METAIRIE BANK AND TRUST COMPANY

REPORT ON AUDITS OF FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

METAIRIE BANK AND TRUST COMPANY

DECEMBER 31, 2011 AND 2010

CONTENTS

SAGONA, BOURG, LEE, MATTHEW & CO., L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Metairie Bank and Trust Company
Metairie, Louisiana

We have audited the accompanying statements of condition of Metairie Bank and Trust Company as of December 31, 2011 and 2010, and the related statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metairie Bank and Trust Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sagona, Bourg, Lee, Matthew & Co., L.L.C.
Certified Public Accountants
March 5, 2012

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF CONDITION

DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and due from banks	$ 32,663,127	$ 29,942,270
Federal funds sold	1,759,098	3,743,842
Total cash and cash equivalents	34,422,225	33,686,112
Securities held to maturity	1,461,396	-
Securities available for sale	78,224,537	70,827,063
Mortgage loans available for sale	466,000	346,500
Loans, less allowance for loan losses of $2,061,915 for 2011 and $2,112,331 for 2010	207,177,856	207,883,667
Bank premises and equipment, net	11,568,701	11,844,704
Accrued interest receivable	1,105,789	1,205,020
Investment in FNBB stock	250,000	250,000
Investment in FHLB of Dallas stock	261,800	261,000
Other investments	400,000	400,000
Cash surrender value of life insurance	2,924,713	2,851,211
Other assets	851,313	1,399,396
TOTAL ASSETS	$339,114,330	$330,954,673
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing deposits	$ 82,865,082	$ 96,838,113
Interest bearing deposits	215,868,571	194,237,460
	298,733,653	291,075,573
Advances from the FHLB of Dallas	379,028	402,112
Accrued interest payable	141,273	151,114
Dividends payable	1,021,772	-
Deferred income taxes	698,383	921,732
Other liabilities	1,080,253	1,078,522
TOTAL LIABILITIES	302,054,362	293,629,053
Shareholders' Equity:		
Common stock, $1 par value, 2,100,000 shares authorized 2,043,543 issued and outstanding	2,043,543	2,043,543
Capital surplus	5,956,457	5,956,457
Retained earnings	29,356,804	29,116,571
Accumulated other comprehensive income (loss)	(296,836)	209,049
	37,059,968	37,325,620
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$339,114,330	$330,954,673

See notes to financial statements.

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
INTEREST INCOME:		
Loans, including fees	$11,424,006	$11,890,412
Investment securities:		
Taxable	1,497,238	2,174,605
Non-taxable	123,906	102,860
Federal funds sold	4,930	5,921
INTEREST INCOME	13,050,080	14,173,798
INTEREST EXPENSE:		
Deposits	1,207,050	1,438,414
Other borrowed funds	19,716	20,847
INTEREST EXPENSE	1,226,766	1,459,261
NET INTEREST INCOME	11,823,314	12,714,537
PROVISION FOR LOAN LOSSES	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,823,314	12,714,537
NONINTEREST INCOME:		
Customer service fees	2,451,722	2,498,993
Gain on sale of securities	-	348,691
Gain on sale of loans	96,951	81,776
Other	315,719	276,471
NONINTEREST INCOME	2,864,392	3,205,931
	14,687,706	15,920,468
NONINTEREST EXPENSES:		
Salaries and employee benefits	6,659,314	7,112,302
Occupancy expenses	1,162,161	1,172,511
Other operating expenses	3,544,283	4,087,284
NONINTEREST EXPENSES	11,365,758	12,372,097
INCOME BEFORE INCOME TAXES	3,321,948	3,548,371
INCOME TAXES	1,038,172	1,167,033
NET INCOME	$ 2,283,776	$ 2,381,338

See notes to financial statements.

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Net Income	$2,283,776	$ 2,381,338
Other comprehensive income:		
Unrealized gains (losses) on securities	(565,337)	(1,375,675)
Income tax effect	192,215	467,729
	(373,122)	(907,946)
Unrecognized pension plan gains (losses)	(201,155)	(157,318)
Income tax effect	68,392	53,488
	(132,763)	(103,830)
Other comprehensive (loss), net of tax	(505,885)	(1,011,776)
Comprehensive Income	$1,777,891	$ 1,369,562

See notes to financial statements.

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

	COMMON STOCK				ACCUMULATED	
	SHARES	PAR VALUE	CAPITAL SURPLUS	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDERS' EQUITY
BALANCE - January 1, 2010	2,043,543	$2,043,543	$5,956,457	$28,778,776	$ 1,220,825	$37,999,601
Net income	-	-	-	2,381,338	-	2,381,338
Dividends declared $1 per share	-	-	-	(2,043,543)	-	(2,043,543)
Other comprehensive (loss)	-	-	-	-	(1,011,776)	(1,011,776)
BALANCE - December 31, 2010	2,043,543	2,043,543	5,956,457	29,116,571	209,049	37,325,620
Net income	-	-	-	2,283,776	-	2,283,776
Dividends declared $1 per share	-	-	-	(2,043,543)	-	(2,043,543)
Other comprehensive (loss)	-	-	-	-	(505,885)	(505,885)
BALANCE - December 31, 2011	2,043,543	$2,043,543	$5,956,457	$29,356,804	$ (296,836)	$37,059,968

See notes to financial statements.

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES:		
Net income	$ 2,283,776	$ 2,381,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premium on investments	595,336	356,069
Stock dividend on FHLB of Dallas stock	(800)	(900)
Gain on the sale of available for sale securities	-	(348,691)
Depreciation and amortization	536,572	559,902
Deferred tax (benefit) expense	37,258	(28,747)
Change in mortgage loans held for sale	(119,500)	(46,500)
Change in accrued interest receivable	99,231	42,698
Change in cash surrender value of life insurance	(73,502)	(78,000)
Change in other assets	346,928	521,663
Change in accrued interest payable	(9,841)	(42,392)
Change in dividends payable	1,021,772	(1,021,772)
Change in other liabilities	1,731	(62,386)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,718,961	2,232,282
INVESTING ACTIVITIES:		
Purchases of held to maturity securities	(1,461,396)	-
Purchases of available for sale securities	(34,558,147)	(22,543,436)
Proceeds from maturities of available for sale securities	26,000,000	14,000,000
Proceeds from sales of available for sale securities	-	8,260,575
Decrease (increase) in loans	705,811	1,672,073
Purchases of bank premises and equipment	(260,569)	(462,557)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(9,574,301)	926,655
FINANCING ACTIVITIES:		
Net increase in deposit accounts	7,658,080	9,437,941
(Repayments) borrowings Advances from FHLB of Dallas	(23,084)	(21,953)
Cash dividends paid	(2,043,543)	(2,043,543)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	5,591,453	7,372,445
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	736,113	10,531,382
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,686,112	23,154,730
CASH AND CASH EQUIVALENTS, END OF YEAR	$34,422,225	$33,686,112

(Continued)

See notes to financial statements.

METAIRIE BANK AND TRUST COMPANY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010
(Continued)

	2011	2010
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for:		
Interest	$1,236,607	$ 1,501,653
Income taxes	$1,007,727	$ 1,210,000
Gross unrealized gains (losses) on securities available for sale	$ 884,612	$ 1,449,949

See notes to financial statements.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Metairie Bank and Trust Company (the Bank) operates under a state bank charter and provides full banking services. The Bank is subject to regulation of the Federal Deposit Insurance Corporation and the Office of Financial Institutions of the State of Louisiana. The Bank serves the immediate and surrounding geographic areas from its seven offices located in Metairie and Mandeville, Louisiana, and generates commercial, mortgage and consumer loans to and receives deposits from individual and business customers located in these and surrounding areas.

The Bank's loan portfolio consists mainly of consumer, commercial and mortgage loans. That portion of the Bank's loan portfolio, which is secured, has been collateralized largely by area real estate. The loans are expected to be repaid from cash flows of the borrowers. Some of the activities that the economy of the region of Louisiana in which the Bank operates is dependent upon include the petrochemical industry, port activity along that region of the Mississippi River, healthcare and tourism. Significant declines in these activities and the general economic conditions in the Bank's market areas could affect borrowers' abilities to repay loans and cause a decline in value of the assets securing the loan portfolio.

The Bank's operations are subject to customary business risks associated with activities of a financial institution. Some of those risks include competition from other institutions and changes in economic conditions, interest rates and regulatory requirements.

Accounting Standards Codification - The Financial Accounting Standards Board (FASB) issued new accounting guidance related to U.S. Generally Accepted Accounting Principles (GAAP), FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*. This guidance establishes FASB ASC as the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB ASC supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in FASB ASC has become nonauthoritative. FASB will no longer issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASUs), which will serve to update FASB ASC, provide background information about the guidance and provide the basis for conclusions on changes to FASB ASC. FASB ASC is not intended to change U.S. GAAP or any requirements of the SEC. This guidance was effective for the Bank as of December 31, 2009.

(Continued)

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for losses on loans, the valuation of foreclosed real estate (the Bank held no foreclosed real estate at December 31, 2011 and 2010), the valuation of deferred tax assets, other than temporary impairments of securities and the fair value of financial instruments. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that these estimates may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The accounting and reporting policies of the Bank are in accordance with generally accepted accounting principles and conform to general practices within the banking industry. The more significant of the principles used in preparing the financial statements are briefly described below:

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand and due from banks, interest bearing deposits with maturities of less than 90 days and federal funds sold.

Securities - Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held to maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities not classified as held to maturity or trading are classified as available for sale.

Trading account securities are carried at market value. Gains and losses, both realized and unrealized, are reflected in earnings. Held to maturity securities are stated at amortized cost. Available for sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported in a separate component of other comprehensive income.

The amortized cost of debt securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Amortization, accretion and accrued interest are included in interest income on securities.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities - (Continued)

Realized gains and losses, and declines in value judged to be other than temporary, are included in net securities gains and losses. The cost of securities sold is determined based 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 written down amount then becomes the security's new cost basis. The related write-downs are included in earnings as realized losses. In estimating whether to recognize other-than-temporary impairment losses on a security, management considers (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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Recently issued accounting guidance amends the recognition guidance for other-than-temporary impairments on debt and equity securities. The recent guidance replaced the "intent and ability" indication in prior guidance by specifying that (a) if management does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss identified within the security. When management does not intend to sell the security, and it is more likely than not, management will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Mortgage Loans Held for Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value under fair value option accounting guidance for financial instruments. For these loans, gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans - The Bank grants mortgage, commercial and consumer loans to customers. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses and any unamortized deferred fee or costs on originated loans, and premiums or discounts on purchased loans. Unearned income relates principally to consumer installment loans. Interest income on these loans is recognized using the interest method over the life of the loan.

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on non-accrual status, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan. When a loan is placed on a non-accrual basis, interest accrued during the current year prior to the judgment of uncollectabilty is charged to operations. Interest accrued during prior periods is charged to allowance for loan losses. Generally, any payments received on non-accrual loans are applied first to outstanding loan amounts and next to the recovery of charged-off loan amounts. Any excess is treated as recovery of lost interest.

The Bank considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Bank's impaired loans include troubled debt restructuring and performing and non-performing major loans in which full payment of principal or interest is not expected. Non-major homogenous loans, which are evaluated on an overall basis, generally include all loans under $500,000. The Bank calculates a reserve required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of its collateral. Generally, loans of all types which become 90 days delinquent and are in the process of collection through repossession or foreclosure have been deemed currently uncollectible. Loans deemed currently uncollectible are charged-off against the allowance for loan losses account. As a matter of policy, loans are placed on a non-accrual status where doubt exists as to collectability.

Allowance for Loan Losses - The allowance for loan losses is maintained at a level which is considered adequate to reflect estimated probable credit losses inherent in the loan portfolio that have been incurred as of the statement of condition date as well as estimated credit losses associated with specifically identified loans. A formal review of the allowance for loan losses is prepared periodically to assess the risk of loss in the loan portfolio and to determine the adequacy of the allowance for loan losses. For purposes of the periodic review, loans are aggregated into pools based on various characteristics. Some of those characteristics include payment status, concentrations, risk rating, loan to collateral value and the financial status of borrowers.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses - (Continued)

The allowance allocated to each of these pools is based on historical charge-off rates, adjusted for changes in the credit risk characteristics within these pools, as determined from current information and analyses. Management also ensures that the overall allowance appropriately reflects current macroeconomic conditions, industry exposure and a margin for the imprecision inherent in most estimates of expected credit losses.

As a result, such amount is reflected in a portion of the allowance that is included to provide for probable losses incurred but unidentified within the loan portfolio as of the statement of condition date and not to provide for possible or future losses beyond the statement of condition date. This portion of the allowance, which is judgmentally determined, generally serves to compensate for the uncertainty in estimating loan losses, particularly in times of changing economic conditions, and considers the possibility of improper risk rating and possible over or under allocation of specific allowances.

It also considers the lagging impact of historical charge-off ratios in periods where future charge-offs are expected to increase or decrease significantly. In addition, this segment of the allowance considers trends in delinquencies and non-accrual loans, concentrations, the volatility of risk ratings and the evolving portfolio mix in terms of collateral, relative loan size and the degree of seasoning within the various loan products. Changes in underwriting standards, credit administration and collection policies, regulation and other factors which affect the credit quality and collectability of the loan portfolio also impact this portion of the allowance level. The allowance also consists of amounts provided for each loan that is reviewed for impairment or for which a probable loss has been identified.

The allowance related to loans that are identified as impaired is based on discounted expected future cash flows (using the loan's initial effective interest rate), the observable market value of the loan or the estimated fair value of the collateral for certain collateral dependent loans. Factors contributing to the determination of specific allowances include the financial condition of the borrower, changes in the value of pledged collateral and general economic conditions.

The allowance for loan losses is based on management's estimate of probable credit losses inherent in the loan portfolio and represents an estimate in the financial statements. As such, the actual level of allowance required could vary from the amount estimated by management at the statement of condition date and actual credit losses could vary from the current estimate. As adjustments to the allowance for loan losses become necessary, they are reflected as a provision for loan losses in current-period earnings. Actual loan charge-offs are deducted from and subsequent recoveries of previously charged-off loans are added to the allowance.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impaired Loans - A loan is considered impaired, in accordance with the impairment accounting guidance of FASB ASC 310-10-35-16, *Receivables*, when based on current information and events it is probable that the Bank will be unable to collect the scheduled payments of principal and 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 payments delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected 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. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance. This valuation allowance is recorded in the allowance for loan losses on the statement of condition.

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful, at which time payments received are recorded as reductions of principal. Changes in the present value due to the passage of time are recorded as interest income, while changes in estimated cash flows are recorded in the provision for loan losses.

Bank Premises and Equipment - Bank premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method for bank premises and leaseholds over estimated useful lives of those assets of 39 years and accelerated methods for equipment, furniture and fixtures over their estimated useful lives ranging from 3 to 7 years.

Foreclosed Assets - Properties acquired through foreclosure or deed taken in lieu of foreclosure are recorded at fair value at time of foreclosure, net of disposal costs. Write-downs from cost to fair value at the time of foreclosure are charged to the allowance for loan losses. Subsequent write-downs and gains and losses recognized on the sales of such properties are included in the statements of income. Determinations of fair value are based on periodic appraisals, which are subject to significant fluctuations as economic conditions change.

Other Investments - Investments in entities such as a partnership or a limited liability company are accounted for under the equity method in which the original investment is recorded at its historical cost adjusted by the investor's share of profits or losses and additional funds invested by or funds disbursed to the investor.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - The Bank accounts for income taxes in accordance with income tax guidance of FASB ASC 740, *Income Taxes*, and has adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets forth a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of enacted tax law to the taxable income or excess deductions over revenues. The Bank 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 difference between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Bank is no longer subject to federal tax examinations by the federal tax authorities for years before 2008. The Bank recognizes interest and penalties on income taxes, if incurred, as a component of income tax expense.

The Bank is not currently subject to state or local income taxes.

Comprehensive Income - The Bank reports comprehensive income in accordance with the accounting guidance related to FASB ASC 220, *Comprehensive Income*. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes net unrealized gains and (losses) on securities and net unrecognized pension plan gains and (losses) and is presented in the statements of stockholders' equity and comprehensive income. FASB ASC 220 requires only additional disclosures in the financial statements and does not affect the Bank's financial position or results of operations.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows - The statement of cash flows was prepared in accordance with the accounting guidance of FASB ASC 230, *Statement of Cash Flows*, which permits certain financial institutions to report, in a statement of cash flows, net receipts and payments for deposits placed, time deposits accepted and repaid and loans made and collected.

Fair Value Measurement - The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, fair value estimates may not be realized in an immediate settlement of the instrument.

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

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

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

1. NATURE OF OPERATIONS, USE OF ESTIMATES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Level 2 - Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets;
b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to principal market);
c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates);
d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 - Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability.

Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. However, the reporting entity's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

Advertising - The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was approximately $262,000 and $289,000 for the years ended December 31, 2011 and 2010, respectively, and is included in other operating expenses.

Reclassifications - There were no significant reclassifications to any amounts in the 2010 financial statements to conform to the presentation adopted for 2011.

2. INVESTMENT SECURITIES

At December 31, 2011 and 2010 the Bank had no securities classified as trading.

A summary of investment securities classified as held to maturity is presented below.

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Held to maturity:				
Interest-bearing certificates of deposit	$1,461,396	$ -	$ -	$1,461,396

At December 31, 2010 the Bank had no securities classified as held to maturity.

A summary of investment securities classified as available for sale is presented below.

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for sale:				
U.S. Treasury securities and obligations of U.S. government agencies	$70,313,123	$768,014	$ (45,867)	$71,035,270
Securities issued by states and political subdivisions in the U. S.	7,026,802	226,827	(64,362)	7,189,267
	$77,339,925	$994,841	$(110,229)	$78,224,537

2. INVESTMENT SECURITIES - (Continued)

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available for sale:				
U.S. Treasury securities and obligations of U.S. government agencies	$66,565,696	$1,303,248	$ -	$67,868,944
Securities issued by states and political subdivisions in the U. S.	2,811,418	146,701	-	2,958,119
	$69,377,114	$1,449,949	$ -	$70,827,063

The carrying value and estimated fair value of securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing in:				
One year or less	$ 1,461,396	$ 1,461,396	$26,128,336	$28,247,656
After one year through five years	-	-	37,904,301	38,710,260
After five years through ten years	-	-	11,307,288	11,266,621
	$ 1,461,396	$ 1,461,396	$77,339,925	$78,224,537

Estimated fair values for securities are determined from quoted prices or quoted market prices of similar securities of comparable risk and maturity where no quoted market price exists. Management does not anticipate a requirement to sell any of the Bank's investment securities for liquidity or other operating purposes.

There were no sales of securities during 2011. Proceeds from sales of available-for-sale securities were approximately $8,260,575 in 2010, resulting in realized gains included in income in 2010 of approximately $348,691.

Investment securities with amortized costs of approximately $5,108,180 and $4,010,339 and estimated market values of approximately $5,330,151 and $4,091,048 at December 31, 2011 and 2010, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

2. INVESTMENT SECURITIES - (Continued)

Fair values of investment securities measured on a recurring basis at December 31, 2011 and 2010 are as follows:

		Fair Value at Reporting Date Using		
December 31, 2011	Fair Value	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Held to maturity:				
Interest-bearing certificates of deposit	$ 1,461,396	$ -	$ 1,461,396	$ -
Available for sale:				
U.S. Treasury securities and obligations of U.S. government agencies	$71,035,270	$ -	$71,035,270	$ -
Securities issued by states and political subdivisions in the U. S.	7,189,267	-	7,189,267	-
	$78,224,537	$ -	$78,224,537	$ -

		Fair Value at Reporting Date Using		
December 31, 2010	Fair Value	Quoted Prices in Active Markets or Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale:				
U.S. Treasury securities and obligations of U.S. government agencies	$67,868,944	$ -	$67,868,944	$ -
Securities issued by states and political subdivisions in the U. S.	2,958,119	-	2,958,119	-
	$70,827,063	$ -	$70,827,063	$ -

2. INVESTMENT SECURITIES - (Continued)

Gross unrealized losses in investment securities at December 31, 2011 existing for continuous periods of less than 12 months and for continuous periods of 12 months or more are required financial statement disclosures and are as follows:

December 31, 2011	Less Than 12 Months		12 Months or More		Totals	
Security Description	Fair Value	Unrealized (Losses)	Fair Value	Unrealized Losses	Fair Value	Unrealized (Losses)
Held to Maturity						
Interest-bearing certificates of deposit	$ -	$ -	$ -	$ -	$ -	$ -
Available for Sale						
U.S. Treasury securities and obligations of U.S. government agencies	$11,225,218	$ (45,867)	$ -	$ -	$11,225,218	$ (45,867)
Securities issued by states and political subdivisions in the U. S.	3,335,740	(64,362)	-	-	3,335,740	(64,362)
Totals	$14,560,958	$ (110,229)	$ -	$ -	$14,560,958	$ (110,229)

There were no gross unrealized losses in the Bank's investment securities at December 31, 2010.

Management evaluates securities for other-than-temporary impairment on a periodic and regular basis, as well as when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

2. INVESTMENT SECURITIES - (Continued)

At December 31, 2011, these unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Bank has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

3. LOANS

The loan portfolio consists of loans classified by major types at December 31, 2011 and 2010 as follows:

	2011	2010
Real estate – mortgage	$112,242,193	$114,314,895
Installment	25,151,246	28,452,324
Commercial, financial and industrial	71,699,610	67,119,554
Overdrafts	146,722	109,225
	209,239,771	209,995,998
Allowance for loan losses	(2,061,915)	(2,112,331)
	$207,177,856	$207,883,667

Loan balances past due more than ninety days and on which the accrual of interest had been discontinued amounted to approximately $622,000 and $635,000 at December 31, 2011 and 2010, respectively. Non-accrual status is not necessarily an indication of probable loss. The loss of income associated with non-accrual loans was not significant in 2011 and 2010.

The Bank's impaired loans amounted to approximately $622,000 and $635,000 at December 31, 2011 and 2010, respectively, and amounts for losses on impaired loans have been provided for in the allowance for loan losses at those dates. Interest income recognized on these loans was not significant for the years ended December 31, 2011 and 2010.

There were no transfers from loans to other real estate in 2011 or 2010.

(Continued)

3. LOANS - (Continued)

An analysis of activity in the allowance for loan losses is as follows for the year ended December 31, 2011 and 2010.

	2011	2010
Balance, January 1	$2,112,331	$2,228,837
Loans charged off	(214,470)	(135,264)
Recoveries	164,054	18,758
Provision for estimated loan losses	-	-
Balance, December 31	$2,061,915	$2,112,331

The Bank has entered into transactions with certain directors, executive officers, significant stockholders and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

	2011	2010
Balance, January 1	$ 6,105,561	$ 7,103,900
Advances	474,000	552,758
Payments	(610,780)	(1,551,097)
Balance, December 31	$ 5,968,781	$ 6,105,561

Management segregates the loan portfolio into portfolio segments which is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate. The following table sets forth, as of December 31, 2011, the balance of the allowance for loan losses by portfolio segment, disaggregated by impairment methodology, which is then further segregated by amounts evaluated for impairment collectively and individually. The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

(Continued)

3. LOANS - (Continued)

Allowance for Loan Losses and Recorded Investment in Loans Receivable for the year ended December 31, 2011:

	Real Estate- Residential	Real Estate- Non Residential	Commercial	Consumer & Credit Cards	Construction & Land Development	Total
			(in thousands)			
Allowance for loan losses:						
Beginning balance	$ 500	$ 250	$ 100	$ 1,162	$ 100	$ 2,112
Charge-offs	(31)	-	-	(183)	-	(214)
Recoveries	38	-	-	126	-	164
Provision	-	-	-	-	-	-
Ending balance	$ 507	$ 250	$ 100	$ 1,105	$ 100	$ 2,062
Recorded Investment in Loans Receivable:						
Ending balance	$ 119,788	$ 60,955	$ 10,573	$ 7,048	$ 10,875	$ 209,239
Ending balance: individually evaluated for impairment	494	50	-	8	70	622
Ending balance: collectively evaluated for impairment	119,294	60,905	10,573	7,040	10,805	208,617

Management further disaggregates the loan portfolio segments into classes of loans, which are based on the initial measurement of the loan, risk characteristics of the loan and the method for monitoring and assessing the credit risk of the loan.

As of December 31, 2011 and 2010, there were no loan balances outstanding more than 90 days and still accruing interest.

3. LOANS - (Continued)

At December 31, 2011, the credit quality indicators (performing and non-performing loans), disaggregated by class of loan, are as follows:

	Pass	Watch List	Sub-Standard	Doubtful	Loss	Total
			(in thousands)			
Real estate loans, residential	$ 112,867	$ 5,771	$ 1,150	$ -	$ -	$ 119,788
Real estate loans, non-residential	55,531	5,248	176	-	-	60,955
Commercial loans	10,062	45	466	-	-	10,573
Consumer & Credit Card	6,839	175	34	-	-	7,048
Construction & Land Development	10,009	-	866	-	-	10,875
Totals	$ 195,308	$ 11,239	$ 2,692	$ -	$ -	$ 209,239

The following table reflects certain information with respect to the loan portfolio delinquencies by loan class and amount as of December 31, 2011:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment Over 90 Days and Still Accruing
				(in thousands)			
Aged Analysis of Past Due Loans Receivable:							
Real estate loans – residential	$ 186	$ -	$ 494	$ 680	$ 119,108	$ 119,788	$ -
Real estate loans, non-residential	-	-	50	50	60,905	60,955	-
Commercial loans	-	-	-	-	10,573	10,573	-
Consumer & Credit Card	-	-	8	8	7,040	7,048	-
Construction & Land Development	-	-	70	70	10,805	10,875	-
Totals	$ 186	$ -	$ 622	$ 808	$ 208,431	$ 209,239	$ -

3. LOANS - (Continued)

All impaired loans by class of loans as of December 31, 2011, are as follows:

	Recorded Investment	Unpaid Principal Balance	Recorded Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
Impaired Loans:					
With no related allowance recorded:					
Real estate loans – residential	$ 494	$ 494	$ -	$ 433	$ -
Real estate loans, non-residential	50	50	-	15	-
Commercial loans	-	-	-	115	-
Construction & Land Development	70	70	-	18	-
Consumer & Credit Card	8	8	-	22	-
With an allowance recorded:					
Real estate loans – residential	-	-	-	-	-
Real estate loans, non-residential	-	-	-	-	-
Commercial loans	-	-	-	-	-
Construction & Land Development	-	-	-	-	-
Consumer & Credit Card	-	-	-	-	-
Totals	$ 622	$ 622	$ -	$ 603	$ -
Real estate loans – residential	$ 494	$ 494	$ -	$ 433	$ -
Real estate loans, non-residential	50	50	-	15	-
Commercial loans	-	-	-	115	-
Construction & Land Development	70	70	-	18	-
Consumer & Credit Card	8	8	-	22	-
Totals	$ 622	$ 622	$ -	$ 603	$ -

3. LOANS - (Continued)

Loans receivable on non-accrual status by loan class at December 31, 2011 are as follows:

	(in thousands)
Real estate loans – residential	$ 494
Real estate loans, non-residential	50
Commercial loans	-
Consumer & Credit Card	8
Construction & Land Development	70
Total	$ 622

The following provides information about the Bank's non-performing assets at December 31, 2011:

	(in thousands)
Non Accrual Loans	$ 622
Loans Past due 90 or more days and still accruing interest	-
Total non-performing loans	622
Foreclosed real estate	-
Repossessed Assets	-
Total non-performing assets	622
Allowance for loan losses	$ 2,062
Non-performing loans to period-end loans, excluding loans held for sale	0.297%
Allowance for loan losses to period-end loans, excluding loans held for sale	0.985%
Non-performing assets as a percentage of:	
Loans, foreclosed real estate, and investment in partnerships	0.297%
Total assets	0.183%
Ratio of allowance for loan losses to non-performing loans	332%

The Bank had no troubled debt restructurings at December 31, 2011, and for the year then ended the Bank modified no loans that were considered to be troubled debt restructurings.

4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 2011 and 2010 are summarized below:

	2011	2010
Land	$ 2,299,424	$ 2,299,424
Buildings	7,403,553	7,403,552
Leasehold improvements	3,284,869	3,284,869
Furniture, fixtures and equipment	4,560,404	4,300,090
	17,548,250	17,287,935
Less accumulated depreciation	6,045,245	5,508,927
	11,503,005	11,779,008
Construction in process	65,696	65,696
	$11,568,701	$11,844,704

Depreciation and amortization charged to income amounted to $536,572 and $559,902 in 2011 and 2010, respectively.

5. INVESTMENTS IN MEMBERSHIP STOCKS

The Bank maintains investments in membership stocks of First National Bankers' Bank (FNBB) and the Federal Home Loan Bank (FHLB) of Dallas. The carrying amounts of these investments are stated at cost.

6. OTHER INVESTMENT

The Bank has invested in Community Financial Insurance Center, L.L.C., a limited liability company organized to engage in the insurance agency business, including the acquisition of existing insurance agencies and such other related activities, but only to the extent such activities are permissible for banks, either directly or through their affiliates. The Bank's initial investment of $400,000 amounted to approximately 2.5% of the limited liability company's contributed capital at inception. The Bank accounts for its investment in the company by the equity method. The carrying amount of the investment approximates the Bank's investment in the amount of underlying equity in the company's net assets.

7. DEPOSITS

Deposit account balances at December 31, 2011 and 2010 are summarized as follows:

	2011	2010
Non-interest bearing demand	$ 82,482,766	$ 95,594,786
Official checks and money orders	382,316	1,243,327
Interest bearing demand	60,148,957	40,460,517
Savings	103,641,489	100,155,221
Certificates of deposit	52,078,125	53,621,722
	$298,733,653	$291,075,573

The aggregate amount of certificates of deposit with denominations in excess of $100,000 was approximately $17,914,000 and $17,148,000 at December 31, 2011 and 2010, respectively. The Bank has no brokered deposits and there are no major concentrations of deposits.

Maturity and repricing data for certificates of deposit as of December 31, 2011 is presented as follows (in thousands):

Three months or less	$16,069
Over three months through twelve months	17,032
Over one year through three years	10,602
Over three years	8,375
	$52,078

8. ADVANCES FROM THE FHLB OF DALLAS

The Bank had the following outstanding advance from the FHLB of Dallas (FHLB) as of December 31, 2011:

Origination	Maturity	Interest Rate	Balance December 31, 2011
8/14/2008	9/01/2023	5.034%	$379,028

The advance requires monthly principal payments over the term; the interest rate is fixed over the term with interest payable monthly, and in the event the advance is prepaid by the bank, a prepayment penalty applies.

8. ADVANCES FROM THE FHLB OF DALLAS – (Continued)

The aggregate maturities of the advance for each of the subsequent five years and thereafter are as follows:

Year Ending December 31,	Amount
2012	$ 24,375
2013	25,631
2014	26,951
2015	28,340
Thereafter	273,731
	$379,028

The Bank has an available line of credit with the FHLB with an additional borrowing capacity at December 31, 2011 of approximately $117,425,000, and, as indicated above, the outstanding balance of those borrowings from the FHLB at December 31, 2011 amounted to $379,028.

The advances are secured by the following assets:

	Carrying Value December 31, 2011
A blanket lien bearing on the Bank's mortgage loans	$117,804,000
Pledge of FHLB stock	$ 261,800
Pledge of deposit account with the FHLB	$ 458,000

At December 31, 2011, the amount of FHLB stock required to be owned by the bank was approximately $181,100. On the date, the bank owned $261,800 of FHLB stock.

9. INCOME TAXES

The provision for income taxes for 2011 and 2010 consists of the following:

	2011	2010
Current	$1,000,915	$1,195,780
Deferred	37,257	(28,747)
	$1,038,172	$1,167,033

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	2011	2010
Federal statutory income tax at 34%	$1,129,462	$1,206,446
Nontaxable income	(42,128)	(34,972)
Nondeductible expenses	12,123	9,956
Increase in Cash Surrender Value of Life Insurance	(24,991)	(26,520)
Other	(36,294)	12,123
	$1,038,172	$1,167,033

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Bank's deferred tax assets and liabilities as of December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets:		
Allowance for loan losses	$ 425,337	$ 513,712
Deferred compensation payable	292,393	233,915
	717,730	747,627
Deferred tax (liabilities):		
Pension costs	(323,861)	(302,983)
Depreciation	(1,245,166)	(1,258,684)
	(1,569,027)	(1,561,667)
Subtotal	(851,297)	(814,040)
Unrealized (gains) losses - available for sale securities	(300,768)	(492,983)
Unrecognized pension plan (gains) losses	453,682	385,291
Net deferred tax (liability)	$ (698,393)	$ (921,732)

10. EMPLOYEE BENEFITS

Defined Benefit Plan

The Bank has a defined benefit retirement plan covering substantially all employees. All employees enter the plan when they attain the age of 21 and have 18 months of service. Participants are 100% vested upon entry into the plan. The defined benefit plan pays benefits to employees at retirement using formulas based on years of service and compensation rates near retirement. The Bank's funding policy is generally to make the maximum annual contributions required by applicable regulations. Contributions are intended to provide not only for benefits attributable to service to date but also for those expected to be earned in the future.

Accounting for defined benefit retirement plans is subject to the accounting guidance of FASB ASC 715, *Compensation - Retirement Benefits*.

At December 31, 2011 and 2010, the net periodic pension cost for each fiscal year was as follows:

	2011	2010
Service cost	$ 432,582	$ 478,726
Interest cost	265,083	237,340
Expected return on assets	(274,506)	(234,329)
Net amortization amounts		
(Gain) or loss recognized	66,157	55,743
Net periodic pension cost	$ 489,316	$ 537,480

At December 31, 2011 and 2010, the funded status of the plan was as follows:

	2011	2010
Fair value of plan assets at December 31	$4,424,436	$4,093,468
Benefit obligation at December 31	5,149,261	4,473,348
Funded status	$ (724,825)	$ (379,880)

	2011	2010
Weighted average assumptions as of December 31:		
Discount rate	5.0%	6.0%
Expected return on plan assets	6.5%	6.5%
Rate of compensation increase	3.5%	4.5%

10. EMPLOYEE BENEFITS - (Continued)

Defined Benefit Plan - (Continued)

The plan's weighted-average asset allocations at December 31, by asset category, are as follows:

	2011	2010
Guaranteed fixed income single Group Annuity Contract	100%	100%

The underlying portfolio backing this group annuity contract is a segment of the General Account of Metropolitan Life Insurance Company. The portfolio is primarily invested in bonds and mortgages and seeks to maintain the highest possible quality consistent with attractive long-term investment returns.

There are no Bank securities in the plan assets.

The Bank's expected, estimated contribution to the plan in 2012 is $630,000.

The following estimated future benefit payments are expected to be made over the following periods:

	Amount
2012	$ 113,813
2013	155,168
2014	175,850
2015	218,685
2016	294,967
2017 to 2021	1,900,532
	$2,859,015

The reconciliation of the fair value of plan assets for 2011 and 2010 are as follows:

	2011	2010
Fair value of plan assets - beginning	$4,093,468	$3,458,361
Actual contributions	614,420	575,074
Actual distributions	(416,162)	(82,286)
Expected return on assets	274,506	234,329
Gain or (loss)	(141,796)	(92,010)
Fair value of plan assets - ending	$4,424,436	$4,093,468

10. EMPLOYEE BENEFITS - (Continued)

Defined Benefit Plan - Continued)

The reconciliation of the projected benefit obligation (PBO) for 2011 and 2010 are as follows:

	2011	2010
PBO - beginning	$4,473,348	$3,674,679
Interest cost	265,083	237,340
Service cost including interest	432,582	478,726
Actual distributions	(416,162)	(82,286)
Liability (gain) or loss	394,410	164,889
PBO - ending	$5,149,261	$4,473,348

The plan allows lump sum payments. The above estimated benefit payments represent amounts payable as participants reach normal retirement age during the specified years. The lump sums were based on the plan's actuarial assumptions and do not reflect the governmentally prescribed assumptions, which are subject to change each year, and often provide for a higher amount.

Defined Contribution Plan

The Bank offers a 401(k) Employee Savings Plan that covers employees working at least 1,000 hours a year, who are over 21 years of age and have six months of service, with entry on the first day of the following quarter. Employees are 100% vested in the funds they have contributed. The matching and discretionary funds contributed by the employer are partially vested after three years and fully vested after seven years of service. Participants may make contributions in the form of salary deferrals up to 15% of their compensation, up to a maximum of $16,500. In addition, participants who have reached the age of 50 may make an additional $5,500 “catch-up” contribution annually without regard to the above limitations. The Bank matches 50% of each employee's contributions, up to 6% of each employee's compensation, and there was no change in the percentage of the Bank's matching contributions for 2011 or 2010. The Bank's matching contribution for 2011 and 2010 amounted to $57,482 and $86,624, respectively.

(Continued)

10. EMPLOYEE BENEFITS - (Continued)

Deferred Compensation Agreement

The Bank entered into a deferred compensation agreement covering one of its officers. The total deferred compensation payable under the agreement is $1,275,000, payable $85,000 annually for fifteen years commencing upon the officer's retirement. In accordance with GAAP, the deferred compensation is being accrued and charged to earnings as the related employee's services are rendered. The annual charge to earnings is approximately $172,000 and the amount of accrued deferred compensation at December 31, 2011 is approximately $860,000. The agreement is unfunded and is payable from the general assets of the Bank.

11. LEASES

The Bank has long-term operating leases on certain buildings and land it occupies as branch offices in Metairie, Louisiana, which expire at various times through December 2057. Rent relating to these leases charged to expense was $268,355 in 2011 and $261,509 in 2010.

At December 31, 2011 the minimum rental commitments under these noncancellable leases were as follows:

2012	$ 225,014
2013	217,514
2014	195,014
2015	195,014
2016	195,014
Thereafter	2,088,851
	$3,116,421

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income as of December 31, 2011 and 2010 are as follows:

	Unrealized Gains (Losses) Securities	Defined Benefit Pension Plan Unrecognized Gains (Losses)	Total Accumulated Other Comprehensive Income
Balance, January 1, 2010	$ 1,864,912	$(644,087)	$ 1,220,825
Unrealized holding (losses) arising during the period	(1,026,984)	-	(1,026,984)
Add (Deduct): Reclassification adjustment for (gains) losses included in net income	(348,691)	-	(348,691)
	(1,375,675)	-	(1,375,675)
Unrecognized pension plan gains (losses) during the period	-	(157,318)	(157,318)
Income tax effect	467,729	53,488	521,217
2010 Change	(907,946)	(103,830)	(1,011,776)
Balance, December 31, 2010	$ 956,966	$(747,917)	$ 209,049
Unrealized holding (losses) arising during the period	(565,337)	-	(565,337)
Unrecognized pension plan gains (losses) during the period	-	(201,155)	(201,155)
Income tax effect	192,215	68,392	260,607
2011 Change	(373,122)	(132,763)	(505,885)
Balance December 31, 2011	$ 583,844	$(880,680)	$ (296,836)

During 2011, no securities were sold. During 2010, securities with a carrying value of $7,911,884 were sold for proceeds of $8,260,575, resulting in realized gains of $348,691.

(Continued)

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the statement of condition.

Financial instruments whose contract amount represents credit risk were as follows:

	2011	2010
Commitments to extend credit	$30,678,000	$30,830,000
Standby letters of credit	$ 320,000	$ 343,000

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

14. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

As discussed previously, the Bank generates loans to individual and business customers within its immediate and surrounding geographic areas, and the majority of those loans, which are secured, are collateralized by area real estate and automobiles. Likewise, the Bank receives a majority of its deposits from substantially the same customers.

The Bank maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At December 31, 2011 cash deposits in excess of this limit amounted to approximately $208,000. The Bank also had funds on deposit with the Federal Reserve Bank at December 31, 2011 of approximately $25,397,000.

(Continued)

15. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (FDIC). Failure to meet minimum regulatory capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), and of Tier I capital to average total assets (as defined).

Management believes, as of December 31, 2011, that the Bank meets all the capital adequacy requirements to which it is subject. As of December 31, 2011, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk based, and Tier I leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category. The Bank's actual and required capital amounts and ratios are as follows:

	Actual		Required for Capital Adequacy Purposes		Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011:						
Tier I capital (to average assets)	$37,356,804	10.88%	$10,302,570	3.00%	$17,170,950	5.00%
Tier I capital (to risk weighted assets)	$37,356,804	19.24%	$ 7,766,320	4.00%	$11,649,480	6.00%
Total capital (to risk weighted assets)	$39,418,719	20.30%	$15,532,640	8.00%	$19,415,800	10.00%
As of December 31, 2010:						
Tier I capital (to average assets)	$37,116,571	11.09%	$10,043,010	3.00%	$16,738,350	5.00%
Tier I capital (to risk weighted assets)	$37,116,571	19.47%	$ 7,625,920	4.00%	$11,438,880	6.00%
Total capital (to risk weighted assets)	$39,228,902	20.58%	$15,251,840	8.00%	$19,064,800	10.00%

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. 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.

(Continued)

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 815, *Financial Instruments*, requires the disclosure of estimated fair value information about certain on and off balance sheet financial instruments where it is practicable to estimate those values. If quoted market prices are not available, which is true for many of the Bank's financial instruments, the Bank estimates fair value using present value or other valuation techniques. The assumptions used in applying these techniques, such as those concerning appropriate discount rates and estimates of future cash flows, require considerable judgment and significantly affect the resulting fair value estimates. In addition, no value estimate is assigned to future business opportunities from long-term customer relationships underlying certain financial instruments. Accordingly, the derived fair value of estimates may not indicate the amount the Bank could realize in a current settlement of the financial instruments. Reasonable comparability of fair value estimates between financial institutions may not be possible due to the wide range of permitted valuation techniques and numerous assumptions involved. The aggregate fair value amounts presented do not, and are not intended to, represent an aggregate measure of the underlying fair value of the Bank.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and Cash Equivalents - For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities - For securities, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans - The fair value of loans is derived using the build-up approach. This approach views the discount rate as consisting of four components. The Treasury yield curve serves as a basis and is adjusted to be commensurate with the credit risk, overhead costs and optionality of such loans.

Cash Surrender Value of Life Insurance - The fair value is estimated to equal the cash equivalent available on redemption of the policies.

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

Advances from the FHLB of Dallas - The fair value is estimated using rates currently available for borrowings of similar remaining maturities.

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

The estimated fair values of the bank's financial instruments are as follows as of December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 34,422,225	$ 34,422,225	$ 33,686,112	$ 33,686,112
Securities	79,685,933	79,685,933	70,827,063	70,827,063
Mortgage loans available for sale	466,000	466,000	346,500	346,500
Loans	209,239,771	215,624,000	209,995,998	211,539,000
Less: Allowance for loan losses	(2,061,915)	-	(2,112,331)	-
Loans, net of allowance	207,177,856	215,624,000	207,883,667	211,539,000
Cash surrender value of life insurance	2,924,713	2,924,713	2,851,211	2,851,211
Financial liabilities:				
Deposits	298,733,653	299,444,000	291,075,573	291,559,000
Advances from the FHLB of Dallas	379,028	407,000	402,112	434,000

The carrying amounts in the preceding tables are included in the statement of condition under the applicable captions. The contract or notional amounts of the Bank's financial instruments with off-balance-sheet risk are disclosed in Note 13.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 5, 2012, the date which the financial statements were available to be issued.