	-
Commercial	-	-
Other loans	-	-
Leases receivable	-	-
Total	-	-

The Company did not have any loans that qualified as troubled debt restructuring as of December 31, 2011.

NOTE 4: Premises and Equipment

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

	December 31, 2012	December 31, 2011
Land	$ 2,720,925	$ 1,462,577
Bank premises	8,579,373	8,147,830
Furniture, software and equipment	5,296,502	4,289,776
Premises and equipment, at cost	16,596,800	13,900,183
Accumulated deprecation	(5,623,440)	(4,590,424)
Net premises and equipment	$ 10,973,360	$ 9,309,759

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to $1,121,655 and $999,225, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2012, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ended December 31,	
2013	$ 897,866
2014	530,614
2015	530,614
2016	520,564
2017	185,657
Thereafter	311,771
	$ 2,977,086

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, 2012 and 2011 was $704,934 and $644,676, respectively.

NOTE 5: Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2012 and 2011 were $87,402,203 and $83,814,953, respectively. At December 31, 2012, the scheduled maturities of time deposits were as follows:

Year Ended December 31,	
2013	$ 64,728,663
2014	46,263,612
2015	295,457
2016	41,882
2017	1,113,860
	$ 112,443,474

NOTE 6: Income Taxes

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

	December 31, 2012	December 31, 2011
Current federal income tax	$ 3,092,458	$ 2,464,393
Current state income tax	4,858	18,000
Deferred income tax	(312,455)	(331,570)
Total income tax expense	$ 2,784,861	$ 2,150,823

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:

	December 31, 2012	December 31, 2011
Deferred tax assets		
Loans	$ 1,768,286	$ 1,568,080
Other real estate	123,760	-
Unrealized gain on securities transferred from held to maturity to available for sale	-	587
Other	106,832	67,026
	1,998,878	1,635,693
Deferred tax liabilities		
Premises and equipment	119,154	67,837
Unrealized gain on securities available for sale	366,778	467,779
	485,932	535,616
Net deferred tax asset	$ 1,512,946	$ 1,100,077

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 2012	Unused Contracted Amount 2011
Commitments to extend credit	$ 115,226,000	$ 78,053,000
Standby letters of credit	7,325,000	6,116,000

NOTE 7: Off-Balance-Sheet Activities – continued

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 $309,955 and $275,056 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, the Company recognized $61,581 and $64,266, 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, 2012, the remaining compensation expense to be recognized for outstanding stock options was $158,085. This compensation expense is to be fully recognized by the year ended December 31, 2017.

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:

	2012	2011
Dividend yield	-	-
Expected life	10 years	-
Expected volatility	15.0%	-
Risk-free interest rate	1.6%	-

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. The Company granted 42,000 stock options during 2012.

An analysis of stock option activity is presented below:

	2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	159,500	$ 5.03	170,500	$ 5.05
Granted	42,000	8.79	-	-
Exercised	-	-	(5,200)	5.51
Cancelled	(1,000)	6.08	(5,800)	5.30
Outstanding, end of year	200,500	$ 5.81	159,500	$ 5.03
Exercisable at end of year	135,100	$ 4.81	103,800	$ 4.75

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, 2012:

	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	90,000	4.1 years	\$ 4.25	90,000	\$ 4.25
\$5.00 - \$6.00	30,000	5.3 years	5.58	24,000	5.58
\$6.00 - \$7.00	29,500	6.3 years	6.08	17,100	6.08
\$7.00 - \$8.00	9,000	7.8 years	7.34	4,000	7.34
\$8.00 - \$9.00	42,000	9.4 years	8.79	-	-
	200,500	5.9 years	\$ 5.81	135,100	\$ 4.81

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock options, December 31, 2011	55,700	\$ 2.07
Granted	42,000	2.37
Vested	(31,300)	2.01
Forfeited	(1,000)	2.03
Non-vested stock options, December 31, 2012	65,400	\$ 2.29

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 2013 to the extent of the Bank's earnings for 2013 plus \$11,580,636 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. Annual activity consisted of the following:

	December 31,	
	2012	2011
Beginning Balance	$ 24,608,289	$ 17,410,538
Additions	2,678,039	11,291,726
Repayments	(9,251,259)	(4,093,975)
Ending Balance	$ 18,035,069	$ 24,608,289

Deposits from related parties held by the Bank at December 31, 2012 and 2011 amounted to $28,761,855 and $78,370,278, respectively.

NOTE 12: Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are 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 Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and 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. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and 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, 2012 and 2011, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2012, 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 Company's and Bank's actual capital amounts and ratios as of December 31, 2012 and 2011 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, 2012						
Total Capital to Risk Weighted Assets						
Consolidated	$ 80,244	17.3 %	$ 37,172	8.0 %	$ N/A	N/A %
Bank	68,190	14.7	37,076	8.0	46,345	10.0
Tier I Capital to Risk Weighted Assets						
Consolidated	75,043	16.2	18,586	4.0	N/A	N/A
Bank	62,989	13.6	18,538	4.0	27,807	6.0
Tier I Capital to Average Total Assets						
Consolidated	75,043	11.4	26,281	4.0	N/A	N/A
Bank	62,989	9.6	26,281	4.0	32,851	5.0
December 31, 2011						
Total Capital to Risk Weighted Assets						
Consolidated	$ 56,017	13.9 %	$ 32,252	8.0 %	$ N/A	N/A %
Bank	54,021	13.4	32,155	8.0	40,194	10.0
Tier I Capital to Risk Weighted Assets						
Consolidated	51,405	12.8	16,126	4.0	N/A	N/A
Bank	49,409	12.3	16,078	4.0	24,116	6.0
Tier I Capital to Average Total Assets						
Consolidated	51,405	8.9	23,153	4.0	N/A	N/A
Bank	49,409	8.5	23,153	4.0	28,941	5.0

NOTE 13: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $2,534,869 and $2,684,210 at December 31, 2012 and 2011, respectively. Such agreements mature on a daily basis and are secured by U.S. government securities with a fair value of $2,875,167 and $3,568,909 as of December 31, 2012 and 2011, respectively.

NOTE 14: Lines of Credit

The Company has an unused line of credit with a correspondent bank totaling $15,000,000 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, 2012, no advances were made under this agreement.

The Company has a second unused line of credit with a correspondent bank totaling $20,000,000 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 marketable securities. The agreement expires August 1, 2013. As of December 31, 2012, no advances were made under this agreement.

The Company has a third unused line of credit with a correspondent bank totaling $20,000,000 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 April 25, 2013. As of December 31, 2012, no advances were made under this agreement.

NOTE 15: Supplementary Cash Flow Information

The following is a summary of supplementary cash flow information:

	2012	2011
Interest paid	$ 2,170,915	$ 2,856,034
Assets acquired through foreclosure	389,000	-
Income taxes paid	2,640,000	2,000,000

NOTE 16: Fair Value Measurements

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.

NOTE 16: Fair Value Measurements – continued

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.

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.

NOTE 16: Fair Value Measurements – continued

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.

Foreclosed Real Estate Held for Sale - 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, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
Mortgage-backed	$ -	$ 24,220,533	$ -	$ 24,220,533
Municipal bonds	-	11,202,154	-	11,202,154
Total financial assets	$ -	$ 35,422,687	$ -	$ 35,422,687

	December 31, 2011			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
Mortgage-backed	$ -	$ 25,024,450	$ -	$ 25,024,450
Total financial assets	$ -	$ 25,024,450	$ -	$ 25,024,450

NOTE 16: Fair Value Measurements – 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, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2012			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 256,235	$ 256,235
Total financial assets	$ -	$ -	$ 256,235	$ 256,235
Non-financial assets:				
Foreclosed assets	$ -	$ 25,000	$ -	$ 25,000
Total non-financial assets	$ -	$ 25,000	$ -	$ 25,000

	December 31, 2011			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 613,474	$ 613,474
Total financial assets	$ -	$ -	$ 613,474	$ 613,474

During the years ended December 31, 2012 and 2011, 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. For the years ended December 31, 2012 and 2011, impaired loans with a carrying value of $301,523 and $921,701, respectively, were reduced by specific valuation allowance allocations totaling $45,288 and $308,227, respectively, to a total reported fair value of $256,235 and $613,474, respectively, based on collateral valuations utilizing Level 3 valuation inputs.

NOTE 16: Fair Value Measurements – continued

Those financial instruments subject to FASB ASC Topic 825 are required to disclose the fair value of financial instruments, 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, 2012 and 2011, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments.

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.

The estimated carrying values as of December 31, 2012, and related fair values, of the Company's financial instruments are as presented in the following table (in thousands):

	December 31, 2012				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Estimated Fair Value	Carrying Amount
Financial assets:					
Cash and cash equivalents	$ 23,179	$ -	$ -	$ 23,179	$ 23,179
Interest bearing deposits in banks	157,874	-	-	157,874	157,874
Securities held to maturity	-	26,769	-	26,769	25,047
Investment in partnerships	-	-	248	248	248
Restricted investments held at cost	-	-	2,022	2,022	2,022
Investment in First Bancshares of Texas Statutory Trust I	-	-	93	93	93
Investment in FirstCapital GP, LLC	-	-	1,046	1,046	1,046
Loans held for sale	-	62,808	-	62,808	62,808
Loans and leases receivable	-	-	460,352	460,352	383,453
Cash value of life insurance	-	-	7,447	7,447	7,447
Accrued interest receivable	2,205	-	-	2,205	2,205
Financial liabilities:					
Deposit liabilities	-	-	625,132	625,132	625,245
Accrued interest payable	169	-	-	169	169
Securities sold under agreements to repurchase	-	-	2,535	2,535	2,535
Subordinated debentures	-	-	3,093	3,093	3,093
Advances from FHLB	-	-	10,000	10,000	10,000

NOTE 16: Fair Value Measurements – continued

The estimated carrying values as of December 31, 2011, and related fair values, of the Company's financial instruments are as presented in the following table:

	December 31, 2011	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	$ 26,622,643	$ 26,622,643
Interest bearing deposits in banks	123,894,436	123,894,436
Securities held to maturity	39,051,182	40,373,275
Investment in partnerships	144,194	144,194
Restricted investments held at cost	1,610,400	1,610,400
Investment in First Bancshares of Texas Statutory Trust I	93,000	93,000
Investment in FirstCapital GP, LLC	1,046,000	1,046,000
Loans held for sale	14,974,820	14,974,820
Loans and leases receivable	341,345,836	354,499,180
Cash value of life insurance	7,213,693	7,213,693
Accrued interest receivable	1,998,615	1,998,615
Financial liabilities:		
Deposit liabilities	538,595,299	539,064,908
Accrued interest payable	192,161	192,161
Securities sold under agreements to repurchase	2,684,210	2,684,210
Subordinated debentures	3,093,000	3,093,000

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 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, Investment in Partnerships, Investment in First Bancshares of Texas Statutory Trust I, Investment in FirstCapital GP, LLC – The carrying value of these investments approximates fair value based on the redemption provisions contained in each.

NOTE 16: Fair Value Measurements – continued

Loans and Leases 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, consumer, and other loans 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.

Cash Value of Life Insurance – The carrying amount of bank owned life insurance is based on information received from the insurance carriers indicating the financial performance of the policies and the amount the Company would receive should the policies be surrendered.

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 Debenture and Advances from Federal Home Loan Bank – The fair value of the Company's debentures and advances are estimated using discounted cash flow analysis based on the interest rate that would be effective December 31, 2012, 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. The fair value of these financial instruments is considered insignificant. Additionally, these financial instruments have no carrying value.

NOTE 17: Derivatives

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

NOTE 17: Derivatives – continued

Derivative Loan Commitments – continued

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated mortgage loan commitments was $14,025,000 and $10,324,000 at December 31, 2012 and 2011, respectively. The fair value of such commitments was insignificant.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (for example, on the same day the lender commits to lend funds to a potential borrower).

The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was $23,704,000 and $13,926,000 at December 31, 2012 and 2011, respectively. The fair value of such commitments was insignificant.

NOTE 18: 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 3.16%). 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.

NOTE 18: Subordinated Debentures – continued

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, 2012 and 2011, interest expense on the subordinated debentures was $104,164 and $99,104 respectively.

NOTE 19: Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. These reclassifications are as follows:

Financial Statement Item	As Restated	As previously Reported	Change
Statement of financial condition:			
Investment in partnerships	$ 144,194	$ -	$ 144,194
Restricted investment held at cost	1,610,400	1,754,594	(144,194)
Noninterest bearing deposits	165,178,988	164,987,704	191,284
Interest bearing deposits	373,416,311	373,607,595	(191,284)
Statement of income:			
Interest income on deposits with banks	655,564	668,385	(12,821)
Other interest	4,130	-	4,130
Interest expense on deposits	2,717,364	2,726,055	8,691
IT and data processing	612,231	359,426	252,805
Legal, accounting and exam fees	856,585	714,916	141,669
Other expense	2,698,198	3,092,672	(394,474)
Statement of cash flows:			
Gain on sale of loans	(3,239,718)	-	(3,239,718)
Net change in loans held for sale	(1,611,832)	(4,851,550)	3,239,718
Net change in interest bearing deposits in banks	(30,532,640)	(35,324,900)	4,792,260
Purchase in partnerships	(71,065)	-	(71,065)
Net changes in restricted investments held at cost	(411,900)	(482,965)	71,065
Net increase in deposits	104,578,207	109,370,467	(4,792,260)

There were no changes in shareholders' equity or net income in 2011 as a result of these reclassifications.

NOTE 20: Subsequent Events

The Company has evaluated all subsequent events through March 12, 2013, the date the consolidated financial statements were available to be issued.

Davis Kinard & Co, PC
CERTIFIED PUBLIC ACCOUNTANTS
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Report of Independent Auditors On Supplementary Information

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

We have audited the consolidated financial statements of First Bancshares of Texas, Inc. and Subsidiary as of and for the years ended December 31, 2012 and 2011, and our report thereon dated March 12, 2013, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating, parent company, and bank financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Davis Kinard & Co, PC
Certified Public Accountants

Abilene, Texas
March 12, 2013

SUPPLEMENTARY INFORMATION – CONSOLIDATING

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidating Statement of Financial Condition
December 31, 2012

	First Bancshares of Texas Inc.	FirstCapital Bank of Texas, N.A.
Assets		
Cash and due from banks	$ 266,799	$ 19,650,073
Federal funds sold	-	3,529,000
Cash and cash equivalents	266,799	23,179,073
Interest bearing deposits in banks	10,691,177	157,318,343
Securities available for sale	-	35,422,687
Securities held to maturity	-	25,047,069
Investment in partnerships	-	247,642
Restricted invement held at cost	-	2,022,000
Investment in First Bancshares of Texas Statutory Trust I	93,000	-
Investment in subsidiary	63,700,654	-
Investment in FirstCapital GP, LLC	1,046,000	-
Loans held for sale	-	62,807,920
Loans and leases receivable, net of allowance for loan and lease losses	-	383,452,963
Accrued interest receivable	-	2,205,321
Premises and equipment	-	10,973,360
Deferred tax asset, net	-	1,512,946
Foreclosed assets, net	-	25,000
Cash surrender value of life insurance	-	7,447,477
Prepaid FDIC assessment	-	520,817
Other assets	348,973	940,752
	$ 76,146,603	$ 713,123,370
Liabilities and Shareholders' Equity		
Noninterest bearing	$ -	$ 229,189,505
Interest bearing	-	406,457,603
Total deposits	-	635,647,108
Advances from Federal Home Loan Bank	-	10,000,000
Accrued expenses and other liabilities	298,913	1,240,739
Securities sold under agreement to repurchase	-	2,534,869
Subordinated debentures	3,093,000	-
Total liabilities	3,391,913	649,422,716
Shareholders' equity		
Common stock	9,439,992	3,096,250
Preferred stock	937,044	-
Capital surplus	39,881,107	36,046,250
Retained earnings	21,913,726	23,846,174
Treasury stock, at cost	(129,159)	-
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	711,980	711,980
Total shareholders' equity	72,754,690	63,700,654
	$ 76,146,603	$ 713,123,370

Eliminations	Consolidated
$ (266,799)	$ 19,650,073
-	3,529,000
(266,799)	23,179,073
(10,135,751)	157,873,769
-	35,422,687
-	25,047,069
-	247,642
-	2,022,000
-	93,000
(63,700,654)	-
-	1,046,000
-	62,807,920
-	383,452,963
-	2,205,321
-	10,973,360
-	1,512,946
-	25,000
-	7,447,477
-	520,817
(326,727)	962,998
$ (74,429,931)	$ 714,840,042
$ (266,799)	$ 228,922,706
(10,135,751)	396,321,852
(10,402,550)	625,244,558
-	10,000,000
(326,727)	1,212,925
-	2,534,869
-	3,093,000
(10,729,277)	642,085,352
(3,096,250)	9,439,992
-	937,044
(36,046,250)	39,881,107
(23,846,174)	21,913,726
-	(129,159)
(711,980)	711,980
(63,700,654)	72,754,690
$ (74,429,931)	$ 714,840,042

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidating Statement of Income
Year Ended December 31, 2012

	First Bancshares of Texas Inc.	FirstCapital Bank of Texas, N.A.
Interest income		
Loans and leases, including fees	$ -	$ 23,542,302
Debt securities		
Taxable	-	948,193
Tax exempt	-	687,085
Federal funds sold	-	24,662
Deposits with banks	17,319	717,703
Other interest	-	77,387
Total interest income	17,319	25,997,332
Interest expense		
Deposits	-	2,050,221
Securities sold under agreements to repurchase	-	8,858
Subordinated debentures	104,164	-
Total interest expense	104,164	2,059,079
Net interest (loss) income	(86,845)	23,938,253
Provision for loan and lease losses	-	1,500,000
Net interest (loss) income after provision for loan and lease losses	(86,845)	22,438,253
Noninterest income		
Trust department income	-	428,983
Service charges on deposit accounts	-	576,078
Other service charges and fees	42,531	680,303
Net realized gain on sales of available for sale securities	-	35,416
Appreciation in cash surrender value of life insurance	-	233,784
Equity in earnings of subsidiary	6,579,459	-
Gain on sales of loans	-	4,283,634
Loss on sale of foreclosed assets	-	-
Total noninterest income	6,621,990	6,238,198
Noninterest expenses		
Salaries and employee benefits	61,581	11,592,723
Occupancy and equipment expense	-	2,455,903
Advertising	10,000	347,622
IT and data processing	-	727,515
Legal, accounting and exam fees	-	1,136,964
FDIC assessment	-	317,700
Reduction in value of foreclosed assets	-	303,849
Other expense	51,591	2,429,855
Total noninterest expenses	123,172	19,312,131
Income before income taxes	6,411,973	9,364,320
Income tax expense	-	2,784,861
Net income	$ 6,411,973	$ 6,579,459

Eliminations	Consolidated
$ -	$ 23,542,302
-	948,193
-	687,085
-	24,662
(15,347)	719,675
-	77,387
(15,347)	25,999,304
(15,347)	2,034,874
-	8,858
-	104,164
(15,347)	2,147,896
-	23,851,408
-	1,500,000
-	22,351,408
-	428,983
-	576,078
-	722,834
-	35,416
-	233,784
(6,579,459)	-
-	4,283,634
-	-
(6,579,459)	6,280,729
-	11,654,304
-	2,455,903
-	357,622
-	727,515
-	1,136,964
-	317,700
-	303,849
-	2,481,446
-	19,435,303
(6,579,459)	9,196,834
-	2,784,861
$ (6,579,459)	$ 6,411,973

FIRST BANCSHARES OF TEXAS, INC. AND SUBSIDIARY
Consolidating Statement of Cash Flows
Year Ended December 31, 2012

	First Bancshares of Texas Inc.	FirstCapital Bank of Texas, N.A.
Cash flows from operating activities		
Net income	$ 6,411,973	$ 6,579,459
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan and lease losses	-	1,500,000
Net amortization of securities	-	976,658
Depreciation	-	1,121,655
Net realized gains on sales of available for sale securities	-	(35,416)
Gain on sales of loans	-	(4,283,634)
Appreciation in cash surrender value of life insurance	-	(233,784)
Reduction in value of foreclosed assets	-	303,849
Deferred income taxes	-	(312,455)
Stock based compensation	61,581	-
Equity in undistributed earnings of subsidiary	(6,579,459)	-
Net change in		
Loans held for sale	-	(43,549,466)
Accrued interest receivable	-	(206,706)
Prepaid FDIC assessment	-	252,060
Other assets	(28,694)	(377,941)
Accrued expenses and other liabilities	(17,235)	(20,882)
Net cash used in operating activities	(151,834)	(38,286,603)
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(9,946,440)	(33,977,360)
Capital contributions to subsidiary	(7,000,000)	-
Activity in available for sale securities		
Sales	-	602,056
Maturities, prepayments and calls	-	107,348,088
Purchases	-	(119,259,838)
Activity in held to maturity securities		
Maturities, prepayments and calls	-	14,582,286
Purchases	-	(903,295)
Activity in investment in partnerships		
Purchases	-	(103,448)
Net change in restricted investments held at cost	-	(411,600)
Loan originations and principal collections, net	-	(43,996,127)
Proceeds from sales of foreclosed assets	-	60,151
Additions to premises and equipment	-	(2,785,256)
Net cash used in investing activities	(16,946,440)	(78,844,343)
Cash flows from financing activities		
Capital contribution from parent company	-	7,000,000
Proceeds from issuance of common stock	12,134,586	-
Proceeds from issuance of preferred stock	5,584,935	-
Net increase in deposits	-	96,836,717
Net increase in advances from Federal Home Loan Bank	-	10,000,000
Net change in securities sold under agreements to repurchase	-	(149,341)
Proceeds from sale of treasury stock	166,241	-
Purchase of treasury stock	(150,239)	-
Dividends paid - preferred stock	(394,258)	-
Net cash provided by financing activities	17,341,265	113,687,376
Net change in cash and cash equivalents	242,991	(3,443,570)
Cash and cash equivalents at beginning of year	23,808	26,622,643
Cash and cash equivalents at end of year	$ 266,799	$ 23,179,073

	Eliminations	Consolidated
	$ (6,579,459)	$ 6,411,973
	-	1,500,000
	-	976,658
	-	1,121,655
	-	(35,416)
	-	(4,283,634)
	-	(233,784)
	-	303,849
	-	(312,455)
	-	61,581
	6,579,459	-
	-	(43,549,466)
	-	(206,706)
	-	252,060
	72,384	(334,251)
	(72,384)	(110,501)
	-	(38,438,437)
	9,944,467	(33,979,333)
	7,000,000	-
	-	602,056
	-	107,348,088
	-	(119,259,838)
	-	14,582,286
	-	(903,295)
	-	(103,448)
	-	(411,600)
	-	(43,996,127)
	-	60,151
	-	(2,785,256)
	16,944,467	(78,846,316)
	(7,000,000)	-
	-	12,134,586
	-	5,584,935
	(10,187,458)	86,649,259
	-	10,000,000
	-	(149,341)
	-	166,241
	-	(150,239)
	-	(394,258)
	(17,187,458)	113,841,183
	(242,991)	(3,443,570)
	(23,808)	26,622,643
	$ (266,799)	$ 23,179,073

SUPPLEMENTARY INFORMATION – **First Bancshares of Texas, Inc.**

(Parent Company)

FIRST BANCSHARES OF TEXAS, INC
(PARENT COMPANY)
Statements of Financial Condition
December 31, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 266,799	$ 23,808
Interest bearing deposits in banks	10,691,177	744,737
Investment in Statutory Trust I	93,000	93,000
Investment in subsidiary	63,700,654	50,316,118
Investment in FirstCapital GP, LLC	1,046,000	1,046,000
Other assets	348,973	320,279
	$ 76,146,603	$ 52,543,942
Liabilities and Shareholders' Equity		
Accrued expenses and other liabilities	$ 298,913	$ 232,164
Subordinated debentures	3,093,000	3,093,000
Total liabilities	3,391,913	3,325,164
Shareholders' equity		
Common stock	9,439,992	8,009,815
Preferred stock	937,044	377,150
Capital surplus	39,881,107	24,066,082
Retained earnings	21,913,726	15,979,995
Treasury stock, at cost	(129,159)	(121,167)
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	711,980	908,043
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	(1,140)
Total shareholders' equity	72,754,690	49,218,778
	$ 76,146,603	$ 52,543,942

FIRST BANCSHARES OF TEXAS, INC
(PARENT COMPANY)
Statements of Income
Years Ended December 31, 2012 and 2011

	2012	2011
Interest income		
Deposits with banks	$ 17,319	$ 10,554
Total interest income	17,319	10,554
Other income	42,531	-
Expenses		
Interest on subordinated debentures	104,164	99,104
Salaries and employee benefits	61,581	64,266
Advertising	10,000	-
Other expense	51,591	35,747
Total expense	227,336	199,117
Loss before income taxes and equity earnings of subsidiary	(167,486)	(188,563)
Income tax benefit	-	26,833
Loss before equity earnings of subsidiary	(167,486)	(161,730)
Undistributed earnings of subsidiary	6,579,459	5,001,177
Net income	$ 6,411,973	$ 4,839,447

FIRST BANCSHARES OF TEXAS, INC
(PARENT COMPANY)
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income	$ 6,411,973	$ 4,839,447
Adjustments to reconcile net income to net cash used in operating activities		
Stock based compensation	61,581	64,266
Equity in undistributed earnings of subsidiary	(6,579,459)	(5,001,177)
Net change in		
Other assets	(28,694)	(151,507)
Accrued expenses and other liabilities	(17,235)	34,284
Net cash used in operating activities	(151,834)	(214,687)
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(9,946,440)	4,790,397
Investment in FirstCapital GP, LLC	-	(786,000)
Capital contributions to subsidiary	(7,000,000)	(4,500,000)
Net cash used in investing activities	(16,946,440)	(495,603)
Cash flows from financing activities		
Proceeds from issuance of common stock	12,134,586	531,194
Proceeds from issuance of preferred stock	5,584,935	-
Exercise of stock options	-	27,720
Proceeds from sale of treasury stock	166,241	88,372
Purchases of treasury stock	(150,239)	(203,304)
Dividends paid - preferred stock	(394,258)	(226,290)
Net cash provided by financing activities	17,341,265	217,692
Net change in cash and cash equivalents	242,991	(492,598)
Cash and cash equivalents at beginning of period	23,808	516,406
Cash and cash equivalents at end of year	$ 266,799	$ 23,808

SUPPLEMENTARY INFORMATION – **FirstCapital Bank of Texas, N.A.**

FIRSTCAPITAL BANK OF TEXAS, N.A.
Statements of Financial Condition
December 31, 2012 and 2011

Assets	2012	2011
Cash and due from banks	$ 19,650,073	$ 11,991,643
Federal funds sold	3,529,000	14,631,000
Cash and cash equivalents	23,179,073	26,622,643
Interest bearing deposits in banks	157,318,343	123,340,983
Securities available for sale	35,422,687	25,024,450
Securities held to maturity	25,047,069	39,051,182
Investment in partnerships	247,642	144,194
Restricted investments held at cost	2,022,000	1,610,400
Loans held for sale	62,807,920	14,974,820
Loans and leases receivable, net of allowance for loan and lease losses	383,452,963	341,345,836
Accrued interest receivable	2,205,321	1,998,615
Premises and equipment	10,973,360	9,309,759
Deferred tax asset, net	1,512,946	1,100,077
Foreclosed assets	25,000	-
Cash surrender value of life insurance	7,447,477	7,213,693
Prepaid FDIC assessment	520,817	772,877
Other assets	940,752	562,811
	$ 713,123,370	$ 593,072,340
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 229,189,505	$ 165,202,796
Interest bearing	406,457,603	373,607,595
Total deposits	635,647,108	538,810,391
Advances from Federal Home Loan Bank	10,000,000	-
Accrued expenses and other liabilities	1,240,739	1,261,621
Securities sold under agreements to repurchase	2,534,869	2,684,210
Total liabilities	649,422,716	542,756,222
Shareholders' equity		
Common stock	3,096,250	3,096,250
Capital surplus	36,046,250	29,046,250
Retained earnings	23,846,174	17,266,715
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	711,980	908,043
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	(1,140)
Total shareholders' equity	63,700,654	50,316,118
	$ 713,123,370	$ 593,072,340

FIRSTCAPITAL BANK OF TEXAS, N.A.
Statements of Income
Years Ended December 31, 2012 and 2011

	2012	2011
Interest income		
Loans and leases, including fees	$ 23,542,302	$ 20,290,044
Debt securities		
Taxable	948,193	1,244,349
Tax exempt	687,085	571,721
Federal funds sold	24,662	30,075
Deposits with banks	717,703	653,701
Other interest	77,387	4,130
Total interest income	25,997,332	22,794,020
Interest expense		
Deposits	2,050,221	2,726,055
Securities sold under agreements to repurchase	8,858	-
Total interest expense	2,059,079	2,726,055
Net interest income	23,938,253	20,067,965
Provision for loan and lease losses	1,500,000	1,700,000
Net interest income after provision for loan and lease losses	22,438,253	18,367,965
Noninterest income		
Trust department income	428,983	408,054
Service charges on deposit accounts	576,078	661,570
Other service charges and fees	680,303	631,002
Net realized gain on sales of available for sale securities	35,416	60,207
Appreciation in cash surrender value of life insurance	233,784	175,909
Gain on sales of loans	4,283,634	3,239,718
Loss on sale of foreclosed assets	-	(554)
Total noninterest income	6,238,198	5,175,906
Noninterest expenses		
Salaries and employee benefits	11,592,723	9,031,634
Occupancy and equipment expense	2,455,903	2,264,788
Advertising	347,622	489,094
IT and data processing	727,515	612,231
Legal, accounting and exam fees	1,136,964	856,585
FDIC assessments	317,700	448,255
Reduction in value of foreclosed assets	303,849	-
Other expense	2,429,855	2,662,451
Total noninterest expenses	19,312,131	16,365,038
Income before income taxes	9,364,320	7,178,833
Income tax expense	2,784,861	2,177,656
Net income	$ 6,579,459	$ 5,001,177

FIRSTCAPITAL BANK OF TEXAS, N.A.
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income	$ 6,579,459	$ 5,001,177
Adjustments to reconcile net income to		
net cash (used in) provided by operating activities		
Provision for loan and lease losses	1,500,000	1,700,000
Net amortization of securities	976,658	642,138
Depreciation	1,121,655	999,225
Net realized gain on sales of available for sale securities	(35,416)	(60,207)
Gain on sale of loans	(4,283,634)	(3,239,718)
Appreciation in cash surrender value of life insurance	(233,784)	(175,909)
Reduction in value of foreclosed assets	303,849	-
Charitable gift of foreclosed assets	-	104,500
Net loss on sale of foreclosed assets	-	554
Deferred income taxes	(312,455)	(331,570)
Net change in		
Loans held for sale	(43,549,466)	(1,611,832)
Accrued interest receivable	(206,706)	(102,705)
Prepaid FDIC assessment	252,060	346,882
Other assets	(377,941)	(41,103)
Accrued expenses and other liabilities	(20,882)	256,894
Net cash (used in) provided by operating activities	(38,286,603)	3,488,326
Cash flows from investing activities		
Net change in interest bearing deposits in banks	(33,977,360)	(35,323,037)
Activity in available for sale securities		
Sales	602,056	1,476,338
Maturities, prepayments and calls	107,348,088	205,552,504
Purchases	(119,259,838)	(203,063,127)
Activity in held to maturity securities		
Maturities, prepayments and calls	14,582,286	5,616,558
Purchases	(903,295)	(21,198,278)
Activity in investment in partnerships		
Purchases	(103,448)	(71,065)
Net change in restricted investments held at cost	(411,600)	(411,900)
Purchase of life insurance policies	-	(7,037,784)
Loan originations and principal collections, net	(43,996,127)	(52,234,577)
Proceeds from sales of foreclosed assets	60,151	230,866
Additions to premises and equipment	(2,785,256)	(529,856)
Net cash used in investing activities	(78,844,343)	(106,993,358)
Cash flows from financing activities		
Capital contributions from parent company	7,000,000	4,500,000
Net increase in deposits	96,836,717	104,085,609
Net increase in advances from Federal Home Loan Bank	10,000,000	-
Net change in securities sold under agreements to repurchase	(149,341)	(1,544,287)
Net cash provided by financing activities	113,687,376	107,041,322
Net change in cash and cash equivalents	(3,443,570)	3,536,290
Cash and cash equivalents at beginning of year	26,622,643	23,086,353
Cash and cash equivalents at end of year	$ 23,179,073	$ 26,622,643