

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## FORM 10 - QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

Commission File Number 000-51297**FIRST METROPLEX CAPITAL, INC.**

(Exact name of registrant as specified in its charter)

**Texas**(State or other jurisdiction of  
incorporation or organization)**71-0919962**(I.R.S. Employer  
Identification No.)16000 Dallas Parkway, Suite 125, Dallas, Texas

(Address of principal executive offices, including zip code)

(972) 720- 9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

Yes  No 

The number of shares outstanding of the issuer's Common Stock as of May 9, 2005, was 1,680,000 shares.

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**FIRST METROPLEX CAPITAL, INC.**

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

FIRST METROPLEX CAPITAL INC  
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2005 (Unaudited)	DECEMBER 31, 2004
<b>ASSETS</b>		
Cash and due from banks	\$ 1,795,000	\$ 843,000
Federal funds sold	<u>10,625,000</u>	<u>11,565,000</u>
Total cash and cash equivalents	12,420,000	12,408,000
Investments		
Restricted	420,000	420,000
Loans, less allowance for credit losses of \$174,000 and \$100,000	11,420,000	6,559,000
Bank premises and equipment, net	1,211,000	1,181,000
Other assets	<u>31,000</u>	<u>115,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 25,502,000</u>	<u>\$ 20,683,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Demand deposits		
Noninterest bearing	\$ 2,508,000	\$ 1,739,000
Interest bearing	5,447,000	2,996,000
Time deposits \$100,000 and over	1,553,000	1,200,000
Other time deposits	<u>1,980,000</u>	<u>284,000</u>
Total deposits	11,488,000	6,219,000
Other liabilities	<u>31,000</u>	<u>9,000</u>
Total liabilities	11,519,000	6,228,000
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value		
10,000,000 shares authorized		
1,680,000 shares issued and outstanding	17,000	17,000
Additional paid-in capital	16,380,000	16,380,000
Retained deficit	( 2,414,000)	( 1,942,000)
Accumulated comprehensive income	<u>-</u>	<u>-</u>
Total stockholders' equity	<u>13,983,000</u>	<u>14,455,000</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 25,502,000</u>	<u>\$ 20,683,000</u>

The Notes to Financial Statements are an integral part of these statements.

**FIRST METROPLEX CAPITAL, INC.**  
**STATEMENT OF OPERATIONS**  
(Unaudited)

	<u>3 MONTHS</u> <u>ENDED</u> <u>MAR 31, 2005</u>	<u>3 MOS</u> <u>ENDED</u> <u>MAR 31, 2004</u>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 158,000	\$ -
Investment securities		
Restricted	6,000	-
Federal funds sold	<u>62,000</u>	<u>-</u>
Total interest income	226,000	-
<b>INTEREST EXPENSE</b>		
Deposits	<u>30,000</u>	<u>-</u>
Interest income, net	196,000	-
<b>PROVISION FOR CREDIT LOSSES</b>		
Interest income after provision for credit losses	<u>74,000</u>	<u>-</u>
Interest income after provision for credit losses	122,000	-
<b>OTHER INCOME</b>		
Service fees	<u>3,000</u>	<u>-</u>
	3,000	-
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	352,000	-
Occupancy expense	105,000	-
Professional fees	32,000	-
Other operating expenses	<u>108,000</u>	<u>-</u>
	<u>597,000</u>	<u>-</u>
Loss from operations	( 472,000)	-
Preopening costs	<u>-</u>	<u>( 248,000)</u>
<b>NET LOSS</b>	<u>(\$ 472,000)</u>	<u>(\$ 248,000)</u>
Net loss per weighted average share	<u>(\$ 0.28)</u>	<u>\$ -</u>
Weighted average shares outstanding	<u>1,680,000</u>	<u>-</u>

The Notes to Financial Statements are an integral part of these statements.

**FIRST METROPLEX CAPITAL, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**THREE MONTHS ENDED MARCH 31, 2005**  
**(Unaudited)**

	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income	Total
BALANCE, December 31, 2004	17,000	16,380,000	( 1,942,000)	-	14,455,000
Comprehensive income					
Net loss - YTD			( 472,000)		
Total comprehensive loss					( 472,000)
BALANCE, March 31, 2005	17,000	16,380,000	( 2,414,000)	-	13,983,000

The Notes to Financial Statements are an integral part of these statements.

**FIRST METROPLEX CAPITAL, INC.**  
**STATEMENT OF CASH FLOWS**  
(Unaudited)

	<u>3 MONTHS ENDED MAR 31, 2005</u>	<u>3 MOS ENDED MAR 31, 2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(\$ 472,000)	(\$ 248,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Provision for credit losses	74,000	-
Depreciation expense	39,000	2,000
Changes in operating assets and liabilities:		
Other assets	84,000	( 25,000)
Other liabilities	22,000	( 14,000)
	<u>( 253,000)</u>	<u>( 285,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in loans	( 4,935,000)	-
Purchases of bank premises and equipment	( 69,000)	( 23,000)
	<u>( 5,004,000)</u>	<u>( 23,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from organizers	-	317,000
Net change in demand deposits	3,220,000	-
Net change in time deposits	2,049,000	-
	<u>5,269,000</u>	<u>317,000</u>
Net increase in cash and cash equivalents	12,000	9,000
<b>CASH AND CASH EQUIVALENTS,</b>		
beginning of year	<u>12,408,000</u>	<u>343,000</u>
<b>CASH AND CASH EQUIVALENTS,</b>		
end of year	<u>\$ 12,420,000</u>	<u>\$ 352,000</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 29,892</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

**FIRST METROPLEX CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Operations**

First Metroplex Capital, Inc. ("the Company") was incorporated on December 23, 2002 for the purpose of holding the common stock of T Bank, N.A. ("the Bank"). For the period from December 23, 2002 (date of inception) to November 2, 2004, the Company was in a development stage engaging in the preparation of applications for regulatory approvals, raising capital, financial planning, and systems development, acquisition of equipment and facilities and recruiting activities. On October 29, 2004 the Company completed an offering of 1,680,000 shares of its common stock at a price of \$10 per share. The gross proceeds from the offering totaled \$16,800,000.

The Bank began operations on November 2, 2004. The Bank provides a full range of banking services to individuals and corporate customers with two banking facilities serving North Dallas, Addison, Plano, Frisco and surrounding Texas communities. The bank is subject to competition from other local, regional, and national financial institutions and is also subject to the regulations of certain federal agencies.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, T Bank N.A. All significant intercompany transactions have been eliminated in consolidation.

In the opinion of management, all adjustments consisting only of normal recurring adjustments, necessary to present fairly the assets, liabilities, and equity of the Bank and the operations and changes in stockholders equity for the three months ended March 31, 2005 have been included.

**Cash Equivalents and Statement of Cash Flows**

Due from banks, cash on hand, federal funds sold and all other highly liquid investments purchased with an original maturity of three months or less are considered to be cash and cash equivalents. Generally, federal funds are purchased and sold for one day periods. From time to time, deposits with correspondent banks will exceed amounts insured by the FDIC. Management does not anticipate any losses and evaluates the correspondent bank's financial status on a regular basis. Advances from organizers of \$2,605,000 were converted to common stock upon closing of the stock offering.

**Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the principal amount outstanding, net of unearned interest, deferred loan fees and the allowance for credit losses. Interest earned, both fixed and variable rates, is credited to operations based on the principal balances outstanding. Unearned interest and deferred loan fees are capitalized and recognized as income over the terms of the loan using the effective interest method.

The Company grants commercial, real estate and consumer loans to customers. Although the Company anticipates having a diversified loan portfolio, a substantial portion of its debtors' ability to honor their loan contracts is dependent upon the local economy. The Company's loan policy for requiring collateral is based upon a number of factors including amount and purpose of loan, length of term, past credit history, financial strength and liquidity of the borrower.

Loan origination and commitment fees, as well as certain direct loan origination and commitment costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method.

Impaired loans are accounted for at the net present value of expected future cash flows, discounted at the loan's effective interest rate, the observable market price of the loan or at the fair value of the collateral if the loan is collateral dependent.

**Allowance for Credit Losses**

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Until management has adequate historical data upon which to base the estimate of the allowance for credit losses, a balance of approximately one and one half percent of the outstanding principal is used unless additional information regarding the ability of the borrower to repay the loan, current economic conditions or other pertinent factors indicate a different allowance is needed. Credits deemed uncollectible are charged to the allowance. Provisions for credit losses and recoveries on loans previously charged off are added to the allowance. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

**Investment Securities**

The Bank has investments in stock of the Federal Reserve System and is required for participation in the services offered. These investments are classified as restricted and are recorded at cost.

**Leasehold improvements, Furniture and Equipment**

Leasehold improvements, furniture and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method at rates based on the estimated useful lives of the related assets. Useful lives for equipment is normally between 3 and 10 years. Leasehold improvements are depreciated over the lease term or estimated life, whichever is shorter. Repair and maintenance costs are expensed as incurred.

**Income Taxes**

Deferred taxes are recognized for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

**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.

**Stock Based Compensation**

The Company applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, in accounting for its stock-based compensation plans. Under Opinion 25, compensation cost is measured as the excess, if any, of the market price of the Company's stock at the date of the grant above the amount an employee must pay to acquire the stock. No compensation expense is recognized when the exercise price is equal to the market value of the stock on the day of grant. The Financial Accounting Standards Board ("FASB") published SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) on January 1, 1996 which encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options and other equity instruments to employees based on fair value accounting rules. Companies that do not adopt the fair value rules will continue to apply the existing rules, but are required to disclose pro forma net income or loss under the new method.

There were no common stock equivalents issued during the three months ended March 31, 2005 and all previously issued warrants were fully vested at December 31, 2004.

### Earnings Per Share

Earnings per share are computed in accordance with SFAS No. 128, which requires dual presentation of basic and diluted earnings per share (EPS) for entities with complex capital structures. Basic EPS is based on net income divided by the weighted-average number of shares outstanding during the period. Diluted EPS includes the dilutive effect of potential common stock using the treasury stock method only if the effect on earnings per share is dilutive.

Earnings per common share are computed by dividing net income by the weighted-average number of shares outstanding for the year. The weighted-average number of common shares outstanding for basic and diluted earnings per share computations was 1,680,000 for the three months ended March 31, 2005.

The Company reported a net losses for the three months ended March 31, 2005 and 2004. Accordingly, the dilutive effect of stock options and warrants is not considered in the net loss per share calculations for this period as the impact would have been antidilutive.

### Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

### New Accounting Pronouncements

FASB Statement 123R - On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payments which is a revision of FASB No. 123, Accounting for Stock-Based Compensation, Statement 123 (R) supersedes APB opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123 (R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The provisions of this statement become effective for our first interim period of 2006. Management has not yet determined the impact that this statement will have on our consolidated financial statements.

### NOTE 2. LOANS

The components of loans at March 31, 2005 are summarized as follows:

Commercial	\$ 4,503,000
Consumer installment	232,000
Real estate	6,859,000
	<u>11,594,000</u>
Less allowance for loan losses	174,000
	<u>\$ 11,420,000</u>

The change in the allowance for credit losses for 2005 is as follows:

Balance at beginning of year	\$ 100,000
Provision charged to operations	\$ 74,000
Loans charged off	—
Recoveries of loans previously charged off	—
Balance at March 31, 2005	<u>\$ 174,000</u>

The components of loans at December 31, 2004 are summarized as follows:

Commercial	\$ 3,415,000
Consumer installment	176,000
Real estate	3,068,000
	<u>6,659,000</u>
	100,000
Less allowance for loan losses	<u>\$ 6,559,000</u>

At March 31, 2005, there were no loans which were contractually delinquent over ninety days that were continuing to accrue interest. In addition, there were no loans considered impaired, which should have been recognized in conformity with SFAS No. 114 and SFAS No. 118. No interest income on impaired loans was recognized for cash payments during the period ended March 31, 2005.

### NOTE 3. SECURITIES

At March 31, 2005 and December 31, 2004 securities consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Federal Reserve Bank Stock	<u>\$ 420,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 420,000</u>

### NOTE 4. RELATED PARTIES

Certain Directors and Officers of the Bank have depository accounts with the Bank. None of those deposit accounts have terms more favorable than those available to any other depositor.

**NOTE 5. BANK PREMISES AND EQUIPMENT**

The original cost and related accumulated depreciation at March 31, 2005 and December 31, 2004 is as follows:

	<u>March 31</u>	<u>December 31</u>
Leasehold improvements	\$ 505,000	\$ 504,000
Furniture and equipment	<u>766,000</u>	<u>698,000</u>
	1,271,000	1,202,000
Less accumulated depreciation	<u>60,000</u>	<u>21,000</u>
	<u>\$ 1,211,000</u>	<u>\$ 1,181,000</u>

**NOTE 6. DEPOSITS**

Deposits at March 31, 2005 are summarized as follows:

	<u>Amount</u>	<u>Percent</u>
Noninterest bearing demand	\$ 2,508,000	22%
Interest bearing demand (NOW)	1,202,000	10%
Money market accounts	5,447,000	47%
Savings accounts	235,000	2%
Certificates of deposit, less than \$100,000	543,000	5%
Certificates of deposit, \$100,000 or greater	<u>1,553,000</u>	<u>14%</u>
	<u>\$ 11,488,000</u>	<u>100%</u>

Deposits at December 31, 2004 are summarized as follows:

Noninterest bearing demand	\$ 1,739,000	28%
Interest bearing demand (NOW)	758,000	12%
Money market accounts	1,996,000	32%
Savings accounts	242,000	4%
Certificates of deposit, less than \$100,000	284,000	5%
Certificates of deposit, \$100,000 or greater	<u>1,200,000</u>	<u>19%</u>
	<u>\$ 6,219,000</u>	<u>100%</u>

At March 31, 2005, the scheduled maturities of certificates of deposit were as follows:

2005	\$ 1,940,000
2006	6,000
2007	0
2008	0
2009	0
2010	<u>150,000</u>
Total	<u>\$ 2,096,000</u>

At December 31, 2004, the scheduled maturities of certificates of deposit were as follows:

2005	478,000
2006	<u>6,000</u>
Total	<u><u>\$ 1,484,000</u></u>

#### **NOTE 7. INCOME TAXES**

Management has provided a 100% valuation allowance for its net deferred tax asset due to uncertainty of realization during the carry forward period.

As of December 31, 2004, the Company had net tax operating loss carry forwards of approximately \$191,000 that will ultimately expire in 2024 if not used.

#### **NOTE 8. STOCK OPTIONS**

The Company is currently preparing a stock incentive plan designed to provide it with the flexibility to grant incentive stock options and non-qualified stock options to its executive and other officers. The purpose of the plan will be to provide increased incentive for key employees to render services and to exert maximum effort for the success of the Company. The plan will have a term of 10 years. The plan will be administered by the Board of Directors who will reserve 260,000 shares for issuance. There are contractual obligations outstanding at March 31, 2005 and December 31, 2004 to issue options to purchase 150,000 shares. The plan is subject to shareholder approval.

#### **NOTE 9. STOCK WARRANTS**

The Company has two stock warrant plans at March 31, 2005 and December 31, 2004.

Initial shareholders in the Company received warrants to purchase one share of common stock for every five shares of common stock purchases in the offering. A total of 336,000 warrants were issued. These warrants are exercisable at a price of \$12.50 per share at any time until November 2, 2007.

The Company's organizers advanced funds for organizational and other preopening expenses. As consideration for the advances the organizers received warrants to purchase one share of common stock for every \$20 advanced up to a limit of \$100,000. A total of 96,750 warrants were issued. These warrants are exercisable at a price of \$10.00 per share at any time until November 2, 2014.

There were no additional warrants issued during the three months ended March 31, 2005.

#### **NOTE 10. ADVANCES FROM ORGANIZERS**

The Company's organizers advanced funds for organizational and other preopening expenses. The advances were non interest bearing and had no stated maturity. The Company repaid the advances by issuing shares of common stock at \$10 per share.

#### **NOTE 11. COMMITMENTS AND CONTINGENCIES**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the accompanying balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At March 31, 2005, the Company had commitments to extend credit and standby letters of credit of approximately \$4,227,000 and \$0, respectively. At December 31, 2004, the Company had commitments to extend credit and standby letters of credit of approximately \$2,124,000 and \$0, respectively.

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 may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

### **Employment Agreements**

The Company and the Bank have entered into employment agreements with the three officers of the Bank. The agreements are for an initial three-year term and are automatically renewable for an additional three years unless either party elects not to renew.

The agreements provide for compensation and benefits including the issuance of options to acquire up to 140,000 shares of the Company's common stock at \$10 per share, exercisable within ten years from the date of grant. At March 31, 2005 and December 31, 2004, these options had not been issued.

The agreements further provide for termination payments in the event of a change in control, as defined.

### **NOTE 12. REGULATORY MATTERS**

The Company is 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulations to ensure capital adequacy require

the Company to maintain minimum amounts and ratios (set forth in the table below) 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 March 31, 2005 and December 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2005 and December 31, 2004, the most recent notification from the Bank's regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount (000's)	Ratio	Amount (000's)	Ratio	Amount (000's)	Ratio
<b>As of March 31, 2005</b>						
Total Capital (to Risk Weighted Assets)	\$ 13,334	96.07%	\$ 1,111	≥8.00%	\$ 1,389	≥10.00%
Holding Company Bank	\$ 13,334	96.07%	\$ 1,111	≥8.00%	\$ 1,389	≥10.00%
Tier I Capital (to Risk Weighted Assets)	13,170	94.82%	555	≥4.00%	833	≥6.00%
Holding Company Bank	13,170	94.82%	555	≥4.00%	833	≥6.00%
Tier I Capital (to Average Assets)	13,170	61.80%	852	≥4.00%	1,065	≥5.00%
Holding Company Bank	13,170	61.80%	852	≥4.00%	1,065	≥5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount (000's)	Ratio	Amount (000's)	Ratio	Amount (000's)	Ratio
<b>As of December 31, 2004</b>						
Total Capital (to Risk Weighted Assets)	\$ 14,555	147.98%	\$ 787	≥8.00%	\$ 984	≥10.00%
Holding Company Bank	\$ 13,725	150.77%	\$ 1,098	≥8.00%	\$ 910	≥10.00%
Total Capital (to Risk Weighted Assets)	14,455	146.96%	393	≥4.00%	590	≥6.00%
Holding Company Bank	13,625	149.68%	364	≥4.00%	546	≥6.00%
Total Capital (to Risk Weighted Assets)	14,455	82.94%	669	≥4.00%	836	≥5.00%
Holding Company Bank	13,625	82.94%	657	≥4.00%	921	≥5.00%

**NOTE 13. PREREOOPENING EXPENSES**

As explained in Note 1, the Bank was in a development stage from December 23, 2002 to November 1, 2004 and incurred certain preopening costs. The preopening costs consisted of the following:

Regulatory fees	\$	0
Professional fees		59,000
Consulting fees		123,000
Preoffering consulting fees		0
Preopening operation expenses		66,000
	<u>\$</u>	<u>248,000</u>

**NOTE 14. PARENT COMPANY CONDENSED FINANCIAL STATEMENTS**

FIRST METROPLEX CAPITAL, INC.  
CONDENSED BALANCE SHEET  
MARCH 31, 2005

ASSETS	
Cash and due from banks	\$ 813,000
Investment in subsidiary	13,170,000
<b>Total Assets</b>	<b>\$ 13,983,000</b>
LIABILITIES AND CAPITAL	
Capital	13,983,000
<b>Total Liabilities and Capital</b>	<b>\$ 13,983,000</b>

FIRST METROPLEX CAPITAL, INC.  
CONDENSED INCOME STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2005

Equity in loss from Bank	\$ (455,000)
Noninterest expense:	
Professional and administrative expenses	17,000
Total	17,000
<b>Net Loss</b>	<b>\$ (472,000)</b>

FIRST METROPLEX CAPITAL, INC.  
CONDENSED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2005

Cash Flows from Operating Activities:	
Net Loss	\$ (472,000)
Adjustments to reconcile net loss	
To net cash provided by operating activities	
Equity in loss of Bank	455,000
Changes in operating assets and liabilities:	
Other assets	734,000
Net cash provided by operating activities	717,000
Cash Flows from Investing Activities	
Net cash used in investing activities	0
Cash Flows from Financing Activities	0
Net cash provided from financing activities	0
Net change in cash and cash equivalents	717,000
Cash and cash equivalents, beginning of year	96,000

Cash and cash equivalents, end of year	\$	<u>813,000</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$	—
Income tax paid	\$	—

FIRST METROPLEX CAPITAL, INC.  
CONDENSED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2005

ASSETS	
Cash and due from banks	\$ 96,000
Bank premises and equipment, net	457,000
Accounts receivable	276,000
Other assets	13,626,000
<b>Total Assets</b>	<b>\$ 14,445,000</b>
<hr/>	
LIABILITIES AND CAPITAL	
Capital	14,455,000
<b>Total Liabilities and Capital</b>	<b>\$ 14,455,000</b>

FIRST METROPLEX CAPITAL, INC.  
CONDENSED INCOME STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2005

Equity in loss from Bank	\$ (374,000)
Noninterest expense:	
Preopening expenses	948,000
Total	948,000
<b>Net Loss</b>	<b>\$ (1,322,000)</b>

FIRST METROPLEX CAPITAL, INC.  
CONDENSED STATEMENT OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2005

Cash Flows from Operating Activities:	
Net Loss	\$ (1,322,000)
Adjustments to reconcile net loss	
To net cash provided by operating activities	
Equity in loss of Bank	374,000
Changes in operating assets and liabilities:	
Other assets	(191,000)
Other liabilities	(14,000)
<b>Net cash used in operating expenses</b>	<b>(1,153,000)</b>
Cash Flows from Investing Activities	
Purchases of bank premises and equipment	(428,000)
Investment in T Bank NA	(14,000,000)
<b>Net cash used in investing activities</b>	<b>(14,428,000)</b>
Cash Flows from Financing Activities:	
Sale of common stock	14,195,000
Offering costs	(403,000)
Advance from organizers	1,542,000

Net cash provided from financing activities	15,334,000
Net decrease in cash and cash equivalents	(247,000)
Cash and cash equivalents, beginning of year	343,000
	<u>\$ 96,000</u>

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**Supplemental Disclosure of Cash Flow Information**

Interest paid	\$	—
Income tax paid	\$	—

**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis presents our consolidated financial condition and results of operations for the three months ended March 31, 2005. The discussion should be read in conjunction with our financial statements and the notes related thereto which appear elsewhere in this Quarterly Report on Form 10-QSB.

Statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including our expectations, intentions, beliefs, or strategies regarding the future. Any statements in this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "will continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results may differ materially from those in such forward-looking statements due to fluctuations in interest rates, inflation, government regulations, economic conditions, customer disintermediation and competitive product and pricing pressures in the geographic and business areas in which we conduct operations, including our plans, objectives, expectations and intentions and other factors discussed under the section entitled "Risk Factors," in our Annual Report on Form 10-KSB for the year ended December 31, 2004, including the following:

- we have limited operating history upon which to base an estimate of our future financial performance;
- we have incurred substantial start-up expenses associated with our organization and our recent public offering and expect to sustain losses or achieve minimal profitability during our initial years of operations;
- if we are unable to implement our business plan and strategies, we will be hampered in our ability to develop business and serve our customers, which, in turn, could have an adverse effect on our financial performance;
- if we fail to retain our key employees, growth and profitability could be adversely affected;
- we face substantial competition in our primary market area;
- the Bank's current legally mandated lending limits are lower than those of our competitors, which may impair our ability to attract borrowers;
- an economic downturn, especially one affecting our primary service area, may have an adverse effect on our financial performance;
- changes in governmental economic and monetary policies, the Internal Revenue Code and banking and credit regulations, as well as other factors, will affect the demand for loans and the ability of the Bank to attract deposits;

- changes in the general level of interest rates and other economic factors can affect the Bank's interest income by affecting the spread between interest-earning assets and interest-bearing liabilities;
- we have no current intentions of paying cash dividends;
- we are subject to significant government regulation and legislation that increases the cost of doing business and inhibits our ability to compete;
- we may not be able to raise additional capital on terms favorable to us; and
- our directors and executive officers beneficially own a significant portion of our outstanding common stock.

These factors and the risk factors referred to in our Annual Report on Form 10-KSB for the year ended December 31, 2004 could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## **Executive Overview**

### ***Introduction***

We are a bank holding company headquartered in Dallas, Texas, offering a broad array of banking services through our wholly owned banking subsidiary, T Bank. Our principal markets include North Dallas, Addison, Plano, Frisco and the neighboring Texas communities. As of March 31, 2005, we had, on a consolidated basis, total assets of \$25.5 million, net loans of \$11.4 million, total deposits of \$11.5 million, and shareholders' equity of \$14 million. We currently operate through a main office located at 16000 Dallas Parkway, Dallas, Texas, and a branch office at 8100 North Dallas Parkway, Plano, Texas.

We were incorporated under the laws of the State of Texas on December 23, 2002 to organize and serve as the holding company for the Bank. In 2004, we completed an initial public offering of our common stock, issuing 1,680,000 shares at a price of \$10.00 per share. The net proceeds that we received from the offering, after deducting offering expenses, were approximately \$16.4 million. The Bank opened for business on November 2, 2004.

The following discussion focuses on our financial condition and results of operations for the three months ended March 31, 2005. Since the Bank did not open until November 2, 2004, comparison to the same period in 2004 would not be meaningful. While comparisons are provided to the fiscal year ended December 31, 2004, those comparisons are affected significantly by the fact that the Bank did not begin operations until November 2004. There can be no assurance that the growth experienced by the Bank in its initial stage of development will be maintained.

### ***Key Performance Indicators at March 31, 2005***

We believe the following were key indicators of our performance and results of operations through the first quarter of 2005:

- our total assets grew to \$25.5 million at the end of the first quarter of 2005, representing an increase of 23%, from \$20.7 million at the end of 2004;
- our total loans grew to \$11.4 million at the end of the first quarter of 2005, representing an increase of 70%, from \$6.6 million at the end of 2004;
- our total deposits grew to \$11.5 million at the end of the first quarter of 2005, representing an increase of 85%, from \$6.2 million at the end of 2004;
- our total revenue grew to \$228,000 in the first quarter of 2005, representing an increase of 145%, from the fourth quarter of 2004; and



- our net loss was \$472,000 in the first quarter of 2005, representing an increase of 60%, from \$294,000 in the fourth quarter of 2004.

These items, as well as other factors, are discussed in further detail throughout this “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” section of this Quarterly Report on Form 10-QSB.

## **Results of Operations as of and for the Three Months Ended March 31, 2005**

### ***Net Interest Income and Net Interest Margin***

Net interest income is the difference between interest income, principally from loan, lease and investment securities portfolios, and interest expense, principally on customer deposits and borrowings. Net interest income is our principal source of earnings. Changes in net interest income result from changes in volume, spread and margin. Volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities. Spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Margin refers to net interest income divided by average interest-earning assets, and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

Net interest income increased by 125%, or \$109,000, to \$196,000 in the first quarter of 2005 from \$87,000 for the fourth quarter of 2004. Our net interest margin increased to 4.0% from 3.6%. Our net interest spread also increased to 2.65% from 2.16%. These increases primarily resulted from redeploying money invested in overnight fed funds into higher earning loans.

Total interest income increased by 125% to \$226,000 for the first quarter of 2005, as compared to \$5,000 for the fourth quarter of 2004. This increase is attributable primarily to the fact that the Bank opened November 2, 2004 and therefore operated for only two months of the fourth quarter of 2004. We also benefited from increases in average interest-earning assets. Average net loans increased by \$.3.7 million (75%), to \$8.6 million, as compared to \$4.9 million for the fourth quarter of 2004. We attributed this growth in loans to our ongoing marketing efforts.

Total interest expense increased by 500% to \$30,000 in the first quarter of 2005, compared to \$5,000 in the fourth quarter of 2004. These increases resulted primarily from our ongoing marketing efforts to attract new deposits. The average interest rate we paid for interest-bearing deposits for the first quarter of 2005 was 1.9%, compared to 1.6% for the fourth quarter of 2004. Average interest-bearing liabilities increased by 244% to \$6.2 million in the first quarter of 2005, compared to \$1.8 million in the fourth quarter of 2004.

The following table sets forth our average balances of assets, liabilities and shareholders’ equity, in addition to the major components of net interest income and our net interest margin for the quarters ended December 31, 2004 and March 31, 2005.

	For the Three Months Ended					
	March 31, 2005			December 31, 2004		
	Average Balance	Interest	Average Rate/ Yield <sup>(1)</sup>	Average Balance	Interest	Average Rate/ Yield <sup>(1)</sup>
<b>ASSETS:</b>						
Interest-earning assets:						
Net loans and leases <sup>(2)</sup>	\$ 8,714,000	\$ 157,000	2.0%	\$ 4,903,000	\$ 56,000	6.83%
Securities of U.S. government agencies	420,000	6,000	5.7	577,000	5,000	5.19
Other investment securities	0	0	0	0	0	0
Securities purchased under agreements to resell and federal funds sold	10,582,000	62,000	2.3	9,074,000	31,000	2.04
Interest-earning deposits	0	0	0	0	0	0
<b>Total interest-earning assets</b>	<b>\$ 19,716,000</b>	<b>\$ 226,000</b>	<b>4.6%</b>	<b>\$ 14,554,000</b>	<b>\$ 92,000</b>	<b>3.85%</b>
Total noninterest-earning assets	1,594,000			1,365,000		
<b>TOTAL ASSETS</b>	<b>\$ 21,310,000</b>			<b>\$ 15,919,000</b>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>						
Interest-bearing liabilities:						
Money market deposits	\$ 3,448,000	\$ 17,000	2.0%	\$ 701,000	\$ 1,966	1.71%
NOW deposits	824,000	1,000	0.5	440,000	370	0.50
Savings deposits	231,000	1,000	1.7	131,000	289	1.34
Time certificates of deposit in denominations of \$100,000 or more	1,251,000	8,000	2.6	405,000	1,675	2.52
Other time deposits	444,000	3,000	2.7	165,000	735	2.71
Other borrowings	0	0		0	0	0
<b>Total interest-bearing liabilities</b>	<b>\$ 6,198,000</b>	<b>\$ 30,000</b>	<b>1.9%</b>	<b>\$ 1,842,000</b>	<b>\$ 5,035</b>	<b>1.66%</b>
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	1,661,000			644,000		
Other liabilities	19,000			0		
<b>Total noninterest-bearing liabilities</b>	<b>1,680,000</b>			<b>644,000</b>		
<b>SHAREHOLDERS' EQUITY</b>	<b>13,432,000</b>			<b>13,433,000</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 21,310,000</b>			<b>\$ 15,919,000</b>		
Net interest income <sup>(3)</sup>		\$ 196,000			\$ 87,000	
Net interest spread <sup>(4)</sup>			2.7%			2.12%
Net interest margin <sup>(5)</sup>			4.0%			3.58%

Changes in volume and changes in interest rates affect our interest income and interest expense. The effect of these changes is typically displayed in a volume, mix and rate analysis table which compares the changes in income and expense over periods. Since the Company has a limited operating history, data to analyze these changes is not currently available.

#### **Provision for Loan Losses**

We determine a provision for loan losses that we consider sufficient to maintain an allowance to absorb probable losses inherent in our portfolio as of the balance sheet date. For additional information concerning this determination, see the section of this discussion and analysis captioned "Allowance for Loan Losses."

In the first quarter of 2005, our provision for loan and lease losses was \$74,000 compared to \$100,000 for the fourth quarter of 2004. The provision amounts are directly related to loan volumes. Because the Bank recently opened, as with the fourth quarter of 2004, we did not have any charge-offs or non-performing loans during the first quarter of 2005.

### *Noninterest Income*

As with the fourth quarter of 2004, our noninterest income for the quarter ended March 31, 2005 was attributable solely to service charges on depository accounts. Services charges for the first quarter of 2005 totaled \$3,000, compared to \$1,000 for the fourth quarter of 2004. The increase in income from service charges is attributable to the increase in our number of transactional and savings accounts.

### *Noninterest Expense*

The following tables set forth a summary of noninterest expenses for the periods indicated:

	<b>Three Months Ended</b>			
	<b>March 31, 2005</b>		<b>December 31, 2004</b>	
	<b>(Amount)</b>	<b>(%)</b>	<b>(Amount)</b>	<b>(%)</b>
Salaries and employee benefits	\$ 352,000	59%	\$ 239,000	66%
Occupancy and equipment	105,000	18	60,000	17
Office expenses	16,000	3	13,000	4
Data processing/ATM expense	28,000	5	23,000	6
Professional fees	20,000	3	8,000	2
Advertising/promotional	23,000	4	4,000	1
Other noninterest expense	37,000	6	16,000	4
Holding company administrative expense	16,000	2	0	0
<b>Total noninterest expense</b>	<b>\$ 597,000</b>	<b>100%</b>	<b>\$ 362,000</b>	<b>100%</b>

Our total noninterest expense increased to \$596,000 in the first quarter of 2005, as compared to \$362,000 for the fourth quarter of 2004, representing a decrease of 64%. This difference is attributable primarily to the expanded personnel and occupancy costs associated with the opening of the Bank and our initial business growth. While we anticipate that the overall volume of our noninterest expense will continue to increase as we grow, we are committed to controlling costs and efficiency and expect to moderate these increases relative to our revenue growth.

Salaries and employee benefits totaled \$352,000 for the first quarter of 2005. We had 15 full-time equivalent employees as of March 31, 2005. Our volume of assets per employee as of the end of the first quarter of 2005 was \$580,000.

Occupancy and equipment expenses totaled \$105,000 for the first quarter of 2005, attributable primarily to lease expense and depreciation and amortization of leasehold improvements and furniture, fixtures and equipment.

Holding company administrative expenses were \$16,000, or 2% of total noninterest expenses, for the first quarter of 2005. This is attributable primarily to fees associated with public reporting and other expenses generally associated with publicly-traded companies.

### *Income Taxes*

No federal tax expense has been recorded for the quarter ended March 31, 2005, based upon net operating losses. Based upon the Company's limited operating history, the federal tax benefit of these losses has been fully reserved.

### **Financial Condition**

Our total assets as of March 31, 2005 were \$25.5 million, compared to \$20.7 million as of December 31, 2004. The increase in our total assets during the first quarter of 2005 were primarily the result of an increase in deposits.



Our total deposits increased to \$11.4 million as of March 31, 2005, compared to \$6.6 million as of December 31, 2004. Our asset growth during the first quarter of 2005 was primarily the result of our continued marketing efforts to attract new clients.

As of March 31, 2005, our shareholders' equity was \$14.0 million, compared to \$14.5 million as of December 31, 2004. This decrease was the result of operating losses in the first quarter of 2005.

#### ***Short-Term Investments and Interest-bearing Deposits in Other Financial Institutions***

At March 31, 2005, the Bank had \$10.6 million in federal funds sold. At December 31, 2004 the Bank had \$11.6 million. Federal funds sold, compared to \$11.6 million at December 31, 2004. Federal funds sold allow the Bank to meet liquidity requirements and provide temporary holdings until the funds can be otherwise deployed or invested.

#### ***Investment Securities***

Our investment portfolio will primarily serve as a source of interest income and, secondarily, as a source of liquidity and a management tool for our interest rate sensitivity. We manage our investment portfolio according to a written investment policy established by our Board of Directors and implemented by our Investment/Asset-liability Committee.

At March 31, 2005 and December 31, 2004, the Bank's securities consisted solely of Federal Reserve Bank Stock, having an amortized cost of \$420,000 an estimate fair value of \$420,000, and a weighted average yield of 5.7%.

#### ***Loan Portfolio***

Our primary source of income is interest on loans. The following table presents the composition of our loan portfolio by category as of the dates indicated:

	<b>As of March 31, 2005</b>	<b>As of December 31, 2004</b>
Real estate - mortgage	\$ 4,559,000	\$ 1,732,000
Commercial and industrial	4,503,000	3,415,000
Consumer	232,000	176,000
Real estate - construction	2,300,000	1,336,000
Other loans	0	0
Gross loans and leases	<b>\$ 11,594,000</b>	<b>\$ 6,659,000</b>
Less: Allowance for loan and lease losses	174,000	100,000
Loans, net	<b>\$ 11,420,000</b>	<b>\$ 6,559,000</b>

As of March 31, 2005 and December 31, 2004, our total loans were \$11.4 million and \$6.6 million, respectively. The increase in our loan volume during the first quarter of 2005 resulted from the continued growth of our operations. Our total loans as a percentage of total assets increased to 45% as of March 31, 2005 from 32% as of December 31, 2004.

Our commercial loan portfolio is comprised of lines of credit for working capital and term loans to finance equipment and other business assets. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually and are supported by accounts receivable, inventory, equipment and other assets of our client's businesses. At March 31, 2005 and December 31, 2004, funded loans totaled \$4.5 million and \$3.4 million, approximately 39% and 51% of our total funded loans, respectively.



Our consumer loan portfolio consists of personal lines of credit and loans to acquire personal assets such as automobiles and boats. Our lines of credit generally have terms of one year and our term loans generally have terms of three to five years. Our lines of credit typically have floating rates. At March 31, 2005 and December 31, 2004, funded consumer loans totaled \$232,000 and \$176,000, approximately 2% and 2.6% of our total funded loans, respectively.

Our real estate loan portfolio is comprised of construction loans and short term mortgage loans. Construction loans consist primarily of single-family residential properties, have a term of less than one year and have floating rates and commitment fees. We typically make construction loans to builders that have an established record of successful project completion and loan repayment. Short term mortgage loans typically are secured by commercial properties occupied by the borrower, have terms of three to seven years with both fixed and floating rates. At March 31, 2005 and December 31, 2004, funded real estate loans totaled \$6.9 million and \$3.1 million, approximately 59% and 46% of our total funded loans, respectively.

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At March 31, 2005, our commercial loan portfolio included \$3.0 million of loans, approximately 26% of our total funded loans, to fund the purchase of dental practices. We believe that these loans are well secured to credit worthy borrowers and are diversified geographically. As new loans are generated and the Bank continues to grow, the percentage of the total loan portfolio creating the foregoing concentration may remain constant thereby continuing the risk associated with industry concentration.

Management may renew loans at maturity when requested by a customer whose financial strength appears to support such a renewal or when such a renewal appears to be in the best interest of the Bank. The Bank requires payment of accrued interest in such instances and may adjust the rate of interest, require a principal reduction, or modify other terms of the loan at the time of renewal.

Our loan terms vary according to loan type. The following table shows our maturity distribution of loans and leases as of March 31, 2005:

	<b>As of March 31, 2005</b>					<b>Total</b>
	<b>Over 1 Year</b>		<b>Over 5 Years</b>			
	<b>through 5 Years</b>		<b>Over 5 Years</b>			
	<b>One Year</b>	<b>Fixed</b>	<b>Floating or</b>	<b>Fixed</b>	<b>Floating or</b>	
	<b>or Less</b>	<b>Rate</b>	<b>Adjustable</b>	<b>Rate</b>	<b>Adjustable</b>	
						<b>(In thousands)</b>
Real estate — construction	\$ 2,001,000	\$ 0	\$ 299,000	\$ 0	\$ 0	\$ 2,300,000
Real estate — secured	1,343,000	3,216,000	0	0	0	4,559,000
Commercial and industrial	1,782,000	2,015,000	0	706,000	0	4,503,000
Consumer	115,000	117,000	0	0	0	232,000
Leases	0	0	0	0	0	0
Other loans	0	0	0	0	0	0
<b>Total</b>	<b>\$ 5,241,000</b>	<b>\$ 5,348,000</b>	<b>\$ 299,000</b>	<b>\$ 706,000</b>	<b>\$ 0</b>	<b>\$ 11,594,000</b>

### ***Nonperforming Loans, Leases and Assets***

Nonperforming assets consist of loans and leases on nonaccrual status, loans 90 days or more past due and still accruing interest, loans that have been restructured resulting in a reduction or deferral of interest or principal, OREO, and other repossessed assets. As of March 31, 2005, we had no nonperforming assets.

A potential problem loan is defined as a loan where information about possible credit problems of the borrower is known, causing management to have serious doubts as to the ability of the borrower to comply with the present loan payment terms and which may result in the inclusion of such loan in one of the nonperforming asset categories. We maintain an internally classified loan list that helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans classified as “special mention” are those that contain a weakness that, if left unattended, could develop into a problem affecting the ultimate collectibility of the loan. Loans classified as “substandard” are those loans with clear and defined weaknesses such as highly leveraged positions, unfavorable financial ratios, uncertain

repayment resources or poor financial condition, which may jeopardize recoverability of the loan. Loans classified as “doubtful” are those loans that have characteristics similar to substandard loans, but also have an increased risk that loss may occur or at least a portion of the loan may require a charge-off if liquidated at present. Although loans classified as substandard do not duplicate loans classified as doubtful, both substandard and doubtful loans may include some loans that are past due at least 90 days, are on nonaccrual status or have been restructured. Loans classified as “loss” are those loans that are in the process of being charged-off. The Bank had no loans classified in these categories at March 31, 2005.

*Allowance for Loan Losses*

Implicit in our lending activities is the fact that loan losses will be experienced and that the risk of loss will vary with the type of loan being made and the creditworthiness of the borrower over the term of the loan. To reflect the currently perceived risk of loss associated with our loan portfolio, additions are made to our allowance for loan losses in the form of direct charges against income and allowance is available to absorb possible loan losses. The factors that influence the amount include, among others, the remaining collateral and/or financial condition of the borrowers, historical loan loss, changes in the size and composition of the loan portfolio, and general economic conditions.

The amount of the allowance equals the cumulative total of the provisions made from time to time, reduced by loan charge-offs and increased by recoveries of loans previously charged-off. Until management has adequate historical data upon which to base the estimate of the allowance for loan losses, a balance of approximately 1.5% of the outstanding principal will be used unless additional information regarding the ability of the borrower to repay the loan, current economic conditions or other pertinent factors indicate a different allowance is needed. Thus, our allowance was \$174,000 and \$100,000 of outstanding principal as of March 31, 2005 and December 31, 2004, respectively.

Credit and loan decisions are made by management and the Board of Directors in conformity with loan policies established by the board of directors. The Bank's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or other reasons. During the year ended December 31, 2004 and first quarter of 2005, we did not incur any charge-offs.

The following table sets forth the specific allocation of the allowance for the periods indicated and the percentage of allocated possible loan losses in each category to total gross loans. An allocation for a loan classification is only for internal analysis of the adequacy of the allowance and is not an indication of expected or anticipated losses:

	As of March 31, 2005		As of December 31, 2004	
	Amt.	Loan Category to Gross Loans	Amt.	Loan Category to Gross Loans
<b>Allocated:</b>				
Real estate — construction	\$ 35,000	20%	20,000	20%
Real estate — secured	68,000	39	26,000	26
Commercial and industrial	67,000	39	51,000	51
Consumers	4,000	2	3,000	3
Leases	0		0	
Other loans	0		0	
Total allowance for loan and lease losses	\$ 174,000	100%	100,000	100

**Nonearning Assets**

Premises, leasehold improvements and equipment, net of accumulated depreciation and amortization, totaled \$1.21 million at March 31, 2005 and \$1.18 million at December 31, 2004. We have no definitive agreements regarding acquisition or disposition of owned or leased facilities and, for the near-term future, we do not expect significant changes in our total occupancy expense.

**Deposits**

Deposits are our primary source of funds. The following table sets forth, for the periods indicated, the distribution of our average deposit account balances and average cost of funds on each category of deposits:

	<b>Three Months Ended March 31,</b>			<b>Year Ended December 31,</b>		
	<b>2005</b>			<b>2004</b>		
	<b>Average Balance</b>	<b>Percent of Deposits</b>	<b>Average Rate</b>	<b>Average Balance</b>	<b>Percent of Deposits</b>	<b>Average Rate</b>
(Dollars in thousands)						
Noninterest-bearing demand deposits	\$ 1,661,000	21%	0%	\$ 644,000	30%	0%
Money market deposits	3,448,000	44	2.0	701,000	28	1.7
NOW deposits	824,000	10	0.5	441,000	18	0.5
Savings deposits	231,000	3	1.5	131,000	5	1.3
Time certificates of deposit in denominations of \$100,000 or more	1,251,000	16	2.6	404,000	16	2.7
Brokered certificates of deposits	0	0	0	0	0	0
Other time deposits	444,000	6	2.6	165,000	0	2.7
<b>Total deposits</b>	<b>\$ 7,879,000</b>	<b>100%</b>		<b>\$ 2,486,000</b>	<b>100%</b>	

Total deposits at March 31, 2005 and December 31, 2004 were \$11.5 million and

\$6.6 million respectively, representing an increase of \$5 million, or 77%, during the first quarter of 2005. Average deposits for the first quarter of 2005 were \$7.9 million, as compared to \$2.5 million for the fourth quarter of 2004. The Bank is constantly searching for ways to attract additional deposits.

The following table sets forth the amount and maturities of the time deposits of \$100,000 or more as of the periods indicated:

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Three months or less	\$ 351,000	\$ 250,000
Over three months through six months	252,000	950,000
Over six months through 12 months	850,000	0
Over 12 months	100,000	0
<b>Total</b>	<b>\$ 1,553,000</b>	<b>\$ 1,200,000</b>

**Return on Equity and Assets**

The following table sets forth certain information regarding the Company's return on equity and assets for the periods indicated:

	<u>At March 31, 2005</u>	<u>December 31, 2004</u>
Return of assets	-8.5%	-8.3%
Return on equity	-13.6%	-11.9%
Dividend payout ratio	0%	0%
Equity to assets ratio	52%	70%

### *Off-Balance Sheet Arrangements*

Neither the Company nor the Bank has any material off-balance sheet arrangements.

### *Borrowings*

The Company has access to a variety of borrowing sources including federal funds purchased

At March 31, 2005 and December 31, 2004, the Company had outstanding loan origination commitments and unused commercial and retail lines of credit of \$2.7 million and \$2.1 million, respectively, and no standby letters of credit. Management believes the Bank has sufficient funds available to meet current origination and other lending commitments. Certificates of deposit that are scheduled to mature within one year totaled \$1.9 million and \$1.5 million at March 31, 2005 and December 31, 2004, respectively.

The following table summarizes the Bank's significant contractual obligations and other potential funding needs at March 31, 2005:

	<u>As of March 31, 2005</u>			
	<u>Less than One Year</u>	<u>One Year to Three Years</u>	<u>Over Three Years to Five Years</u>	<u>Over Five Years</u>
Time deposits	\$ 1,940,000	\$ 6,000	\$ 150,000	\$ 0
Operating leases	164,000	328,000	335,000	580,000
Total	<u>\$ 2,104,000</u>	<u>\$ 334,000</u>	<u>\$ 485,000</u>	<u>\$ 580,000</u>

### *Capital Resources and Capital Adequacy Requirements*

The risk-based capital regulations established and administered by the banking regulatory agencies discussed previously are applicable to the Bank. Risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under the regulations, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk weighted assets and off-balance sheet items. Under the prompt corrective action regulations, to be adequately capitalized a bank must maintain minimum ratios of total capital to risk-weighted assets of 8.00%, Tier 1 capital to risk-weighted assets of 4.00%, and Tier 1 capital to total assets of 4.00%. Failure to meet these capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

As of March 31, 2005, the Bank was categorized as well-capitalized. A well-capitalized institution must maintain a minimum ratio of total capital to risk-weighted assets of at least 10.00%, a minimum ratio of Tier 1 capital to risk weighted assets of at least 6.00%, and a minimum ratio of Tier 1 capital to total assets of at least 5.00% and must not be subject to any written order, agreement, or directive requiring it to meet or maintain a specific capital level.

	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Problems</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
			<b>(Dollars in Thousands)</b>			
<b>As of March 31, 2005</b>						
Total Capital (to risk-weighted assets)	\$ 13,344,000	96.07%	\$ 1,111,000	>8%	\$ 1,389,000	>10%
Tier 1 capital (to risk-weighted assets)	13,170,000	94.82%	555,000	>4%	833,000	>6%
Tier 1 capital (to average assets)	13,170,000	61.8%	852,000	>4%	1,065,00	>5%
<b>As of December 31, 2004</b>						
Total Capital (to risk-weighted assets)	\$ 13,725,000	150.77%	\$ 1,098,000	>8%		