



Balance Sheet June 30, 2010

Statement of Progress

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS				
Cash and balances due from banks	\$ 1,065,165	\$ 885,838	\$ 1,106,240	\$ 769,976
Federal Funds Sold	–	1,923,521	3,757,059	283,968
Securities	6,503,107	6,072,934	5,673,103	5,874,480
Loans, net of allowance for loan losses	61,852,286	58,275,952	49,613,763	39,426,194
Premises and fixed assets, net	809,303	515,250	544,486	577,994
Foreclosed properties	496,956	1,070,539	1,012,880	361,623
Other assets	984,095	1,045,531	650,664	581,413
Total Assets	<u>\$71,710,912</u>	<u>\$69,789,565</u>	<u>\$62,358,195</u>	<u>\$47,875,648</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits	\$ 58,092,273	\$ 57,258,807	\$ 51,343,164	\$ 34,765,593
Federal funds and other borrowed money	3,398,173	2,540,000	2,540,000	5,718,000
Other liabilities	132,931	154,890	209,049	176,615
Stockholders' equity	10,087,535	9,835,868	8,265,982	7,215,440
Total liabilities & stockholders' equity	<u>\$71,710,912</u>	<u>\$69,789,565</u>	<u>\$62,358,195</u>	<u>\$47,875,648</u>



As you can see from the comparative balance sheet, Total Assets grew \$1.9 million, or 2.75% for the first six months of 2010. That pace is uncharacteristically slow compared to any similar previous period for the bank. However, the components that make up Total Assets, when examined more closely, paint a different and more positive picture. First, we were able to reduce the level of lower yielding Fed Funds Sold from \$1.9 million to zero, and reinvest those funds in higher yielding loans. We had increased Fed Funds Sold in anticipation of 20% projected loan growth for the year. While our actual growth of 6.4% is under budget, nevertheless, it allowed us to fully redeploy surplus Fed Funds. Second, and equally positive, has been the reduction in the bank's ownership of real estate in Foreclosed Properties to less than \$500,000, or .8% of total loans. That is a reduction of 53% compared to December of 2009.

Deposits during the first half of 2010 grew \$833,466, or 1.45%. Borrowed funds increased by \$858,173 compared to December, 2009, to allow us to lock in some interest spreads by match funding a portion of our loan portfolio. Security balances remained relatively unchanged. The low yield such investments currently provide strongly favors investing in loans versus growing the securities portfolio. Low deposit rates, a function of the current rate environment, continue to bolster our Net Interest Margin, keeping it in excess of four percent.

Year-to-date positive earnings have contributed to the increase in Shareholder Equity of \$251,667.

Generally the bank is doing well, but for the first time in four years we experienced a decline in loan balances during two of the past six months. Asset quality continues to be good with Total Past Due Loans and Non-Accrual Loans at 1.52% of Total Loans. Our Loan Loss Reserves remains healthy at \$1,074,923 or 1.71% of Total Loans. Foreclosed Real Estate currently in inventory represents only .79% of Total Loans, and charge-offs continue to be minimal compared to our Peers. Our Southaven Branch (front cover of this brochure) is on schedule to open in early September barring any unforeseen problems. We are carefully monitoring one Investment Security that has shown some weakness due to the condition of the financial industry. A quarterly stress test that we run shows impairment as only temporary. We became large enough during 2009 to begin collecting and reporting required HMDA (Home Mortgage Disclosure Act). We expect the compliance examination later in the year to be a challenge since it is the first we have had as a HMDA bank.

As always thank you for your support, your business, and your referrals. Should you desire more detailed or more frequent information on the financial condition of the bank please go to FDIC.gov and use bank number 58154 to access more information on us. Information is posted the second month after each quarter end. You can also contact me by phone or e-mail at Brenovich@desotobank.com.