



**JEFF DAVIS**

BANCSHARES, INC.

Annual Report 2010

## **Chairman's Message to Shareholders:**

The only constant in life is change. Due to this fact, your Board of Directors' most challenging responsibility is to insure the orderly transition of management.

In 2009, when I informed our Board of Directors of my decision to step down as President of both Bancshares and Jeff Davis Bank & Trust Company, the Board immediately formed a search committee. The result of this committee was the retention of a national executive recruitment firm.

Potential candidates for President from across Louisiana and the nation were evaluated. Additionally, internal applicants were given an equal opportunity to apply for the position. There were a number of contenders who were both qualified and capable of handling the duties and responsibilities of president. And because the Board of Directors proceeded in the proper manner, it was able to select the best candidate from a very qualified field of applicants; proving once again that your company remains in very capable hands.

Since becoming President in May of 2010, Boyd R. Boudreaux has proven he was the correct choice. With the increasing regulatory burdens and uncertain economic times his leadership has enabled your company to plan for future growth. We continue to explore new opportunities in our banking, insurance and wealth management operations. Change will bring challenges, but along with the uncertainties there will be opportunities.

In my position as Chairman of the Board of Jeff Davis Bank & Trust Company, I will continue to see that our bank moves forward while remembering its past. Please help us by recommending our businesses to your family, relatives and friends. Your good words about our institution are more valuable than any advertising that we engage in.

Dan L. Donald, Jr.  
Chairman and Chief Executive Officer

## **President's Message to Shareholders:**

As I began my tenure at Jeff Davis Bank & Trust Company in May of 2010, it was obvious that the Bank did not have any serious internal issues. The threats that the Bank was facing were from outside sources. Regulatory risk is the most troubling as community banks such as Jeff Davis Bank are facing the same level of rules and regulations that are imposed on large money center financial institutions. This over-reaching regulatory effort is as a result of the near meltdown of the financial industry in the fall of 2008. These increased costs of complying with regulations will be with us until the excessive regulations are repealed or toned down by sensible regulators and politicians.

Jeff Davis Bank & Trust Company continues to be profitable. In 2010, Net Income was \$6,343,034. This was down from 2009 levels by 4.8% or \$319,518. The main reason for this decline was total interest income was down by \$817,922 from 2009 levels in spite of the fact that the Bank had more earning assets on our books in 2010 than in 2009. Low interest rates are affecting the yield on both the bank's investment and loan portfolios. Deposit rates have been affected also, but with deposit rates at 1% or less, the pressure has been on the re-pricing of our \$166 million portfolio of investment securities and our \$283 million loan portfolio.

The Southwest Louisiana economy remains resilient. Although some sectors have experienced a slowdown in the past couple of years, overall, jobs have increased in our market area and the projections are for a slow growth over the next couple of years.

The Bank's asset quality remains strong with charge offs from bad loans being \$766,136 in 2010 as opposed to \$946,132 in 2009. Total non-performing loans did increase to \$2,733,000 for 2010, still less than 1% of total loans outstanding. Due to the strong level of asset quality, total provision added for loan loss in 2010 was \$1,619,990. In 2009, \$1,767,000 was added to our allowance for loan loss reserve.

The balance sheet of the Bank reflected Total Assets on December 31, 2010 of \$535,504,046 which represents a \$32 million increase from year end 2009 or 6.3% increase. Net loans grew by 1.24% or \$3.4 million which reflects the slowing of the economy over the past couple of years. Total Deposits grew by \$30.2 million for an increase of 6.9%. We continue to find that customers are seeking the safety and strength of their local community banks in making their investment decisions.

Our subsidiary, JD Bank Insurance, LLC, previously known as JD Prime Financial Services, LLC, showed improvement as net loss for 2010 was \$16,844 as compared to a year earlier loss amount of \$136,477. Our amortization expense from the purchase of two insurance agencies was \$105,000. Our revenue has increased and operating expenses have decreased and we project continued improvement in 2011.

We have continued to provide an increase in the return of earnings to our shareholders in 2010 of 3.24% as we did in 2009. Any future decisions on the amount that we distribute as dividends will be based on cash flow needs of the company and future earnings.

I am proud to report that Jeff Davis Bank & Trust Company, your bank continues to be strong and operated in the conservative manner that you have come to know throughout the decades of operation. We appreciate your business and hope to continue to earn the trust you have placed in your bank.

Boyd R. Boudreaux  
President & Chief Operating Officer

Management of Jeff Davis Bancshares, Inc. is providing the following information on Bancshares stock trades during 2010. This information was obtained from sources outside of Bancshares. While the information is believed to be accurate, we do not have an independent method of verification and cannot guarantee its accuracy.

<b>Month</b>	<b>Number of Shares Traded</b>	<b>Price Per Share Traded</b>		<b>Number of Shares Traded</b>	<b>Price Per Share Traded</b>
January	204	\$ 54.25	July	14	\$ 55.00
	500	\$ 54.25	August	350	\$ 54.00
February	450	\$ 54.00		100	\$ 52.00
March	350	\$ 54.00		100	\$ 46.00
	600	\$ 54.00		100	\$ 46.00
	700	\$ 54.00		200	\$ 50.00
	550	\$ 54.00		500	\$ 50.00
	100	\$ 54.00	September	500	\$ 50.00
	9	\$ 54.00		400	\$ 54.00
	250	\$ 54.00		100	\$ 54.00
	25	\$ 54.00		200	\$ 50.00
	25	\$ 54.00		500	\$ 53.50
	25	\$ 57.00		400	\$ 53.00
	125	\$ 57.00		300	\$ 53.00
	450	\$ 55.00	October	300	\$ 53.00
	200	\$ 55.00		300	\$ 53.00
	12	\$ 55.00	November	100	\$ 53.00
April	200	\$ 54.00		1815	\$ 51.50
	360	\$ 54.00		150	\$ 51.00
	400	\$ 55.00		200	\$ 50.00
	150	\$ 55.00		200	\$ 50.00
	1600	\$ 55.00		100	\$ 51.75
	304	\$ 55.00	December	416	\$ 53.00
	1000	\$ 55.00		600	\$ 50.00
	100	\$ 51.53		1000	\$ 50.00
	100	\$ 51.53		1000	\$ 50.00
May	2000	\$ 55.00		600	\$ 50.00
	125	\$ 55.00		100	\$ 50.00
	75	\$ 55.00		10	\$ 50.00
	200	\$ 51.53		100	\$ 53.50
June	200	\$ 52.00		100	\$ 53.50
	100	\$ 53.50			
	200	\$ 53.50			
	300	\$ 53.50			
	100	\$ 53.50			
	100	\$ 53.50			

**JEFF DAVIS BANCSHARES, INC.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS (in thousands)**

	2010		2009	Change
Deposits and Repurchase Agreements	\$ 473,233		\$ 443,540	6.69%
Loans (Net)	282,900		279,438	1.24%
Net Income	6,343		6,663	-4.80%
Equity Capital	59,704		56,829	5.06%
Dividends Declared	2,963		2,870	3.24%

**FIVE YEAR FINANCIAL REVIEW (in thousands, except per share amounts)**

	2010	2009	2008	2007	2006
<b><u>Assets and Liabilities at Year End</u></b>					
Total Assets	\$ 535,504	\$ 503,618	\$ 481,911	\$ 475,505	\$ 453,569
Loans (Net)	282,900	279,438	271,332	246,621	239,059
Investments Available-for-Sale (AFS) (Fair Value)	172,003	160,507	153,956	165,671	163,337
Investments Held-to-Maturity (HTM) (at Amortized Cost)	0	0	0	0	0
<b><u>Stockholders' Equity</u></b>					
Common Stock	\$ 9,750	\$ 9,750	\$ 9,750	\$ 9,750	\$ 9,750
Surplus	3,598	3,598	3,598	3,598	3,598
Undivided Profits	44,045	40,665	36,873	32,086	28,950
Accumulated Other Comprehensive Income (Loss)	2,444	2,816	886	1,102	(188)
Note Receivable on Common Stock	(116)	-	-	-	-
Treasury Stock	(17)	-	-	-	-
Total Stockholders' Equity	<u>\$ 59,704</u>	<u>\$ 56,829</u>	<u>\$ 51,107</u>	<u>\$ 46,536</u>	<u>\$ 42,110</u>
<b><u>Earnings for the Year</u></b>					
Consolidated Net Income	\$ 6,343	\$ 6,663	\$ 7,580	\$ 5,694	\$ 5,635
Net Interest Income	19,945	20,261	19,964	15,849	15,651
Non Interest Income	7,730	7,749	7,487	7,874	7,001
Non Interest Expense	18,411	17,767	16,870	15,506	14,384
Cash Dividends	2,963	2,870	2,714	2,558	2,434
<b><u>Per Share Data</u></b>					
Net Income	\$ 4.07	\$ 4.27	\$ 4.86	\$ 3.65	\$ 3.61
Cash Dividends	1.90	1.84	1.74	1.64	1.56
Book Value at Year-end	38.27	36.43	32.76	29.83	26.99
Return on Average Assets	1.23 %	1.35 %	1.61 %	1.25 %	1.26 %
Return on Equity	10.62 %	11.72 %	14.83 %	12.24 %	13.38 %



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## INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of  
Jeff Davis Bancshares, Inc. and Subsidiaries  
Jennings, Louisiana

We have audited the accompanying consolidated balance sheets of Jeff Davis Bancshares, Inc. and its Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jeff Davis Bancshares, Inc. and its Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
February 17, 2011

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

**ASSETS**

<u>ASSETS</u>	2010	2009
Cash and due from banks	\$ 14,774,011	\$ 13,902,884
Federal funds sold	1,400,000	175,000
Cash and cash equivalents	16,174,011	14,077,884
Interest bearing deposits in other banks	29,600,000	19,000,000
Securities available-for-sale	166,268,161	154,723,558
Other stocks, at cost	5,735,349	5,783,109
Loans, less allowances for loan losses of \$4,327,474 and \$3,291,716 at December 31, 2010 and 2009, respectively	282,900,034	279,437,637
Accrued interest receivable	2,707,971	3,080,043
Bank premises and equipment, net	15,745,098	14,918,283
Other real estate owned	865,000	29,700
Goodwill	1,696,047	1,696,047
Life insurance contracts	7,623,414	6,922,284
Investment in Sulphur Inn Acquisition, LLC	2,813,752	-
Other assets	3,375,209	3,949,842
<b>Total Assets</b>	<b>\$ 535,504,046</b>	<b>\$ 503,618,387</b>

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

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	2010	2009
<b><u>LIABILITIES</u></b>		
Deposits		
Deposit accounts, non-interest bearing	\$ 88,815,373	\$ 83,791,991
Deposit accounts, interest bearing	379,542,944	354,330,698
	468,358,317	438,122,689
Securities sold under repurchase agreements	4,874,912	5,417,420
Accrued interest payable	327,697	332,959
Accrued expenses and other liabilities	1,490,707	2,182,761
Dividends payable	748,670	733,200
Total liabilities	475,800,303	446,789,029
 <b><u>COMMITMENTS AND CONTINGENCIES</u></b>		
	-	-
 <b><u>STOCKHOLDERS' EQUITY</u></b>		
Common stock; \$6.25 par value; 3,072,000 shares authorized; 1,560,000 shares issued at December 31, 2010 and 2009, respectively	9,750,000	9,750,000
Additional paid-in-capital	3,598,000	3,598,000
Retained earnings	44,044,449	40,664,902
Note receivable for common stock	(116,000)	-
Accumulated other comprehensive income	2,444,169	2,816,456
	59,720,618	56,829,358
Less: 270 shares held in treasury at December 31, 2010, at cost	(16,875)	-
Total stockholders' equity	59,703,743	56,829,358
 <b>Total Liabilities and Stockholders' Equity</b>	 <b>\$ 535,504,046</b>	 <b>\$ 503,618,387</b>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008**

	2010	2009	2008
<b><u>INTEREST INCOME</u></b>			
Interest and fees on loans	\$ 18,116,051	\$ 18,779,031	\$ 19,615,765
Investment securities:			
Taxable	2,643,664	3,011,092	3,716,511
Non-taxable	3,573,665	3,366,959	2,986,540
Federal funds sold	22,293	16,513	154,048
Total interest income	24,355,673	25,173,595	26,472,864
<b><u>INTEREST EXPENSE</u></b>			
Interest on deposits	4,386,037	4,844,505	6,400,630
Interest on federal funds purchased and securities sold under repurchase agreement	24,555	68,167	108,202
Total interest expense	4,410,592	4,912,672	6,508,832
<b><u>NET INTEREST INCOME</u></b>	19,945,081	20,260,923	19,964,032
Provision for loan losses	1,619,990	1,767,000	1,415,000
<b><u>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</u></b>	18,325,091	18,493,923	18,549,032
<b><u>NONINTEREST INCOME</u></b>			
Service charges and fees on deposit accounts	6,434,350	6,519,236	6,326,695
Trust department income	728,215	674,214	616,514
Other income	567,426	555,149	543,754
	7,729,991	7,748,599	7,486,963

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

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b><u>NONINTEREST EXPENSES</u></b>			
Salaries and employee benefits	\$ 8,809,132	\$ 8,635,914	\$ 8,638,114
Occupancy expenses	1,407,599	1,317,577	1,247,347
Other operating expenses	8,194,736	7,813,854	6,984,239
	<u>18,411,467</u>	<u>17,767,345</u>	<u>16,869,700</u>
<b><u>INCOME BEFORE INCOME TAX EXPENSE</u></b>	7,643,615	8,475,177	9,166,295
Income tax expense	<u>1,300,581</u>	<u>1,812,625</u>	<u>1,586,158</u>
<b><u>NET INCOME</u></b>	<u>6,343,034</u>	<u>6,662,552</u>	<u>7,580,137</u>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>			
Unrealized net holding gains (losses) on available-for-sale securities arising during the period, net of taxes	<u>(372,287)</u>	<u>1,930,359</u>	<u>(215,622)</u>
	<u>(372,287)</u>	<u>1,930,359</u>	<u>(215,622)</u>
<b><u>COMPREHENSIVE INCOME</u></b>	<u>\$ 5,970,747</u>	<u>\$ 8,592,911</u>	<u>\$ 7,364,515</u>
<u>Per common share data:</u>			
Earnings	<u>\$ 4.07</u>	<u>\$ 4.27</u>	<u>\$ 4.86</u>
Average number of shares outstanding	<u>1,559,730</u>	<u>1,560,000</u>	<u>1,560,000</u>

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

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008**

	<u>Treasury Stock</u>		<u>Common Stock</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance at December 31, 2007	-	\$ -	1,560,000	\$ 9,750,000
Net income	-	-	-	-
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	-	-	-	-
Dividends on common stock, \$1.74 per share	-	-	-	-
Adjustment of present value of post retirement benefit	-	-	-	-
Balance at December 31, 2008	-	-	1,560,000	9,750,000
Net income	-	-	-	-
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	-	-	-	-
Dividends on common stock, \$1.84 per share	-	-	-	-
Balance at December 31, 2009	-	-	1,560,000	9,750,000
Net income	-	-	-	-
Purchase of treasury stock at \$62.50 per share	(270)	(16,875)	-	-
Note receivable for common stock	-	-	-	(116,000)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	-	-	-	-
Dividends on common stock, \$.47 per share	-	-	-	-
Dividends on common stock, \$.48 per share	-	-	-	-
Balance at December 31, 2010	<u>(270)</u>	<u>\$ (16,875)</u>	<u>1,560,000</u>	<u>\$ 9,634,000</u>

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

<u>Additional Paid-in-Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
\$ 3,598,000	\$ 32,085,808	\$ 1,101,719	\$ 46,535,527
-	7,580,137	-	7,580,137
-	-	(215,622)	(215,622)
-	(2,714,400)	-	(2,714,400)
<u>-</u>	<u>(78,795)</u>	<u>-</u>	<u>(78,795)</u>
3,598,000	36,872,750	886,097	51,106,847
-	6,662,552	-	6,662,552
-	-	1,930,359	1,930,359
<u>-</u>	<u>(2,870,400)</u>	<u>-</u>	<u>(2,870,400)</u>
3,598,000	40,664,902	2,816,456	\$ 56,829,358
-	6,343,034	-	6,343,034
-	-	-	(16,875)
-	-	-	(116,000)
-	-	(372,287)	(372,287)
-	(1,466,146)	-	(1,466,146)
<u>-</u>	<u>(1,497,341)</u>	<u>-</u>	<u>(1,497,341)</u>
<u>\$ 3,598,000</u>	<u>\$ 44,044,449</u>	<u>\$ 2,444,169</u>	<u>\$ 59,703,743</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008**

	2010	2009	2008
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Net income	\$ 6,343,034	\$ 6,662,552	\$ 7,580,137
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,407,599	1,317,577	1,247,097
Provision for loan losses	1,619,990	1,767,000	1,415,000
Non-cash change in cash surrender value of life insurance	(226,522)	(197,985)	283,032
Write-down of other real estate	-	73,300	219,500
Premium amortization -net	(1,459,350)	(1,851,079)	1,415,600
Deferred income taxes	(497,061)	95,209	211,728
Gain on sales of other real estate and property	17,115	(30,097)	(55,558)
(Gains) losses on the sale of securities	(60,652)	(50,529)	67,964
Net change in operating assets and liabilities:			
Other operating assets and liabilities	(689,096)	(419,401)	(1,335,615)
Interest receivable	372,072	(216,181)	169,819
Interest payable	(5,262)	(164,989)	(348,104)
Net cash provided by operating activities	6,821,867	6,985,377	10,870,600
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Maturities/sales of available-for-sale securities	45,788,505	44,536,354	57,118,846
Purchases of available-for-sale securities	(56,137,633)	(47,254,581)	(47,103,064)
Loan originations - net of principal repayments	(7,896,139)	(9,872,432)	(26,125,915)
Net decrease (increase) in interest bearing deposits in other banks	(10,600,000)	(12,000,000)	(7,000,000)
(Increase) decrease in federal funds sold	(1,225,000)	5,925,000	13,750,000
Investment in life insurance contracts	(1,000,000)	-	(644,859)
Proceeds from life insurance contracts	525,392	-	-
Purchases of bank premises and equipment	(2,242,093)	(2,481,630)	(1,546,685)
Proceeds from sales of other real estate and property	224,000	-	100,741
Net cash used in investing activities	(32,562,968)	(21,147,289)	(11,450,936)

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

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Net increase in deposits	\$ 30,235,628	\$ 13,448,565	\$ 2,947,733
Net increase (decrease) in other borrowed funds and repurchase agreements	(542,508)	1,060,344	(345,864)
Note receivable for common stock	(116,000)	-	-
Purchase of common stock for treasury	(16,875)	-	-
Dividend payable	15,470	31,200	46,800
Payment of dividends	<u>(2,963,487)</u>	<u>(2,870,400)</u>	<u>(2,714,400)</u>
Net cash (used in) provided by financing activities	<u>26,612,228</u>	<u>11,669,709</u>	<u>(65,731)</u>
 Net decrease in cash and cash equivalents	 871,127	 (2,492,203)	 (646,067)
 Cash and due from banks - beginning of year	 <u>13,902,884</u>	 <u>16,395,087</u>	 <u>17,041,154</u>
 Cash and due from banks - end of year	 <u>\$ 14,774,011</u>	 <u>\$ 13,902,884</u>	 <u>\$ 16,395,087</u>
 <b><u>Supplemental disclosures of cash flow information:</u></b>			
 Cash paid for interest	 <u>\$ 4,415,854</u>	 <u>\$ 5,077,661</u>	 <u>\$ 6,748,734</u>
 Cash paid for income taxes	 <u>\$ 1,916,475</u>	 <u>\$ 497,393</u>	 <u>\$ 2,272,248</u>

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

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies

The accounting and reporting policies of Jeff Davis Bancshares, Inc. (the Company) and its Subsidiaries conform to the accounting principles generally accepted in the United States of America and the prevailing practices within the banking industry. A summary of significant accounting policies is as follows:

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Jeff Davis Bank & Trust Company (the “Bank”) and JD Bank Insurance, LLC (formerly JD Prime Financial Services, LLC), the owner of an insurance agency. The Bank also has a wholly-owned subsidiary, Sulphur Inn Acquisition, LLC, that was created to own and manage other real estate until its disposition. All significant intercompany accounts and transactions have been eliminated. Assets held in an agency or fiduciary capacity are not assets of the Bank and, accordingly, are not included in the accompanying consolidated financial statements. The Company operates as a community bank in southern Louisiana.

Nature of operations

The Bank provides a variety of banking services to individuals and businesses primarily in and around Southwest Louisiana. The Bank’s primary deposit products are demand deposits, savings deposits, and certificates of deposits, and its primary lending products are commercial, business, real estate, and consumer loans.

Comprehensive income

Comprehensive income includes net earnings and other comprehensive income which, in the case of the Company, includes only unrealized gains and losses on securities available-for-sale.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank’s loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors’ ability to honor their contracts is dependent on local economic conditions and the real estate industry.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Use of estimates (continued)

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 the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Other estimates that are susceptible to significant change in the near term relate to the determination of the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments.

Interest bearing deposits in other banks

Interest bearing deposits in other banks mature within one year and are carried at cost, which approximates market.

Securities

Securities are being accounted for in accordance with applicable guidance contained in the Accounting Standards Codification (ASC) which requires the classification of securities into one of three categories: trading, available-for-sale, or held-to-maturity.

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 Company 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. The Company had no significant trading account securities during the three years ended December 31, 2010. 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 income taxes, reported as a separate component of stockholders' equity until realized.

In 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance related to the recognition and presentation of other-than-temporary impairment. The accounting guidance specifies that (a) if a company 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. When an entity does not intend to sell the security, and it is more likely than not, the entity 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.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Securities (continued)

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

Derivative instruments

The Company recognizes all derivatives as either assets or liabilities in the Company's balance sheet and measures those instruments at fair value. If certain conditions are met, a derivative may be specially designated as a hedge. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company is not currently engaged in any activities with derivatives.

Loans

The Company grants commercial, real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in Southwest Louisiana. The ability of the Company's creditors to honor their contracts is dependent upon the real estate and 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 are reported at their outstanding principal adjusted for any charge-off's, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans. Unearned discount relates principally to consumer installment loans. Interest on loans is credited to operations based on the unpaid principal amount outstanding using methods that approximate the interest method.

On January 1, 2010, the Company adopted, on a prospective basis, newly issued accounting guidance on sales of financial assets, which includes participating interests in loans. For loan participations that are structured in accordance with this guidance, the sold portions are recorded as a reduction of the loan portfolio. Loan participations that do not meet the criteria are accounted for as secured borrowings. Application of this guidance also delays the accounting recognition for sales of the guaranteed portions of SBA loans for 90 days.

Certain loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield on the related loan. Interest on loans is recorded to income as earned. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on the contractual terms of the loan. All unpaid accrued interest is reversed and payments subsequently received are applied first to principal. Interest income is recorded after principal has been satisfied and as payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Loans (continued)

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts 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. The Company's impaired loans include troubled debt restructurings, and performing and non-performing major loans for 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 \$100,000. The Company calculates an allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of its collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Allowance for loan losses

The allowance for loan losses is a valuation allowance available for losses incurred on loans. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries are credited to the allowance at the time of recovery. Periodically during the year management estimates the likely level of existing losses to determine whether the allowance for loan losses is adequate to absorb reasonably anticipated losses in the existing portfolio. Management also evaluates the collectability 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 revision as more information becomes available. Based on these estimates, an amount is charged to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined to be adequate to absorb existing losses.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the consolidated statements of condition is adequate to absorb probable losses in the existing loan portfolio.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For these loans that are 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 that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation, which is computed using straight-line and accelerated methods over the estimated useful lives of the assets, which range from 3 to 32 years.

Other real estate owned

Other real estate owned is reported at the lower of cost or fair value at the date of foreclosure. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Real estate and other property acquired in lieu of loan balances, net of an appropriate reserve for possible losses, are included in the accompanying consolidated statements of condition. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses.

Goodwill

Goodwill does not require amortization, but it is subject to a periodic impairment test. The Company has performed impairment tests on its goodwill and determined that there is no impairment at December 31, 2010 and 2009.

Life insurance contracts

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies, which were purchased in 2007 for \$1,725,000, 2003 for \$4,000,000, and in 2010 for \$1,000,000 as a vehicle to fund certain supplemental executive retirement plans. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other income and amounted to \$503,092, \$197,985, and (\$283,032) in 2010, 2009, and 2008, respectively.

Income taxes

Provisions for income taxes are based on taxes payable or refundable for the current year based on taxable income and deferred taxes on temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company adopted the recent 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.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Income taxes (continued)

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-than-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 deferred tax asset will not realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Earnings per share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period.

Statements of cash flows

The Company has defined cash equivalents as the amount in the consolidated statement of condition caption "Cash and Due from Banks."

Credit related financial information

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.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available-for-sale. Any unrealized losses related to factors other than credit on debt securities.

Postretirement Benefits

In 2008, the Company adopted accounting guidance related to Postretirement Benefits. The Company has effectively agreed to maintain a life insurance policy during the employee's retirement. The cost of the insurance policy during post-retirement periods was accrued. Therefore, a reduction of \$78,795 cumulative effect adjustment to retained earnings was recorded.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of significant accounting policies (continued)

Reclassification

Certain amounts in the 2009 and 2008 consolidated financial statements have been reclassified to conform with the current year presentation.

2. Cash and due from banks

The Bank is required to maintain certain cash balances relating to its deposit liabilities. This requirement is ordinarily satisfied by cash on hand.

3. Investment securities

Debt and equity securities have been classified in the balance sheets according to management's intent. The amortized cost and estimated fair value of securities classified as available-for-sale at December 31, 2010, consisted of the following:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. treasury securities	\$ 5,019,852	\$ -	\$ (2,508)	\$ 5,017,344
Mortgage-backed securities	60,614,087	3,772,940	(122,981)	64,264,046
U.S. agencies	12,125,887	32,373	(11,671)	12,146,589
States and political subdivisions	<u>84,805,049</u>	<u>898,578</u>	<u>(863,445)</u>	<u>84,840,182</u>
Totals	<u>\$ 162,564,875</u>	<u>\$ 4,703,891</u>	<u>\$ (1,000,605)</u>	<u>\$ 166,268,161</u>

At December 31, 2010, the Company held no securities of any single issuer (excluding the U.S. government and federal agencies) with a book value that exceeded 10% of stockholders' equity.

Securities classified as available-for-sale at December 31, 2009, consisted of the following:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. treasury securities	\$ 3,015,602	\$ 663	\$ (1,275)	\$ 3,014,990
Mortgage-backed securities	56,459,388	2,932,306	(30,786)	59,360,908
U.S. agencies	9,198,327	71,163	-	9,269,490
States and political subdivisions	<u>81,782,885</u>	<u>1,505,685</u>	<u>(210,400)</u>	<u>83,078,170</u>
Totals	<u>\$ 150,456,202</u>	<u>\$ 4,509,817</u>	<u>\$ (242,461)</u>	<u>\$ 154,723,558</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3. Investment securities (continued)

The amortized costs and estimated market values of debt securities at December 31, 2010, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Within one year	\$ 10,630,583	\$ 10,641,707
Greater than one but within five years	21,920,914	22,232,066
Greater than five but within ten years	36,884,210	37,687,228
Greater than ten years	<u>93,129,168</u>	<u>95,707,160</u>
	<u>\$ 162,564,875</u>	<u>\$ 166,268,161</u>

Investment securities with carrying values of approximately \$69,325,000 and \$64,805,000 at December 31, 2010 and 2009, respectively, were pledged to secure public deposits and securities sold under repurchase agreements and for other purposes as required or permitted by law.

Information pertaining to available-for-sale securities with gross unrealized losses and fair value at December 31, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, follows:

	<u>Less than twelve months</u>			<u>Over twelve months</u>		
	<u>Number of Securities</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Number of Securities</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. treasury securities	5	\$ (2,508)	\$ 5,017,344	-	\$ -	\$ -
Mortgage-backed securities	3	(122,981)	5,056,299	-	-	-
U.S. agencies	4	(11,672)	4,044,839	-	-	-
State and political subdivisions	<u>115</u>	<u>(835,351)</u>	<u>26,377,580</u>	<u>7</u>	<u>(28,093)</u>	<u>1,537,936</u>
Totals	<u>127</u>	<u>\$ (972,512)</u>	<u>\$ 40,496,062</u>	<u>7</u>	<u>\$ (28,093)</u>	<u>\$ 1,537,936</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3. Investment securities (continued)

Information pertaining to available-for-sale securities with gross unrealized losses at December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than twelve months			Over twelve months		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
U.S. treasury securities	2	\$ (1,275)	\$ 2,012,180	-	\$ -	\$ -
Mortgage-backed securities	2	(7,640)	2,036,341	1	(23,146)	1,315,677
U.S. agencies	-	-	-	-	-	-
State and political subdivisions	25	(102,967)	5,000,191	15	(107,433)	4,087,370
Totals	29	\$ (111,882)	\$ 9,048,712	16	\$ (130,579)	\$5,403,047

Most of these unrealized losses result from securities which were purchased at a premium in anticipation of a more stable interest rate environment. Management and the Asset/Liability Committee are continually monitoring the securities portfolio. Accordingly, management is able to effectively measure and monitor the unrealized loss position on these securities and because the Company does not intend to sell the securities 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, therefore, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2010. Additionally, the Company believes that its premium amortization policies are appropriate and will result in a reasonable return on these investments being recorded in the statements of income.

4. Loans

The components of loans in the consolidated balance sheet at December 31, 2010 and 2009, were as follows:

	2010	2009
Commercial loans	\$ 42,828,000	\$ 39,191,000
Real estate loans	199,877,000	195,004,000
Agricultural loans	2,202,000	2,520,000
Consumer loans	42,320,000	46,015,000
	287,227,000	282,730,000
Unearned discounts	-	-
Allowances for loan losses	( 4,327,000)	( 3,292,000)
Loans, net	\$ 282,900,000	\$ 279,438,000

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

4. Loans (continued)

Changes in the allowance for loan losses during the years ended December 31, 2010 and 2009, were as follows:

	<u>2010</u>	<u>2009</u>
Balance - beginning of period	\$ 3,291,716	\$ 2,188,975
Provision charged to operations	1,619,990	1,767,000
Loans charged-off	( 766,136)	( 946,132)
Recoveries	181,904	281,873
Balance - end of period	<u>\$ 4,327,474</u>	<u>\$ 3,291,716</u>

Impairment of loans having recorded investments of approximately \$2,092,000 and \$1,341,000 at December 31, 2010 and 2009, respectively, have been recognized in conformity with accounting guidance contained in the Accounting Standards Codification as described in Note 1. These loans amounted to less than 1% of total loans at December 31, 2010 and 2009. Related reserve amounts were not significant and there was no significant change in these amounts during the years ended December 31, 2010, 2009, or 2008. The amount of interest not accrued on these loans did not have a significant effect on earnings in 2010, 2009, or 2008. The Bank is not committed to lend additional funds to debtors whose loans have been modified. There were approximately \$641,000 and \$300,000 of loans greater than 90 days past-due still accruing interest at December 31, 2010 and 2009, respectively. The Company generally makes loans in its market area of Southern Louisiana.

5. Bank premises and equipment

Components of Bank premises and equipment included in the consolidated balance sheets at December 31, 2010 and 2009, were as follows:

	<u>2010</u>	<u>2009</u>
Buildings and leasehold improvements	\$ 14,054,307	\$ 12,586,349
Equipment	10,549,839	10,421,047
Land	2,336,585	2,348,465
Construction-in-progress	<u>1,942,234</u>	<u>1,711,616</u>
	28,882,965	27,067,477
Less: accumulated depreciation and amortization	<u>( 13,137,867)</u>	<u>( 12,149,194)</u>
	<u>\$ 15,745,098</u>	<u>\$ 14,918,283</u>

Depreciation expense amounted to \$1,407,599, \$1,317,577 and \$1,247,097 during the years ended December 31, 2010 and 2009 and 2008, respectively.

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**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

6. Time deposits

At December 31, 2010, the scheduled maturities of all outstanding certificates of deposit were as follows:

Year ending December 31 <sup>st</sup> -	Amount
2011	\$ 119,315,470
2012	11,655,228
2013	27,364,616
2014	1,764,870
2015	20,000
	\$ 160,120,184

Included in deposits are \$84,503,000 and \$75,014,000 of certificates of deposit greater than or equal to \$100,000 at December 31, 2010 and 2009, respectively. There are no major concentrations of deposits. Interest expense on all deposits totaled approximately \$4,386,037, \$4,844,505 and \$6,400,630 during the years ended December 31, 2010 and 2009 and 2008, respectively.

7. Other operating expenses

Other operating expenses as of December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Advertising and public relations	\$ 1,103,812	\$ 915,236	\$ 846,753
Equipment and computer expenses	2,564,845	2,379,360	2,468,216
Professional fees and expenses	244,814	204,602	124,372
Regulatory assessments	762,976	719,598	213,745
Stationary and supplies	376,738	446,841	430,391
Other	3,141,551	3,148,217	2,900,762
	\$ 8,194,736	\$ 7,813,854	\$ 6,984,239

8. Income taxes

The source and tax effect of items reconciling income tax expense to the amount computed by applying the federal income tax rates in effect to net income before income tax expense for the years ended December 31, 2010, and 2009 and 2008, are as follows:

	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
Income before income taxes	\$ 7,643,615	100.0%	\$ 8,475,177	100.0%	\$ 9,166,295	100.0%
U.S. Federal income tax expense	\$ 2,598,829	34.0%	\$ 2,881,562	34.0%	3,116,539	34.0%
Municipal income	( 1,105,581)	( 14.5 )	( 1,144,766)	( 13.5)	( 1,015,424)	( 11.1 )
Other	( 192,667)	( 2.5 )	75,829	.9	( 514,957)	( 5.6 )
Income tax expense	\$ 1,300,581	17.0%	\$ 1,812,625	21.4%	\$ 1,586,158	17.3%

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**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

8. Income taxes (continued)

The components of income tax expense during the years ended December 31, 2010, and 2009, and 2008, were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current tax expense	\$ 1,797,642	\$ 1,717,416	\$ 1,374,430
Deferred tax expense	( 497,061)	95,209	211,728
	<u>\$ 1,300,581</u>	<u>\$ 1,812,625</u>	<u>\$ 1,586,158</u>

The Company records deferred income taxes on the tax effect of changes in temporary differences. Deferred tax assets are subject to a valuation allowance if their realization is less than 50% probable. The deferred tax assets were comprised of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Depreciation and amortization	(\$ 748,753)	(\$ 788,797)
Unrealized gains on available-for-sale securities	( 1,259,117)	( 1,450,901)
Goodwill amortization	( 571,008)	( 531,504)
Other items	<u>( 31,375)</u>	<u>( 39,140)</u>
Gross deferred tax liability	<u>( 2,610,253)</u>	<u>( 2,810,342)</u>
Allowance for loan losses	1,162,204	775,698
Deferred compensation	49,844	43,111
Other real estate owned	11,331	-
Other	<u>84,186</u>	<u>-</u>
Gross deferred tax asset	1,307,565	818,809
Less: deferred tax valuation allowance	<u>-</u>	<u>-</u>
Net deferred tax (liability) asset	<u>(\$ 1,302,688)</u>	<u>(\$ 1,991,533)</u>

The federal tax years open for assessment are years ended December 31, 2007 through December 31, 2010.

9. Employee benefits

The Company offers a 401 (k) Plan (the "Plan") to all employees who have completed six months of service and who have attained age 20. Plan assets are invested in the Company's securities or several other investment options. Contributions to the Plan are at the discretion of the Board of Directors, with limitations based on a percentage of the participants' compensation. Annual contributions are allocated to each participant's account in an amount equal to each participant's deferred compensation for the year. A participant's interest in his or her account balance becomes fully vested after completion of five years of service. The Company contributed \$279,319, \$268,514 and \$249,058, to the Plan in 2010, 2009, and 2008, respectively. At December 31, 2010 and 2009, the Plan held 29,164 and 27,164 shares in common stock of the Company, respectively.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

9. Employee benefits (continued)

The Bank also offers a life insurance joint beneficiary plan with some of its executive officers. The Bank is the owner and beneficiary of split-dollar life insurance policies covering the lives of the officers. The plan provides for payment upon death of a calculated amount based primarily on the officer's salary to be paid from the proceeds of the policies to the officers' designated beneficiaries. The benefits have been accrued in the accompanying financial statements.

10. Contingencies

The Company is a party to various legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial statements.

11. Financial instruments with off-balance-sheet risk

To meet the financing needs of its customers the Bank is a party to various financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of the involvement the Bank has in particular classes of financial instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments.

The following is a summary as of December 31, 2010 and 2009, of the various financial instruments entered into by the Bank:

	<u>2010</u>	<u>2009</u>
Commitments to extend credit	\$ 35,685,821	\$ 46,204,652
Standby letters of credit	900,356	899,416

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 fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

The Bank evaluates customers' creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

11. Financial instruments with off-balance-sheet risk (continued)

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. 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 its customers. The contractual amounts of credit-related financial instruments, such as commitments to extend credit and letters of credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

12. Minimum regulatory capital requirements

Both the Company 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 the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, both 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.

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 table on the following page) 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, 2010 and 2009, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") required each federal banking agency to implement prompt corrective action for institutions it regulates. The rules provide that an institution is "well capitalized" if its total risk-based capital ratio is 10.0% or greater, its Tier 1 risk-based capital ratio is 6.0% or greater, its leverage ratio is 5.0% or greater, and the institution is not subject to a capital directive. Under this regulation, the Bank was deemed to be "well capitalized" as of September 30, 2010, based upon the most recent notifications from its regulators. There are no conditions or events since those notifications that management believes would change these classifications.

The Company's and the Bank's actual capital amounts and ratios are approximately the same and are presented in the following table. The prompt, corrective action ratios apply only to the Bank.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

12. Minimum regulatory capital requirements (continued)

The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009, are also presented in the table below:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010:						
Company:						
Total Regulatory Capital to risk weighted assets	\$ 59,530,000	18.78%	\$ 25,390,000	≥8.0%	Not applicable	
Tier I Capital to risk weighted assets	55,563,000	17.53%	12,695,000	≥4.0%	Not applicable	
Tier I Leverage Capital	55,563,000	10.77%	20,645,000	≥4.0%	Not applicable	
Bank:						
Total Regulatory Capital to risk weighted assets	\$ 58,305,000	18.46%	\$ 25,263,000	≥8.0%	\$ 31,579,000	≥10.0%
Tier I Capital to risk weighted assets	54,353,000	17.21%	12,632,000	≥4.0%	31,006,000	≥6.0%
Tier I Leverage Capital	54,353,000	10.55%	20,671,000	≥4.0%	25,838,000	≥5.0%
As of December 31, 2009:						
Company:						
Total Regulatory Capital to risk weighted assets	\$ 55,609,000	17.67%	\$ 25,173,000	≥8.0%	Not applicable	
Tier I Capital to risk weighted assets	52,317,000	16.63%	12,587,000	≥4.0%	Not applicable	
Tier I Leverage Capital	52,317,000	10.68%	19,600,000	≥4.0%	Not applicable	
Bank:						
Total Regulatory Capital to risk weighted assets	\$ 55,160,000	17.55%	\$ 25,137,000	≥8.0%	\$ 31,422,000	≥10.0%
Tier I Capital to risk weighted assets	51,868,000	16.51%	12,569,000	≥4.0%	29,501,000	≥6.0%
Tier I Leverage Capital	51,868,000	10.59%	19,668,000	≥4.0%	24,585,000	≥5.0%

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

13. Disclosures about fair value of financial instruments

Financial Accounting Standards Board Accounting Standards Codification topic on Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement, determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

*Investments and Mortgage-Backed Securities* – Where quoted prices are available in an active market, the securities are classified within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, fair values are estimated using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, those securities are classified within level 3.

*Cash and due from banks* – For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

*Federal funds sold/purchased and securities sold under repurchase agreements* – The carrying amount approximates fair value.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

13. Disclosures about fair value of financial instruments (continued)

*Loans* – For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans such as commercial real estate and investment property mortgage loans, commercial and industrial loans are estimated using discounted cash flow analyses, using market interest rates for comparable loans. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

*Deposit Liabilities* – The fair values disclosed for demand deposits (for example, interest and noninterest checking, pass book savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

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

*Accrued Interest* – The carrying amounts of accrued interest approximate fair value.

*Commitments* – The fair value of commitments to extend credit was not significant.

Fair Value of Assets Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2010,			
U.S. Treasury securities	\$ 5,017,344	\$ -	\$ -
Mortgage-backed securities	-	64,264,046	-
U.S. Agencies	-	12,146,589	-
State & political subdivisions	-	-	84,840,182
Securities available-for-sale	<u>\$ 5,017,344</u>	<u>\$ 76,410,635</u>	<u>\$ 84,840,182</u>
December 31, 2009,			
U.S. Treasury securities	\$ 3,014,990	\$ -	\$ -
Mortgage-backed securities	-	59,360,907	-
U.S. Agencies	-	9,269,490	-
State & political subdivisions	-	-	83,078,171
Securities available-for-sale	<u>\$ 3,014,990</u>	<u>\$ 68,630,397</u>	<u>\$ 83,078,171</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

13. Disclosures about fair value of financial instruments (continued)

The majority of the Level 3 instruments consist of corporate notes and bonds classified as available-for-sale. The following table presents the changes in fair value for the years ended December 31, 2010 and 2009, in Level 3 instruments that are measured at fair value on a recurring basis:

Balance, January 1, 2009	\$	75,466,374
Realized gains (losses)		(49,930)
Unrealized gains (losses) relating to instruments still held at the reporting date		1,295,286
Purchases, sales, issuance, and settlements (net)		<u>6,366,441</u>
Balance, December 31, 2009		83,078,171
Realized gains (losses)		(1,242)
Unrealized gains (losses) relating to instruments still held at the reporting date		(1,374,808)
Purchases, sales, issuance, and settlements (net)		<u>3,138,061</u>
Balance, December 31, 2010	\$	<u>84,840,182</u>

*Fair Value Assets Measured on a Nonrecurring Basis*

Certain assets are measured at fair value on a non-recurring basis and therefore are not included in the table above. Impaired loans are level 2 assets measured using appraisals from external parties of the collateral less any prior liens and the estimated cost of holding and selling the collateral. As of December 31, 2010 and 2009 the fair value of impaired loans was \$2,091,629 and \$1,341,030 which equaled the carrying value. The Bank did not record any liabilities at fair value for which measurement of the fair value was made on a nonrecurring basis during the years ended December 31, 2010 or 2009.

The estimated fair values of the Company's financial instruments at December 31, 2010, were as follows (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and due from banks and interest bearing deposits in other banks	\$ 14,774	\$ 14,774
Federal funds sold	31,000	31,000
Securities available-for-sale	162,565	166,268
Loans, net of allowance	282,900	316,287
Accrued interest receivable	2,708	2,708
Financial liabilities:		
Noninterest bearing deposits	88,815	88,815
Interest bearing deposits	379,543	381,615
Federal funds purchased and securities sold under repurchase agreements	4,875	4,875

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

13. Disclosures about fair value of financial instruments (continued)

The estimated fair values of the Company's financial instruments at December 31, 2009, were as follows (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and due from banks and interest bearing deposits in other banks	\$ 13,903	\$ 13,903
Federal funds sold	19,175	19,175
Securities available-for-sale	150,456	154,724
Loans, net of allowance	279,438	315,659
Accrued interest receivable	3,080	3,080
Financial liabilities:		
Noninterest bearing deposits	83,792	83,792
Interest bearing deposits	354,331	356,429
Federal funds purchased and securities sold under repurchase agreements	5,417	5,417

14. Other borrowed funds and lines of credit

The Bank has established a federal funds line-of-credit with First National Banker's Bank (FNBB) to provide additional sources of operating funds. The Bank can borrow up to approximately \$21,900,000 under this agreement at December 31, 2010. There was nothing drawn under this agreement with FNBB at December 31, 2010. There was no balance in the federal funds purchased borrowings as of December 31, 2010 and 2009.

15. Related Party Transactions

Loans are made in the normal course of business to its directors, executive officers and their associates on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Such loans did not involve more than normal risks of collectability. An analysis of activity during 2010 and 2009 with respect to loans to officers and directors of the Bank is as follows:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	\$ 2,631,816	\$ 1,642,801
Additions	23,366,368	2,299,656
Payments	(20,071,844)	(1,310,641)
Balance - end of year	<u>\$ 5,926,340</u>	<u>\$ 2,631,816</u>

Included in deposits are deposits from directors, officers, their immediate families, and related companies. These accounts totaled approximately \$9,563,000 and \$7,030,000 at December 31, 2010 and 2009, respectively.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

16. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued February 17, 2011 and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

17. Bank Only Financial Statements

**STATEMENTS OF FINANCIAL CONDITION**  
**DECEMBER 31, 2010 AND 2009**

**ASSETS**

	2010	2009
Cash and due from banks	\$ 14,774,011	\$ 13,902,884
Federal funds sold	1,400,000	175,000
Cash and cash equivalents	16,174,011	14,077,884
Interest bearing deposits in other banks	29,600,000	19,000,000
Securities available-for-sale	166,268,161	154,723,558
Other stocks, at cost	5,735,349	5,783,109
Loans, less allowances for loan losses of \$4,327,474 and \$3,291,716 at December 31, 2010 and 2009, respectively	282,900,034	279,437,637
Accrued interest receivable	2,707,971	3,080,043
Bank premises and equipment, net	15,723,616	14,892,184
Other real estate owned	865,000	29,700
Goodwill	1,696,047	1,696,047
Life insurance contracts	7,623,414	6,922,284
Investment in Sulphur Inn Acquisition, LLC	2,813,752	-
Other assets	3,108,386	3,613,796
Total assets	\$ 535,215,741	\$ 503,256,242

## LIABILITIES AND STOCKHOLDER'S EQUITY

<u>Liabilities:</u>	<u>2010</u>	<u>2009</u>
Deposits		
Demand deposit accounts, non-interest bearing	\$ 81,926,900	\$ 77,245,639
Demand deposit accounts, interest bearing	131,023,954	129,933,784
Individual retirement accounts	14,566,836	12,492,472
Savings accounts	73,831,970	59,283,981
Certificates of deposit - \$100,000 and over	84,502,883	75,014,494
CDARS deposits	-	2,118,943
Other certificates of deposit	75,617,301	75,487,024
Other deposit accounts	7,599,984	6,696,235
	<u>469,069,828</u>	<u>438,272,572</u>
Securities sold under repurchase agreements	4,874,912	5,417,420
Accrued interest payable	327,697	332,959
Accrued expenses and other liabilities	1,449,819	2,119,979
Dividends payable	1,000,000	733,200
Total liabilities	<u>476,722,256</u>	<u>446,876,130</u>
 <u>Commitments and Contingencies</u>	 -	 -
 <u>Stockholder's equity:</u>		
Common stock; \$6.25 par value; 3,072,000 shares authorized; 1,560,000 shares issued and outstanding at December 31, 2010 and 2009, respectively	9,600,000	9,600,000
Capital surplus	14,400,000	14,400,000
Undivided profits	32,049,317	29,563,657
Accumulated other comprehensive income	2,444,168	2,816,455
Total stockholder's equity	<u>58,493,485</u>	<u>56,380,112</u>
 Total liabilities and stockholder's equity	 <u>\$ 535,215,741</u>	 <u>\$ 503,256,242</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

17. Bank Only Financial Statement (continued)

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b><u>INTEREST INCOME</u></b>		
Interest and fees on loans	\$ 18,116,051	\$ 18,779,031
Investment securities:		
Taxable	2,643,664	3,011,092
Non-taxable	3,573,665	3,366,959
Federal funds sold	22,293	16,513
Total interest income	<u>24,355,673</u>	<u>25,173,595</u>
<b><u>INTEREST EXPENSE</u></b>		
Interest on deposits	4,386,037	4,844,505
Interest on federal funds purchased and securities sold under repurchase agreements	24,555	68,167
Total interest expense	<u>4,410,592</u>	<u>4,912,672</u>
<b><u>NET INTEREST INCOME</u></b>	19,945,081	20,260,923
Provision for loan losses	<u>1,619,990</u>	<u>1,767,000</u>
<b><u>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</u></b>	<u>18,325,091</u>	<u>18,493,923</u>
<b><u>NONINTEREST INCOME</u></b>		
Service charges and fees on deposit accounts	6,434,350	6,519,236
Trust department income	728,215	674,214
Other income	138,938	147,180
	<u>7,301,503</u>	<u>7,340,630</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

17. Bank Only Financial Statement: (continued)

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	\$ 8,809,132	\$ 8,635,914
Occupancy expenses	1,399,027	1,308,062
Other operating expenses	7,674,669	7,274,338
	17,882,828	17,218,314
<b><u>INCOME BEFORE INCOME TAX EXPENSE</u></b>	7,743,766	8,616,239
Income tax expense	1,375,032	1,811,600
<b><u>NET INCOME</u></b>	6,368,734	6,804,639
<b><u>OTHER COMPREHENSIVE INCOME</u></b>		
Unrealized net holding (loss) gain on available-for-sale securities arising during the period, net of taxes	(372,287)	1,930,359
	(372,287)	1,930,359
<b><u>COMPREHENSIVE INCOME</u></b>	\$ 5,996,447	\$ 8,734,998

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

18. Parent Only Financial Statements

**BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

**ASSETS**

	2010	2009
Cash in subsidiary bank	\$ 529,455	\$ 8,298
Dividend receivable	1,000,000	733,200
Investment in subsidiary bank	58,493,485	56,380,112
Investment in JD Bank Insurance, LLC	424,104	440,948
Income taxes receivable	5,369	-
Total assets	\$ 60,452,413	\$ 57,562,558

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Dividend payable	\$ 748,670	\$ 733,200
Total liabilities	748,670	733,200
Common stock; \$6.25 par value; 3,072,000 shares authorized; 1,560,000 shares issued at December 31, 2010 and 2009, respectively		
	9,750,000	9,750,000
Additional paid-in capital	3,598,000	3,598,000
Retained earnings	44,044,449	40,664,902
Note receivable for common stock	(116,000)	-
Accumulated other comprehensive income	2,444,169	2,816,456
	59,720,618	56,829,358
Less: 270 shares held in treasury at December 31, 2010, at cost	(16,875)	-
Total stockholders' equity	59,703,743	56,829,358
Total liabilities and stockholders' equity	\$ 60,452,413	\$ 57,562,558

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

18. Parent Only Financial Statements(continued)

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<u>INCOME</u> - dividends from subsidiary bank	\$ 3,883,073	\$ 2,870,400
<u>EXPENSES</u>		
Operating expenses	4,251	4,585
Taxes and other expenses	4,605	1,025
	<u>8,856</u>	<u>5,610</u>
<b><u>INCOME BEFORE EQUITY IN</u></b>		
<b><u>UNDISTRIBUTED EARNINGS OF SUBSIDIARIES</u></b>	3,874,217	2,864,790
Equity in undistributed earnings of subsidiaries	<u>2,468,817</u>	<u>3,797,762</u>
<b><u>NET INCOME</u></b>	<u>6,343,034</u>	<u>6,662,552</u>
<u>OTHER COMPREHENSIVE INCOME</u>		
Unrealized holding gains (losses) on available-for-sale securities arising during the period, net of taxes	<u>(372,287)</u>	<u>1,930,359</u>
	<u>(372,287)</u>	<u>1,930,359</u>
<b><u>COMPREHENSIVE INCOME</u></b>	<u>\$ 5,970,747</u>	<u>\$ 8,592,911</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

18. Parent Only Financial Statements(continued)

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net income	\$ 6,343,034	\$ 6,662,552
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings of JD Prime	16,844	136,477
Undistributed earnings of Bank	(2,485,660)	(3,934,233)
Dividend receivable	(266,800)	(31,200)
Other assets	(5,369)	-
Net cash used in operating activities	3,602,049	2,833,596
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Dividend payable	15,470	31,200
Payment of dividends	(2,963,487)	(2,870,400)
Note receivable for purchase of common stock	(116,000)	-
Purchase of common stock for treasury	(16,875)	-
Net cash provided by financing activities	(3,080,892)	(2,839,200)
Increase (decrease) in cash in subsidiary bank	521,157	(5,604)
Cash in subsidiary bank - beginning of year	8,298	13,902
Cash in subsidiary bank - end of year	\$ 529,455	\$ 8,298

**INDEPENDENT AUDITORS' REPORT**  
**ON SUPPLEMENTAL INFORMATION**

To the Stockholders and Board of Directors of  
Jeff Davis Bancshares, Inc. and Subsidiaries  
Jennings, Louisiana

Our report on the audit of the consolidated financial statements of Jeff Davis Bancshares, Inc. and its Subsidiaries for the year ended December 31, 2010, appears on page 1. That audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The JD Bank Insurance, LLC financial statements, presented as supplementary information, is not a required part of the basic financial statements, but is supplementary information. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
February 17, 2011

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**  
**SUPPLEMENTAL SCHEDULE**  
**JD BANK INSURANCE, LLC FINANCIAL STATEMENTS**

**BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

**ASSETS**

	<u>2010</u>	<u>2009</u>
Cash in subsidiary bank	\$ 182,056	\$ 141,585
Furniture and equipment, net	21,482	26,099
Intangible assets	227,250	332,250
Income tax receivable	28,830	-
Other assets	5,374	3,796
Total assets	<u>\$ 464,992</u>	<u>\$ 503,730</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deferred income taxes payable	\$ 5,551	\$ -
Other liabilities	35,337	62,782
Total liabilities	<u>40,888</u>	<u>62,782</u>
Members equity	685,000	685,000
Retained earnings	(260,896)	(244,052)
Total stockholders' equity	<u>424,104</u>	<u>440,948</u>
Total liabilities and stockholders' equity	<u>\$ 464,992</u>	<u>\$ 503,730</u>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**  
**SUPPLEMENTAL SCHEDULE**  
**JD BANK INSURANCE, LLC FINANCIAL STATEMENTS**

**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b><u>INCOME</u></b>		
Commissions earned	\$ 422,635	\$ 405,760
Other income	5,853	2,209
	<u>428,488</u>	<u>407,969</u>
<b><u>EXPENSES</u></b>		
Insurance expenses	35,519	29,855
Salaries and employee benefits	311,415	331,672
Other operating expenses	98,398	182,919
	<u>445,332</u>	<u>544,446</u>
<b><u>NET LOSS</u></b>	<b><u>\$ (16,844)</u></b>	<b><u>\$ (136,477)</u></b>

**JEFF DAVIS BANCSHARES, INC. AND SUBSIDIARIES**  
**JENNINGS, LOUISIANA**  
**SUPPLEMENTAL SCHEDULE**  
**JD BANK INSURANCE, LLC FINANCIAL STATEMENTS**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net loss	\$ (16,844)	\$ (136,477)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization expense	105,000	105,000
Depreciation expense	8,572	9,515
Net change in operating assets and liabilities:		
Income taxes receivable	(28,830)	-
Deferred income taxes payable	5,551	-
Other assets and liabilities	(29,023)	2,496
Net cash provided by (used in) operating activities	44,426	(19,466)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of furniture and equipment	(3,955)	(3,447)
Net cash used in investing activities	(3,955)	(3,447)
Increase (decrease) in cash in subsidiary bank	40,471	(22,913)
Cash in subsidiary bank - beginning of year	141,585	164,498
Cash in subsidiary bank - end of year	\$ 182,056	\$ 141,585

## **OFFICERS**

**DAN L. DONALD, JR.**

Chief Executive Officer

**BOYD R. BOUDREAUX**

President and Chief Operating Officer

**RUDOLPH W. URBESO**

Executive Vice President and Chief Commercial Loan Officer

**JAMES W. RICHERT, JR.**

Executive Vice President and Chief Consumer Loan Officer

**PAUL E. BRUMMETT, II**

Executive Vice President and Branch Operations

**BRENT J. COURREGE**

Senior Vice President and Chief of Banking Operations

**BOBBY ST. JOHN**

Senior Vice President and Chief Credit Officer

SENIOR VICE PRESIDENTS

**DANNY J. EASON** – Kirby

**C. H. HAMMOND, JR.** - Lake Arthur

**JEFFERY W. JOHNSON** - Moss Bluff

**MITCHELL SAVOIE** – Kirby

**CARLY LEONARDS**

Vice President and Chief Financial Officer

VICE PRESIDENTS

**ROBERT P. BRANTLEY** - Portfolio Manager

**GEORGE R. CLINE** – Kirby

**PERRY CORMIER** – Iowa

**JUDY DUHON** - Human Resource Officer

**SHARON MELE** – Sulphur

**CYNTHIA MIRE** – Nelson Road

**LORI MITCHELL** – Kirby

**JACKIE MYERS** - Loan Services

**JAMES SWIFT** – McNeese

**GERALD J. THEUNISSEN, JR.** – Jennings

ASSISTANT VICE PRESIDENTS

**J. LLOYD BECNEL** – Security

**TINA BOURGEOIS** – McNeese

**NICOLE B. DOUCET** – Welsh

**ANITA GORDON** – Loan Officer

**DIANNE HAYWOOD** – Imaging Supervisor

**SUSAN HERPIN** – Iowa

**CHERYL HUVAL** – Jennings

**BRENDA ROBERTS** – Highway 14

**CATHERINE THOMPSON** – Collections Supervisor

**MONICA TRAHAN** – Lake Arthur

TRUST DEPARTMENT

**MARY ALICE LEBLANC** - Senior Trust Officer

**RAVEN BASS** - Trust Officer

**ELIZABETH C. PARKER**

Auditor

**NANCY A. HAYES**

President's Associate and Cashier

## **DIRECTORS**

### **JEFF DAVIS BANCSHARES, INC. AND JEFF DAVIS BANK & TRUST COMPANY**

**ALLEN J. MEDUS, JR.**

Chairman  
Jeff Davis Bancshares, Inc.

**DAN L. DONALD, JR.**

Vice Chairman  
Jeff Davis Bancshares, Inc.  
Chairman and CEO  
Jeff Davis Bank & Trust Company

**DAVID B. DONALD**

Secretary  
Jeff Davis Bancshares, Inc.  
Jeff Davis Bank & Trust Company

**BOYD R. BOUDREAUX**

President and Chief Operating Officer  
Jeff Davis Bank & Trust Company

**DR. G. VINCENT BAILEY**

**CLARENCE A. BERKEN**

**DARYL V. BURCKEL**

**ANDREW CORMIER**

**MILTON RAY CROCHET**

**DOUGLAS R. DAIGLE**

**RAY HINES**

**THOMAS E. LEGER**

**SARA A. ROBERTS**

**VICTOR T. STELLY**

**TERRY J. TERREBONNE**

**FRED B. TRAHAN**

