

2011 YEAR-END REPORT  
January 10, 2012


Dear Shareholders:

Bank of Lexington enjoyed another solid year in 2011, with strong loan growth, healthy gains in core deposits, and good income numbers while continuing to grow our lending and management talent and deal with ever increasing regulatory burdens. We also made the decision to expand our footprint in 2012 to Tates Creek Road and Malabu Drive with a scheduled opening this summer. We feel this branch will enable us to meet our goals for future growth both in loans and core deposits and fulfill our original site plans when we opened in 2006. We have put a rendering of this branch on our website for your perusal. Highlights of 2011 follow:

- **Net income** for the year was \$1,064,696 **up 5.40% or \$54,548** from year-end 2010. Pre-tax income was up 7.00% or \$104,784 from 2010.
- **Return on Assets** for 2011 was **0.69%** compared to 0.72% for 2010.
- **Return on Equity** was **6.45%** for 2011 compared to 6.83% in 2010. The bank also finished the year with **book value per share of \$11.61** compared to \$10.15 in 2010. This is well ahead of the majority of our peer group.
- **Loans increased 18.97%** to \$133,721,710 at year-end 2011. Total Assets finished the year at \$166,756,824, a **19.27% increase** from 2010.
- **Core deposits** were **74.78%** of total assets at year-end 2011.
- **Net Interest Margin improved 52 basis points** to 4.37% for 2011. Net Interest Margin for December 2011 stood at 4.21%
- **Non-Performing and over 90 day delinquent loans were 0.37%** at year-end and 0.00% in 2010.
- **Net charge-offs** for 2011 were \$122,077 or **0.09% of average loans outstanding**. Loan Loss Reserve was funded at 1.35% of loans outstanding or \$1,797,391 at year-end.
- **Nonperforming assets** (restructured loans, nonaccrual loans, and other real estate owned) were \$1,131,144 or **5.92% of Equity plus Loan Loss Reserve**. Peer average is in excess of 30%.
- Expense control ratios remained strong for the bank with our **efficiency ratio of 70.08%** for the year.
- Capital Ratios remained strong at year-end 2011 with a **10.38% Tier One Leverage ratio** and **15.77% Total Risk Based ratios**.

As we move into 2012 I want to take this opportunity to thank all our shareholders for their business and referrals. It is noticed and certainly appreciated. Your Board of Directors and the Bank's staff are proud of what we have been able to build in a short amount of time and will continue to work hard to make our bank the best bank in Lexington.

Sincerely,



John Mauldin  
CEO

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