

**THIRD STREET BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2009 AND 2010**

	2009	2010
ASSETS	(Audited)	(Unaudited)
Cash and Due from Banks	\$3,053,990	\$ 8,088,541
FF Sold / COD With Other Banks	744,000	358,000
Investment Securities:		
Held to Maturity, at Amortized Costs (Market Values: 2009 - \$0; 2010 - \$ 0)	0	0
Available-for-Sale, at Fair Value	5,661,142	4,523,566
Loans – Net	77,269,206	80,704,791
LESS: Allowance for Loan Losses	(1,020,000)	(1,123,000)
Premises and Equipment – Net	1,798,034	1,709,192
Accrued Interest Receivable	320,591	297,932
Deferred Tax Benefits	434,946	435,401
Other Real Estate Owned / Repossessed		
Property	353,572	213,900
Other Assets	2,781,319	3,201,491
TOTAL ASSETS	<u>\$91,396,800</u>	<u>\$98,409,814</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS		
Demand - Noninterest Bearing	\$ 9,267,390	\$ 9,506,239
Demand - Interest Bearing	11,611,892	12,580,291
Savings	12,304,191	14,206,063
Time Deposits	<u>41,873,097</u>	<u>43,112,576</u>
TOTAL DEPOSITS	<u>\$75,056,570</u>	<u>\$79,405,169</u>
FHLB Advances	5,751,760	7,829,288
Fed Funds Purch	113,000	0
Accrued Interest Payable	147,302	112,616
Federal Income Tax Payable	266,714	431,315
Other Liabilities	<u>166,365</u>	<u>130,125</u>
TOTAL LIABILITIES	<u>\$81,501,711</u>	<u>\$87,908,513</u>
SHAREHOLDERS' EQUITY		
Common Stock	\$ 7,731,488	\$ 7,915,288
Retained Earnings (Deficit)	2,225,237	2,506,344
Accumulated Other Comprehensive Income	<u>(61,636)</u>	<u>79,669</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 9,895,089</u>	<u>\$10,501,301</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$91,396,800</u>	<u>\$98,409,814</u>

**THIRD STREET BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2009 AND 2010**

	2009	2010
	(Audited)	(Unaudited)
INTEREST INCOME		
Interest and Fees on Loans	\$ 2,253,441	\$2,171,524
Interest and Dividends on Securities	134,856	108,113
Interest on Federal Funds Sold	333	405
Interest on Deposits with Other Banks	<u>21,235</u>	<u>8,886</u>
TOTAL INTEREST INCOME	<u>\$ 2,409,865</u>	<u>\$ 2,288,928</u>
INTEREST EXPENSE		
Interest on Deposits	\$789,537	\$ 572,528
Interest on Federal Funds Purchased	509	114
Interest on Other Borrowings	<u>70,843</u>	<u>80,588</u>
TOTAL INTEREST EXPENSE	<u>\$ 860,889</u>	<u>\$ 652,230</u>
NET INTEREST INCOME	<u>\$ 1,548,976</u>	<u>\$ 1,635,698</u>
Provision for Loan Losses	<u>81,568</u>	<u>97,180</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>\$ 1,467,408</u>	<u>\$ 1,538,518</u>
NONINTEREST INCOME		
Service Charges, and Fees on Deposits	\$ 139,446	\$ 139,277
Other Income	48,929	49,947
Gain (Loss) Sale of Secur/Other Assets	<u>5,438</u>	<u>0</u>
TOTAL NONINTEREST INCOME	<u>\$ 193,813</u>	<u>\$ 189,224</u>
NONINTEREST EXPENSES		
Employee Compensation and Benefits	\$ 575,580	\$ 585,054
Occupancy Expense, Net of Revenues	64,485	65,884
Furniture and Equipment Expense	54,621	48,222
Internet and Data Processing Fees	135,619	135,705
Other Operating Expenses	<u>309,813</u>	<u>307,245</u>
TOTAL NONINTEREST EXPENSES	<u>\$ 1,140,118</u>	<u>\$ 1,142,110</u>
INCOME BEFORE INCOME TAXES	<u>\$ 521,103</u>	<u>\$ 585,632</u>
Applicable Income Taxes	<u>196,500</u>	<u>257,500</u>
NET INCOME	<u>\$ 324,603</u>	<u>\$ 328,132</u>

To Our Shareholders, Customers and Friends:

We are pleased to announce the Consolidated Balance Sheet and Statement of Income for Third Street Bancshares, Inc. and its subsidiary, Settlers Bank, as of the quarter ending June 30, 2009 (audited) and June 30, 2010 (un-audited).

After a first quarter decrease from 2009, 2010 Net Income for the 2nd quarter increased by \$3,529 or 1.09% from the same date in 2009. You will note an increase from 2009 of \$15,612 or 19.14% in the

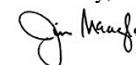
Provision for Loan Losses. However, the bank received a significant recovery from a previous loan loss which should result in a lower amount of provision for loan losses in the second half of 2010. Total Interest Income has decreased (\$120,937) or (-5.02%) from June 30, 2009 while Total Interest Expense has decreased (\$207,569) or (-24.12%) for the same time period resulting in a increase of \$71,110 or 4.85% in Net Interest Income after Provision for Loan Losses. Of particular note is an increase of \$61,000.00 or 31.04% in Applicable Income Taxes from June 30, 2009 to June 30, 2010. This increase is primarily caused by taxes paid on the aforementioned significant Loan Loss Recovery.

The Consolidated Balance Sheet reflects an increase in Assets of \$7,013,014 or 7.67% from June 30, 2009 to 2010. The majority of the increase was in Loans–Net in the amount of \$3,435,585 or 4.45%. Also, of significance, is an increase of \$5,034,551 or 164.85% in Cash and Cash Due from Banks. On the Liability side, Deposits increased \$4,348,599 or 5.79%. FHLB Advances increased \$2,077,528 or 36.12% from the prior year as management chose to borrow funds during the past year at a lower rate versus increasing deposits by matching the aggressive deposit pricing in our market area. However, present market deposit rates have been steady during the first and second quarter at reasonable interest rates and Management anticipates interest rates will remain relatively flat through the end of 2010. Total Shareholders equity increased \$606,212 or 3.13% from June 30, 2009 to June 30, 2010

The employees and Directors of Settlers Bank are looking forward to celebrating the bank's 11th anniversary on July 26th.

The Directors of Third Street Bancshares Inc. have announced a dividend payment of \$0.30 per share for the second quarter of 2010 which is an increase of 3.45% compared to the dividend paid during the same period for 2009. The Bid price per share of your stock \$46.50 and the ask price is currently \$48.75 .You can contact the market maker for our stock, Community Bank Investments, Inc., at 1-800-224-1013. If I can be of any assistance, please do not hesitate to contact me.

Sincerely,



Jim Meagle
President and CEO