

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards (Continued)

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Bank will adopt this guidance effective for the year ended December 31, 2012, and its adoption is not expected to have a material impact on the Bank's operating results or financial condition.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. Early adoption is permitted. The adoption of this amendment will change the presentation of the components of comprehensive income for the Bank as part of the statement of changes in shareholder's equity and comprehensive income. The guidance will be adopted by the Bank effective for the year ended December 31, 2012.

2. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The estimated carrying and fair values of the Bank's financial instruments are as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 46,962,082	\$ 46,962,082	\$ 10,223,291	\$ 10,223,291
Investment securities	36,349,666	36,349,666	50,359,618	50,359,618
Loans held for sale	372,173	373,062	1,390,100	1,395,653
Loans, net	203,572,096	230,720,589	170,073,533	189,012,475
Federal Home Loan Bank stock	1,178,200	N/A	846,000	N/A
The Independent Banker's Bank stock	50,419	N/A	50,419	N/A
Pacific Coast Banker's Bank stock	190,000	N/A	190,000	N/A
Accrued interest receivable	979,809	979,809	795,475	795,475
Financial liabilities:				
Deposits	243,903,390	243,684,501	183,616,664	183,524,127
Other borrowings	18,000,000	17,462,090	28,000,000	27,641,054
Accrued interest payable	59,853	59,853	7,962	7,962

