



FORM 10-K

METROCORP BANCSHARES INC – MCBI

Filed: March 15, 2001 (period: December 31, 2000)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange
Act of 1934 for the fiscal year ended December 31, 2000

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Commission file number: 0-25141

MetroCorp Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Texas 76-0579161
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

9600 Bellaire Boulevard, Suite 252
Houston, Texas 77036
(Address of principal executive offices including zip code)

(713) 776-3876
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$1.00 per share
(Title of class)

Indicate by check mark whether the registrant (1) 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 (2) has been subject to
such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

As of March 9, 2001, the number of outstanding shares of Common Stock was
6,981,484. As of such date, the aggregate market value of the shares of Common
Stock held by non-affiliates, based on the closing price of the Common Stock
on the Nasdaq National Market System on such date of \$10.063 per share, was
approximately \$70,254,673.

Documents Incorporated by Reference:

Portions of the Company's Proxy Statement for the 2001 Annual Meeting of
Shareholders, which will be filed within 120 days after December 31, 2000, are
incorporated by reference into Part III, Items 10-13 of this Form 10-K.

PART I

Special Cautionary Notice Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this Annual Report on Form 10-K and documents incorporated herein by reference that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements describe the Company's future plans, strategies and expectations, are based on assumptions and involve a number of risks and uncertainties, many of which are beyond the Company's control. The important factors that could cause actual results to differ materially from the results, performance or achievements expressed or implied by the forward-looking statements include, without limitation:

- . changes in interest rates and market prices, which could reduce the Company's net interest margins, asset valuations and expense expectations;
- . changes in the levels of loan prepayments and the resulting effects on the value of the Company's loan portfolio;
- . changes in local economic and business conditions which adversely affect the ability of the Company's customers to transact profitable business with the Company, including the ability of borrowers to repay their loans according to their terms or a change in the value of the related collateral;
- . increased competition for deposits and loans adversely affecting rates and terms;
- . the Company's ability to identify suitable acquisition candidates;
- . the timing, impact and other uncertainties of the Company's ability to enter new markets successfully and capitalize on growth opportunities;
- . increased credit risk in the Company's assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of the total loan portfolio;
- . the failure of assumptions underlying the establishment of and provisions made to the allowance for loan losses;
- . changes in the availability of funds resulting in increased costs or reduced liquidity;
- . increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
- . the Company's ability to acquire, operate and maintain cost effective and efficient systems without incurring unexpectedly difficult or expensive but necessary technological changes;
- . the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels; and
- . changes in statutes and government regulations or their interpretations applicable to bank holding companies and our present and future banking and other subsidiaries, including changes in tax requirements and tax rates.

All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements. The Company undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 1. Business

General

MetroCorp Bancshares, Inc. (the "Company") was incorporated as a business corporation under the laws of the State of Texas in 1998 to serve as a holding company for MetroBank, National Association (the "Bank"). The Company's headquarters are located at 9600 Bellaire Boulevard, Suite 252, Houston, Texas 77036, and its telephone number is (713) 776-3876.

The Company's mission is to enhance shareholder value by maximizing profitability and operating as the premier multi-ethnic bank in each community that it serves. The Company operates in a niche market by providing personalized, culturally sensitive service to the Asian and Hispanic communities in Houston and Dallas. The Company has strategically opened each of its 14 banking offices in an area with a large Asian or Hispanic community and intends to pursue branch opportunities in multi-ethnic markets with significant small and medium-sized business activity.

Management believes that both the Asian and Hispanic communities present excellent opportunities for future growth. Based on data obtained from the Greater Houston Partnership, the greater Houston metropolitan area is home to an Asian population of approximately 245,900, with people of Vietnamese, Chinese, Korean and Taiwanese ancestry comprising the four largest groups. Houston's Hispanic population is approximately 1,146,300 and represents approximately one-quarter of the city's population. The Asian and Hispanic communities together comprise almost one-third of the total population of Houston. Similarly, based on data obtained from the Dallas Chamber of Commerce, the greater Dallas metropolitan area has a growing Asian community of approximately 131,300 and a Hispanic population of approximately 572,300 which constitute, in the aggregate, approximately one-quarter of the total population of Dallas.

While the Company believes many of its competitors either fail to recognize the cultural distinctions among various ethnic groups or focus on only one ethnic group, management of the Company is acutely aware of and understands the unique cultural nuances of each community it serves. Multi-ethnic customers require a special level of understanding from their banker, whether it be the specific characteristics of the businesses they operate or the native dialect in which they converse. In order to better serve its customers, the Company recruits bilingual, multilingual and multicultural employees, publishes Company literature in four languages (English, Spanish, Vietnamese, and Chinese) and celebrates cultural holidays such as Chinese New Year and Cinco de Mayo at its branches. In addition, the active involvement of directors and officers in various ethnic civic organizations allows management to better understand and respond to the needs of each community that it serves. Management believes that each ethnic group has its own unique cultural characteristics and tailors its products and services to best serve each group. For example, the Company offers deposit products that appeal to the unique saving philosophies of various ethnic groups. The Company believes that this awareness, personalized service and a broad array of products gives it a distinct competitive advantage in its chosen market areas.

The Bank was organized in 1987 by Don J. Wang, the Company's current Chairman of the Board, President and Chief Executive Officer, and five other Asian-American small business owners, four of whom currently serve as directors of the Company and the Bank. The organizers perceived that the financial needs of various ethnic groups in Houston were not being adequately served and sought to provide modern banking products and services that accommodated the cultures of the businesses operating in these communities. In 1989, the Company expanded its service philosophy to Houston's Hispanic community by acquiring from the Federal Deposit Insurance Corporation (the "FDIC") the assets and liabilities of a community bank located in a primarily Hispanic section of Houston. This acquisition broadened the Company's market and increased its assets from approximately \$30.0 million to approximately \$100.0 million. Other than this acquisition, the Company has accomplished its growth internally through the establishment of de novo branches in market areas with large Asian and Hispanic communities. Since its formation in 1987, the Company has established 11 branches in the greater Houston metropolitan area. In 1996, the Company expanded into the Dallas market. The success of the Dallas branch, whose deposits increased to \$45.9 million from opening to December 31, 2000, prompted the Company to establish a second branch in the greater Dallas metropolitan area in 1998 and a third branch in 1999.

Business

In connection with the Company's multi-ethnic approach to community banking, the Company offers products designed to appeal to its customers and further enhance profitability. The Company believes that it has developed a reputation as the premier provider of financial products and services to small and medium-sized businesses and consumers located in the Asian and Hispanic communities that it serves. Each of its product lines is an outgrowth of the Company's expertise in meeting the particular needs of its customers. The Company's principal lines of business are the following:

Commercial and Industrial Loans. The primary lending focus of the Company is to small and medium-sized businesses in a variety of industries. Its commercial lending emphasis includes loans to wholesalers, manufacturers and business service companies. The Company makes available to businesses a broad range of short and medium-term commercial lending products for working capital (including inventory and accounts receivable), purchases of equipment and machinery and business expansion (including acquisitions of real estate and improvements). As of December 31, 2000, the Company's commercial and industrial loan portfolio totaled \$298.1 million or 60.9% of the gross loan portfolio. At that date, the Company had a concentration of loans in the hotel and motel industry of \$79.0 million. Hotel and motel lending was originally targeted by the Company because of management's particular expertise in this industry and a perception that it was an under-served market. More recently, the Company has broadened its lending strategy in efforts to further diversify its portfolio to other industries such as retail centers, restaurants, self-service gasoline and convenience marts, apartment buildings, and various other small businesses.

Commercial Mortgage Loans. The Company makes commercial mortgage loans to finance the purchase of real property, which generally consists of developed real estate. The Company's commercial mortgage loans are secured by first liens on real estate, typically have variable rates and amortize over a 15 to 20 year period, with balloon payments due at the end of five to seven years. As of December 31, 2000, the Company had a commercial mortgage portfolio of \$128.2 million.

Construction Loans. The Company makes loans to finance the construction of residential and non-residential properties. The majority of the Company's residential construction loans are for single-family dwellings, which are under earnest money contracts. The Company also originates loans to finance the construction of commercial properties such as multi-family, office, industrial, warehouse and retail centers. As of December 31, 2000, the Company had a real estate construction portfolio of \$39.6 million, of which \$7.5 million was residential and \$32.1 million was commercial.

Residential Mortgage Brokerage and Lending. The Company uses its existing branch network to offer a complete line of single-family residential mortgage products. The Company solicits and receives a fee to process residential mortgage loans, which are underwritten and pre-sold to third party mortgage companies. The Company does not fund or service the loans underwritten by third party mortgage companies. The Company also makes five to seven year balloon residential mortgage loans with a 15-year amortization to its existing customers on a select basis, which loans are retained in the Company's portfolio. At December 31, 2000, the residential mortgage portfolio totaled \$10.1 million.

Government Guaranteed Small Business Lending. The Company has developed an expertise in several government guaranteed lending programs in order to provide credit enhancement to its commercial and industrial and mortgage portfolios. As a Preferred Lender under the United States Small Business Administration (the "SBA") federally guaranteed lending program, the Company's pre-approved status allows it to quickly respond to customers' needs. Depending upon prevailing market conditions, the Company may sell the guaranteed portion of these loans into the secondary market, yet retain servicing of these loans. The Company specializes in SBA loans to minority-owned businesses. As of December 31, 2000, the Company had \$88.1 million in the retained portion of its SBA loans, approximately \$56.3 million of which was guaranteed by the SBA. For each of the last six years, the Company has been the second (1995 to 1999) and third (year 2000) largest SBA loan originator in Houston in terms of dollar volume. Another source of government guaranteed lending provided by the Company is Business and Industrial loans ("B&I Loans") which are secured by the U.S. Department of Agriculture (the "USDA") and are

available to borrowers in areas with a population of less than 50,000. As of December 31, 2000, the Company's USDA portfolio totaled \$5.3 million. The Company also offers guaranteed loans through the Overseas Chinese Credit Guaranty Fund ("OCCGF"), which is sponsored by the government of Taiwan. These loans are for people of Chinese decent or origin, who are not mainland Chinese by birth and who reside "overseas." As of December 31, 2000, the Company's OCCGF portfolio totaled \$6.6 million.

Trade Finance. Since its inception in 1987, the Company has originated trade finance loans and letters of credit to facilitate export and import transactions for small and medium-sized businesses. In this capacity, the Company has worked with the Export Import Bank of the United States (the "Ex-Im Bank"), an agency of the U.S. Government which provides guarantees for trade finance loans. In 1998, the Company was named Small Business Bank of the Year by the Ex-Im Bank, and it was the largest Ex-Im Bank loan producer in the State of Texas. At December 31, 2000, the Company's aggregate trade finance portfolio commitments totaled approximately \$11.3 million.

The Company offers a variety of loan and deposit products and services to retail customers through its branch network in Houston and Dallas. Loans to retail customers include residential mortgage loans, residential construction loans, automobile loans, lines of credit and other personal loans. Retail deposit products and services include checking and savings accounts, money market accounts, time deposits, ATM cards, debit cards and online banking.

The Company's overall business strategy is to (i) continue to service its small and medium-sized owner-operated businesses and retail customers, especially in the Asian and Hispanic communities by providing individualized, responsive, quality service, and (ii) expand its geographic reach either through selective acquisitions of existing financial institutions or by establishing de novo branches in multi-ethnic markets with significant small and medium-sized business activity.

In 1994, the Bank established an accounts receivable factoring subsidiary, Advantage Finance Corporation ("AFC"), to provide financing to small and medium-sized businesses that have accounts receivables. In late May 2000, the Company discovered AFC had been a victim of a fraudulent scheme by a long-time customer of AFC which required a one-time charge-off of \$5.3 million against the Bank's loan loss reserve during the second quarter of 2000. During the second quarter of 2000, the Bank added back to its loan loss reserve an amount equal to the charge-off. In order to concentrate its efforts on core business strategies and products, effective December 20, 2000, the Company sold AFC to a third party. The sale consisted of \$3.2 million in AFC's factored receivables, \$1.2 million in AFC's relationship loans originated by the Bank, along with associated fixed assets and prepaid expenses, offset by accounts payable and deferred loan fees, for an aggregate cash payment of \$4.3 million. All of AFC's employees were offered employment with the purchaser as part of the transaction. In connection with the sale of AFC, the Bank closed its branch located in the Galleria area of Houston. However, the Bank retained the loan and deposit portfolios associated with the Galleria branch, which totaled \$18.3 million and \$13.5 million, respectively, at December 31, 2000.

Competition

The banking business is highly competitive, and the profitability of the Company depends principally on the Company's ability to compete in the market areas in which its banking operations are located. The Company competes with other commercial banks, savings banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and certain other non-financial entities, including retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing. The Company has been able to compete effectively with other financial institutions by emphasizing customer service, technology and responsive decision-making. Additionally, management believes the Company remains competitive by establishing long-term customer relationships, building customer loyalty and providing a broad line of products and services designed to address the specific needs of its customers.

Under the Gramm-Leach-Bliley Act, effective March 11, 2000, securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. The Gramm-Leach-Bliley Act may significantly change the competitive environment in which the Company and its subsidiaries conduct business. See "--Supervision and Regulation--The Company--Financial Modernization". The financial services industry is also likely to become even more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

Employees

As of December 31, 2000, the Company had 319 full-time equivalent employees, 31 of whom were officers of the Bank classified as Vice President or above. The Company considers its relations with employees to be satisfactory.

Supervision and Regulation

The supervision and regulation of bank holding companies and their subsidiaries is intended primarily for the protection of depositors, the deposit insurance funds of the FDIC and the banking system as a whole, and not for the protection of the bank holding company shareholders or creditors. The banking agencies have broad enforcement power over bank holding companies and banks including the power to impose substantial fines and other penalties for violations of laws and regulations.

The following description summarizes some of the laws to which the Company and the Bank are subject. References herein to applicable statutes and regulations are brief summaries thereof, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations.

The Company

The Company is a bank holding company registered under the Bank Holding Company Act, as amended, (the "BHCA"), and it is subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The BHCA and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Regulatory Restrictions on Dividends: Source of Strength. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its banking subsidiaries and commit resources to their support. Such support may be required at times when, absent this Federal Reserve Board policy, a holding company may not be inclined to provide it. As discussed below, a bank holding company in certain circumstances could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

In the event of a bank holding company's bankruptcy under Chapter 11 of the U.S. Bankruptcy Code, the trustee will be deemed to have assumed and is required to cure immediately any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution, and any claim for breach of such obligation will generally have priority over most other unsecured claims.

Financial Modernization. On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act that eliminated the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers. The Gramm-Leach-Bliley Act, effective March 11, 2000, permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

Under the Gramm-Leach-Bliley Act, a bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 ("CRA") by filing a declaration that the bank holding company wishes to become a financial holding company. The Gramm-Leach-Bliley Act defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. Subsidiary banks of a financial holding company must remain well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company may not acquire a company that is engaged in activities that are financial in nature unless each of its subsidiary banks has a CRA rating of satisfactory or better.

While the Federal Reserve Board will serve as the "umbrella" regulator for financial holding companies and has the power to examine banking organizations engaged in new activities, regulation and supervision of activities which are financial in nature or determined to be incidental to such financial activities will be handled along functional lines. Accordingly, activities of subsidiaries of a financial holding company will be regulated by the agency or authorities with the most experience regulating that activity as it is conducted in a financial holding company.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's Regulation Y, for example, generally requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Prior approval of the Federal Reserve Board would not be required for the redemption or purchase of equity securities for a bank holding company that would be well capitalized both before and after such transaction, well-managed and not subject to unresolved supervisory issues.

The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1.0 million for each day the activity continues.

Anti-Tying Restrictions. Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Capital Adequacy Requirements. The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies. Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines

require a minimum total risk-based capital ratio of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. As of December 31, 2000, the Company's ratio of Tier 1 capital to total risk-weighted assets was 11.74% and its ratio of total capital to total risk-weighted assets was 13.00%.

In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies may be required to maintain a leverage ratio of at least 4.0%. As of December 31, 2000, the Company's leverage ratio was 8.39%.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take "prompt corrective action" to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

Control Acquisitions. The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company.

In addition, any entity is required to obtain the approval of the Federal Reserve Board under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the outstanding Common Stock of the Company, or otherwise obtaining control or a "controlling influence" over the Company.

The Bank

The Bank is a nationally chartered banking association, the deposits of which are insured by the Bank Insurance Fund ("BIF") of the FDIC. The Bank's primary regulator is the Office of the Comptroller of the Currency (the "OCC"). By virtue of the insurance of its deposits, however, the Bank is also subject to supervision and regulation by the FDIC. Such supervision and regulation subjects the Bank to special restrictions, requirements, potential enforcement actions, and periodic examination by the OCC. Because the Federal Reserve Board regulates the bank holding company parent of the Bank, the Federal Reserve Board also has supervisory authority, which directly affects the Bank.

Financial Modernization. Under the Gramm-Leach-Bliley Act, a national bank may establish a financial subsidiary and engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development, real estate investment, annuity issuance and merchant banking activities. To do so, a bank must be well capitalized, well managed and have a CRA rating of satisfactory or better. National banks with financial subsidiaries must remain well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a bank may not acquire a company that is engaged in activities that are financial in nature unless the bank has a CRA rating of satisfactory or better.

Branching. The establishment of a branch must be approved by the OCC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers.

Restrictions on Transactions with Affiliates and Insiders. Transactions between the Bank and its non-banking affiliates, including the Company, are subject to Section 23A of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company or its non-banking subsidiaries.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons.

The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and Regulation O apply to all insured depository institutions and their subsidiaries. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the OCC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets. Dividends paid by the Bank have provided a substantial part of the Company's operating funds and for the foreseeable future it is anticipated that dividends paid by the Bank to the Company will continue to be the Company's principal source of operating funds. Capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. Until capital surplus equals or exceeds capital stock, a national bank must transfer to surplus 10% of its net income for the preceding four quarters in the case of an annual dividend or 10% of its net income for the preceding two quarters in the case of a quarterly or semiannual dividend. At December 31, 2000, the Bank's capital surplus exceeded its capital stock. Without prior approval, a national bank may not declare a dividend if the total amount of all dividends, declared by the bank in any calendar year exceeds the total of the bank's retained net income

for the current year and retained net income for the preceding two years. Under federal law, the Bank cannot pay a dividend if, after paying the dividend, the Bank will be "undercapitalized." The OCC may declare a dividend payment to be unsafe and unsound even though the Bank would continue to meet its capital requirements after the dividend.

Because the Company is a legal entity separate and distinct from its subsidiaries, its right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. In the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its shareholders, arising as a result of their status as shareholders, including any depository institution holding company (such as the Company) or any shareholder or creditor thereof.

Examinations. The OCC periodically examines and evaluates insured banks. Based upon such an evaluation, the OCC may revalue the assets of the institution and require that it establish specific reserves to compensate for the difference between the OCC-determined value and the book value of such assets.

Audit Reports. Insured institutions with total assets of \$500 million or more must submit annual audit reports prepared by independent auditors to federal regulators. In some instances, the audit report of the institution's holding company can be used to satisfy this requirement. Auditors must receive examination reports, supervisory agreements, and reports of enforcement actions. In addition, financial statements prepared in accordance with accounting principles generally accepted in the U.S., management's certifications concerning responsibility for the financial statements, internal controls and compliance with legal requirements designated by the OCC, and an attestation by the auditor regarding the statements of management relating to the internal controls must be submitted. For institutions with total assets of more than \$3 billion, independent auditors may be required to review quarterly financial statements. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires that independent audit committees be formed, consisting of outside directors only. The committees of such institutions must include members with experience in banking or financial management, must have access to outside counsel, and must not include representatives of large customers.

Capital Adequacy Requirements. Similar to the Federal Reserve Board's requirements for bank holding companies, the OCC has adopted regulations establishing minimum requirements for the capital adequacy of national banks. The OCC may establish higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk.

The OCC's risk-based capital guidelines generally require national banks to have a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0% and a ratio of total capital to total risk-weighted assets of 8.0%. As of December 31, 2000, the Bank's ratio of Tier 1 capital to total risk-weighted assets was 11.21% and its ratio of total capital to total risk-weighted assets was 12.47%.

The OCC's leverage guidelines require national banks to maintain Tier 1 capital of no less than 4.0% of average total assets, except in the case of certain highly rated banks for which the requirement is 3.0% of average total assets unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution. As of December 31, 2000, the Bank's ratio of Tier 1 capital to average total assets (leverage ratio) was 8.01%.

Corrective Measures for Capital Deficiencies. The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. Agency regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "under capitalized," "significantly under capitalized" and "critically under capitalized." A "well capitalized" bank has a total risk-based capital ratio of 10.0% or higher; a Tier 1 risk-based capital ratio of 6.0% or higher; a leverage ratio of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An "adequately capitalized" bank has a total risk-based capital ratio of

8.0% or higher; a Tier 1 risk-based capital ratio of 4.0% or higher; a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth); and does not meet the criteria for a well capitalized bank. A bank is "under capitalized" if it fails to meet any one of the ratios required to be adequately capitalized.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations authorize broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment, and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the OCC's enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. The OCC has only very limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

Deposit Insurance Assessments. The Bank must pay assessments to the FDIC for federal deposit insurance protection. The FDIC has adopted a risk-based assessment system as required by FDICIA. Under this system, FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. Institutions assigned to higher-risk classifications (that is, institutions that pose a greater risk of loss to their respective deposit insurance funds) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. The current range of BIF assessments is between 0% and 0.27% of deposits.

The FDIC established a process for raising or lowering all rates for insured institutions semi-annually if conditions warrant a change. Under this new system, the FDIC has the flexibility to adjust the assessment rate schedule twice a year without seeking prior public comment, but only within a range of five cents per \$100 above or below the assessment schedule adopted. Changes in the rate schedule outside the five-cent range above or below the current schedule can be made by the FDIC only after a full rulemaking with opportunity for public comment.

On September 30, 1996, President Clinton signed into law an act that contained a comprehensive approach to recapitalizing the Savings Association Insurance Fund ("SAIF") and to assure the payment of the Financing Corporation's ("FICO") bond obligations. Under this act, banks insured under the BIF are required to pay a portion of the interest due on bonds that were issued by FICO to help shore up the ailing Federal Savings and Loan Insurance Corporation in 1987. The BIF rate was required to equal one-fifth of the SAIF rate through year-end 1999, or until the insurance funds were merged, whichever occurred first. Thereafter, BIF and SAIF payers will be assessed pro rata for the FICO bond obligations. With regard to the assessment for the FICO obligation, for the fourth quarter of 2000, the BIF and SAIF rates were .02120% of deposits.

Enforcement Powers. The FDIC and the other federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company or its banking subsidiaries, as well as officers, directors and other institution-affiliated parties of these organizations, to administrative sanctions and potentially substantial civil money penalties. The appropriate federal banking agency may appoint the FDIC as conservator or receiver

for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized; fails to become adequately capitalized when required to do so; fails to submit a timely and acceptable capital restoration plan; or materially fails to implement an accepted capital restoration plan.

Brokered Deposit Restrictions. Adequately capitalized institutions (as defined for purposes of the prompt corrective action rules described above) cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew, or roll over brokered deposits.

Cross-Guarantee Provisions. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains a "cross-guarantee" provision which generally makes commonly controlled insured depository institutions liable to the FDIC for any losses incurred in connection with the failure of a commonly controlled depository institution.

Community Reinvestment Act. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service area, including low and moderate-income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. FIRREA requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

Instability of Regulatory Structure

Various legislation, such as the Gramm-Leach-Bliley Act which expanded the powers of banking institutions and bank holding companies, and proposals to overhaul the bank regulatory system and limit the investments that a depository institution may make with insured funds, is from time to time introduced in Congress. Such legislation may change banking statutes and the operating environment of the Company and its banking subsidiaries in substantial and unpredictable ways. The Company cannot determine the ultimate effect that the Gramm-Leach-Bliley Act will have or the effect that potential legislation, if enacted, or implementing regulations with respect thereto, would have upon the financial condition or results of operations of the Company or its subsidiaries.

Expanding Enforcement Authority

One of the major additional burdens imposed on the banking industry by FDICIA is the increased ability of banking regulators to monitor the activities of banks and their holding companies. In addition, the Federal Reserve Board and OCC possess extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the FDIC

may terminate the deposit insurance of any institution which it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties, issue cease and desist or removal orders, seek injunctions, and publicly disclose such actions. FDICIA, FIRREA and other laws have expanded the agencies' authority in recent years, and the agencies have not yet fully tested the limits of their powers.

Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve Board, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve Board to affect the money supply are open market operations in U.S. Government securities, changes in the discount rate or federal funds rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits.

Federal Reserve Board monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of such policies on the business and earnings of the Company and its subsidiaries cannot be predicted.

Item 2. Properties

Facilities

The Company conducts business at 15 locations, 11 of which are leased. Included are 14 full-service banking locations and the Company's corporate offices. The following table sets forth specific information on each such location. The Company's headquarters are located at 9600 Bellaire Boulevard, Suite 252, Houston, Texas. The lease for the Company's corporate headquarters will expire in December 2005.

Location -----	Owned/Leased -----	Sq. Ft.	Deposits at December 31, 2000 ----- (in thousands)
Houston Area:			
Bellaire Boulevard..... 9600 Bellaire Boulevard, Suite 100	Leased	7,002	\$290,668
East..... 6730 Capitol at Wayside	Owned	16,400	85,288
Chinatown..... 1005 Saint Emanuel	Leased	2,500	23,370
Sugar Land..... 15144 Southwest Freeway	Owned	5,665	37,218
Harwin..... 10000 Harwin Drive	Leased	2,463	26,163
Clear Lake..... 2424 Bay Area Boulevard	Owned	1,986	30,552
Veterans Memorial..... 13480 Veterans Memorial Boulevard	Owned	5,571	23,369
Milam..... 2808 Milam Street	Leased	2,546	11,220
Corporate Offices..... 9600 Bellaire Boulevard, Suite 252	Leased	25,127	N/A
Boone Road..... 11205 Bellaire Boulevard, Suite B-9	Leased	905	5,360
Dulles..... 4635 Highway 6	Leased	479	12,085
Long Point..... 1426 Blalock	Leased	3,000	12,876
Dallas Area:			
Richardson..... 275 West Campbell Road	Leased	4,948	48,297
Dallas (Harry Hines)..... 2527 Royal Lane	Leased	3,000	13,447
Garland..... 3500 West Walnut Street	Leased	2,400	5,993

Item 3. Legal Proceedings

Legal Proceedings

The Company and the Bank are from time to time parties to or otherwise involved in legal proceedings arising in the normal course of business. Management does not believe that there is any pending or threatened proceeding against the Company or the Bank which, if determined adversely, would have a material effect on the Company's or the Bank's business, financial condition, results of operation or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Share Matters

The Company's Common Stock is listed on the Nasdaq National Market System ("Nasdaq NMS") under the symbol "MCBI." As of March 9, 2001, there were 6,981,484 shares outstanding and 168 shareholders of record. The number of beneficial owners is unknown to the Company at this time.

The following table presents the high and low sales prices for the Common Stock reported on the Nasdaq NMS during the two years ended December 31, 2000:

2000 ----	High -----	Low -----
Fourth quarter.....	\$10.000	\$7.875
Third quarter.....	9.750	6.500
Second quarter.....	8.125	6.250
First quarter.....	8.313	6.500
 1999 ----		
Fourth quarter.....	9.875	7.750
Third quarter.....	10.188	8.375
Second quarter.....	10.000	8.375
First quarter.....	11.125	9.688

Dividends

Holders of Common Stock are entitled to receive dividends when, and if declared by the Company's Board of Directors, out of funds legally available. While the Company has declared and paid quarterly dividends since fourth quarter 1998, there is no assurance that the Company will pay dividends in the future.

The cash dividends paid per share by quarter for the Company's last two fiscal years were as follows:

	2000 -----	1999 -----
Fourth quarter.....	\$0.06	\$0.06
Third quarter.....	0.06	0.06
Second quarter.....	0.06	0.06
First quarter.....	0.06	0.06

The principal source of cash revenues to the Company is dividends paid by the Bank with respect to the Bank's capital stock. There are certain restrictions on the payment of such dividends imposed by federal banking laws, regulations and authorities. Until capital surplus equals or exceeds capital, a national bank must transfer to surplus 10% of its net income for the preceding four quarters in the case of an annual dividend or 10% of its net income for the preceding two quarters in the case of a quarterly or semiannual dividend. As of December 31,

2000, the Bank's capital surplus exceeded its capital stock. Without prior approval, a national bank may not declare a dividend if the total amount of all dividends, declared by the bank in any calendar year exceeds the total of the bank's retained net income for the current year and retained net income for the preceding two years. As of December 31, 2000, an aggregate of approximately \$17.4 million was available for payment of dividends by the Bank to the Company under applicable restrictions, without regulatory approval. Regulatory authorities could impose administratively stricter limitations on the ability of the Bank to pay dividends to the Company if such limits were deemed appropriate to preserve certain capital adequacy requirements.

In the future, the declaration and payment of dividends on the Common Stock will depend upon the earnings and financial condition of the Company, liquidity and capital requirements, the general economic and regulatory climate, the Company's ability to service any equity or debt obligations senior to the Common Stock and other factors deemed relevant by the Company's Board of Directors.

Recent Sales of Unregistered Securities

Not applicable.

Item 6. Selected Consolidated Financial Data

The following Selected Consolidated Financial Data of the Company should be read in conjunction with the consolidated financial statements of the Company, and the notes thereto, appearing elsewhere in this Annual Report on Form 10-K, and the information contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected historical consolidated financial data as of and for each of the five years in the period ended December 31, 2000 are derived from the Company's Consolidated Financial Statements which have been audited by independent auditors. Certain prior year amounts have been reclassified to conform with the 2000 presentation.

	Years Ended December 31,				
	2000	1999	1998	1997(1)	1996(1)
	(Dollars in thousands)				
Income Statement Data:					
Interest income.....	\$ 63,466	\$ 53,668	\$ 47,696	\$ 41,155	\$ 31,523
Interest expense.....	27,276	21,026	20,052	18,138	13,927
Net interest income.....	36,190	32,642	27,644	23,017	17,596
Provision for loan losses....	7,508	5,550	3,377	3,350	2,118
Net interest income after provision for loan losses.....	28,682	27,092	24,267	19,667	15,478
Noninterest income after provision for loan losses....	7,032	6,088	5,609	4,391	3,446
Noninterest expense.....	27,230	22,412	20,980	18,096	16,102
Income before provision for income taxes.....	8,484	10,768	8,896	5,962	2,822
Provision for income taxes....	3,001	3,638	2,777	1,794	809
Net income.....	\$ 5,483	\$ 7,130	\$ 6,119	\$ 4,168	\$ 2,013
Per Share Data:					
Net income:					
Basic.....	\$ 0.79	\$ 1.00	\$ 1.08	\$ 0.75	\$ 0.38
Diluted.....	0.79	1.00	1.06	0.74	0.37
Book value.....	8.42	7.38	7.14	5.49	4.73
Tangible book value.....	8.42	7.38	7.14	5.49	4.73
Cash dividends declared.....	0.24	0.24	0.06	--	--
Weighted average shares outstanding (in thousands):					
Basic.....	6,972	7,114	5,691	5,581	5,364
Diluted.....	6,973	7,114	5,749	5,616	5,444
Balance Sheet Data at period end:					
Total assets.....	\$736,757	\$660,589	\$587,308	\$505,051	\$426,987
Securities.....	143,759	110,065	123,190	112,624	103,680
Total loans.....	483,738	495,669	417,686	348,910	280,597
Allowance for loan losses....	9,271	7,537	6,119	3,569	2,141
Total deposits.....	625,906	544,436	479,506	445,859	381,289
Other borrowings.....	25,573	55,636	50,043	21,611	14,566
Total shareholders' equity....	58,701	52,580	50,024	30,506	25,398
Average Balance Sheet Data:					
Total assets.....	\$698,209	\$620,646	\$532,751	\$469,097	\$373,697
Securities.....	127,865	119,952	114,248	113,250	115,224
Total loans.....	486,549	456,653	368,394	310,781	223,514
Allowance for loan losses....	8,589	6,720	5,049	2,722	1,869
Deposits.....	590,217	501,808	477,793	416,895	333,355
Total shareholders' equity....	53,462	53,010	33,992	28,369	24,090
Performance Ratios:					
Return on average assets.....	0.79%	1.16%	1.15%	0.89%	0.54%
Return on average equity.....	10.26	13.52	18.00	14.69	8.36
Net interest margin.....	5.57	5.56	5.50	5.22	5.02
Efficiency ratio(2).....	62.98	57.92	63.48	66.48	76.73

	Years Ended December 31,				
	2000	1999	1998	1997(1)	1996(1)
	(Dollars in thousands)				
Asset Quality Ratios:					
Nonperforming assets to total loans and other real estate.....	0.62%	1.42%	1.26%	0.94%	0.82%
Nonperforming assets to total assets.....	0.40	1.07	0.90	0.65	0.54
Net loan charge-offs to average loans.....	1.19	0.90	0.22	0.62	0.71
Allowance for loan losses to total loans.....	1.92	1.52	1.46	1.02	0.76
Allowance for loan losses to nonperforming loans(3).....	416.67	115.03	132.44	134.02	135.42
Capital Ratios(4):					
Leverage ratio(5).....	8.39%	8.48%	8.83%	5.92%	6.04%
Average shareholders' equity to average total assets.....	7.66	8.54	6.38	6.05	6.45
Tier-1 risk-based capital ratio--period end.....	11.74	10.76	11.73	8.45	8.69
Total risk-based capital ratio--period end.....	13.00	12.01	12.98	9.46	9.44

(1) Financial data prior to December 31, 1998 has been adjusted to reflect the four-for-one exchange for the Bank stock.

(2) Calculated by dividing total noninterest expense by net interest income plus noninterest income, excluding net securities gains and losses.

(3) Nonperforming assets consist of nonaccrual loans, loans contractually past due 90 days or more and restructured loans.

(4) Capital ratios prior to 1998 are those of MetroBank, N.A.

(5) The leverage ratio is calculated by dividing Tier 1 capital at December 31 by full year average assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company analyzes the major elements of the Company's balance sheets and statements of income. This section should be read in conjunction with the Company's Consolidated Financial Statements and accompanying notes and other detailed information appearing elsewhere in this document.

For the Years Ended December 31, 2000, 1999 and 1998

Overview

From December 31, 1998 to December 31, 2000, the Company experienced consistent growth as assets increased from \$587.3 million at December 31, 1998 to \$736.8 million at December 31, 2000, an increase of \$149.4 million or 25.4%. The increase was primarily due to the expansion of the branch network and an increase in deposits that funded loan and investment growth. The Company opened six branches during this period. Loans and investment securities accounted for the majority of the Company's asset growth, increasing from \$417.7 million and \$123.2 million to \$483.7 million and \$143.8 million over the three-year period ending December 31, 2000, respectively. Supporting this growth was an increase in deposits, which rose from \$479.5 million to \$625.9 million, representing a 30.5% increase during the period. Including the net proceeds from the initial public offering of Common Stock in December 1998, shareholders' equity increased to \$58.7 million at December 31, 2000, an increase of \$8.7 million or 17.3% compared with \$50.0 million at December 31, 1998.

Net income available to shareholders was \$5.5 million, \$7.1 million and \$6.1 million for the years ended December 31, 2000, 1999 and 1998, respectively, and diluted net income per common share was \$0.79, \$1.00 and \$1.06 for these same periods. The Company posted returns on average assets of 0.79%, 1.16% and 1.15% and returns on average equity of 10.26%, 13.52% and 18.00% for the years ended December 31, 2000, 1999 and 1998, respectively. The decreases in return on average assets and return on average equity were primarily due to net charge-offs of \$5.8 million in 2000 and \$4.1 million in 1999.

Results of Operations

Net Interest Income

Net interest income represents the amount by which interest income on interest-earning assets, including securities and loans, exceeds interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. Net interest income is the principal source of the Company's earnings. Interest rate fluctuations, as well as changes in the amount and type of earning assets and liabilities, combine to affect net interest income.

2000 versus 1999. Net interest income totaled \$36.2 million in 2000 compared with \$32.6 million in 1999, an increase of \$3.6 million or 11.0%. The increase resulted primarily from a \$9.8 million or 18.3% increase in interest income on loans and investments largely due to four prime rate increases, totaling 125 basis points, commencing in the fourth quarter of 1999 and continuing into the second quarter of 2000. Interest expense increased by \$6.3 million or 29.7% due to an increase in interest-bearing deposits coupled with increases in the rates paid for those deposits. The increase in the loan and investment portfolios, together with higher yields in these portfolios, was offset by increased interest-bearing deposits earning higher rates, resulting in slightly improved net interest margins of 5.57% in 2000 and 5.56% in 1999. The net interest spread narrowed four basis points to 4.62% for 2000 from 4.66% in 1999.

Interest income increased to \$63.5 million in 2000 from \$53.7 million in 1999. The increase was driven by growth in the average loan portfolio of \$30.0 million or 6.5% and growth in the average investment portfolio of \$32.9 million or 25.3%. Interest income was also affected by an increase in the yield on average earning assets (both loans and investments) to 9.77% in 2000 from 9.15% in 1999 as a result of the four prime rate increases. During 2000, the increase in the investment portfolio was a result of liquidity created by deposit growth.

Interest expense increased by \$6.3 million to \$27.3 million at December 31, 2000 compared with \$21.0 million at December 31, 1999. The increase was primarily due to growth in average interest-bearing deposits of \$77.4 million coupled with an increase of 66 basis points in rates paid on interest-bearing liabilities from 4.49% at December 31, 1999 to 5.15% at December 31, 2000.

1999 versus 1998. Net interest income totaled \$32.6 million in 1999 compared with \$27.6 million in 1998, an increase of \$5.0 million or 18.1%. The increase resulted primarily from a \$5.9 million or 12.5% increase in interest income on loans primarily due to a \$41.8 million or 16.0% increase in commercial and industrial loans. Interest expense increased by \$1.0 million or 4.9% due to an increase in the level of other borrowings, which consisted primarily of \$35.0 million from the Federal Home Loan Bank ("FHLB"). The increase in the loan portfolio, together with higher yields in this portfolio, resulted in an improved net interest margin of 5.56% from 5.50% for 1999 and 1998, respectively. The decrease in the securities portfolio from \$123.2 million at December 31, 1998 to \$110.1 million at December 31, 1999 was due to portfolio repositioning as interest rates moved upward. This repositioning necessitated sales of lower yielding holdings during the latter part of 1999. The net interest spread increased four basis points to 4.66% for 1999 from 4.62% in 1998.

Interest income increased to \$53.7 million in 1999 from \$47.7 million in 1998. The increase was driven by growth in the average loan portfolio of \$88.3 million or 23.9% while the Company experienced a decrease in the yield on average loans to 9.92% in 1999 from 10.65% in 1998. The average securities portfolio increased by \$5.7 million or 5.0%, while its yield rose 6 basis points from 6.37% in 1998 to 6.43% in 1999 as a result of continued portfolio shifting to higher yielding issues.

Interest expense increased by \$1.0 million to \$21.0 million at December 31, 1999 compared with \$20.0 million at December 31, 1998. The increase was primarily due to growth in average FHLB borrowings and other borrowings of \$43.9 million during 1999. The Company viewed these funds as stable and a less costly source of funding than time deposits. This decision lowered the Company's cost of funds from 4.87% in 1998 to 4.49% in 1999.

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax-equivalent adjustments were made and all average balances are yearly average balances. Non-accruing loans have been included in the tables as loans carrying a zero yield.

	Years Ended December 31,								
	2000			1999			1998		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)								
Assets									
Interest-earning assets:									
Total loans.....	\$486,549	\$52,280	10.75%	\$456,653	\$45,322	9.92%	\$368,394	\$39,219	10.65%
Taxable securities.....	106,902	7,668	7.17%	98,838	6,624	6.70%	96,518	6,312	6.54%
Tax-exempt securities..	20,963	1,046	4.99%	21,114	1,091	5.17%	17,730	964	5.44%
Federal funds sold and other temporary investments.....	34,948	2,472	7.07%	9,959	631	6.34%	19,565	1,201	6.14%
Total interest-earning assets.....	649,362	63,466	9.77%	586,564	53,668	9.15%	502,207	47,696	9.50%
Less allowance for loan losses.....	(8,589)			(6,720)			(5,049)		
Total interest-earning assets, net of allowance for loan losses.....	640,773			579,844			497,158		
Noninterest-earning assets.....	57,436			40,802			35,593		
Total assets.....	\$698,209			\$620,646			\$532,751		
	=====			=====			=====		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Interest-bearing demand deposits.....	\$ 42,888	\$ 1,283	2.99%	\$ 37,011	\$ 1,039	2.81%	\$ 30,109	\$ 783	2.60%
Saving and money market accounts.....	96,520	3,231	3.35%	97,629	3,020	3.09%	90,328	3,258	3.61%
Time deposits.....	348,265	20,444	5.87%	275,663	14,032	5.09%	276,904	15,267	5.51%
Federal funds purchased and securities sold under repurchase agreements.....	14,957	941	6.29%	24,774	1,301	5.25%	926	54	5.83%
Other borrowings.....	27,268	1,377	5.05%	33,264	1,634	4.91%	13,160	690	5.24%
Total interest-bearing liabilities.....	529,898	27,276	5.15%	468,341	21,026	4.49%	411,427	20,052	4.87%
Noninterest-bearing liabilities:									
Non-interest bearing demand deposits.....	102,544			91,505			80,452		
Other liabilities.....	12,305			7,790			6,880		
Total liabilities.....	644,747			567,636			498,759		
Shareholders' equity....	53,462			53,010			33,992		
Total liabilities and shareholders' equity..	\$698,209			\$620,646			\$532,751		
	=====			=====			=====		
Net interest income.....		\$36,190			\$32,642			\$27,644	
		=====			=====			=====	
Net interest spread....			4.62%			4.66%			4.62%
Net interest margin....			5.57%			5.56%			5.50%

The following table presents the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between the increase related to higher outstanding balances and changes in interest rates. For purposes of this table, changes attributable to both rate and volume have been allocated to rate.

	Years Ended December 31,					
	2000 vs 1999			1999 vs 1998		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest-earning assets:						
Loans.....	\$2,967	\$3,991	\$6,958	\$9,396	\$(3,293)	\$6,103
Securities.....	625	374	999	567	(128)	439
Federal funds sold and other temporary investments.....	1,583	258	1,841	(590)	20	(570)
Total increase (decrease) in interest income.....	5,175	4,623	9,798	9,374	(3,402)	5,972
Interest-bearing liabilities:						
Interest-bearing demand deposits.....	165	79	244	179	77	256
Saving and money market accounts.....	(34)	245	211	263	(501)	(238)
Time deposits.....	3,696	2,716	6,412	(68)	(1,166)	(1,235)
Fed funds purchased.....	(515)	156	(360)	1,391	(144)	1,247
Other borrowings.....	(295)	37	(257)	1,054	(110)	944
Total increase (decrease) in interest expense.....	3,017	3,233	6,250	2,818	(1,843)	974
Increase (decrease) in net interest income.....	\$2,158	\$1,390	\$3,548	\$6,556	\$(1,558)	\$4,998
	=====	=====	=====	=====	=====	=====

Provision for Loan Losses

Provisions for loan losses are charged to income to bring the Company's allowance for loan losses to a level deemed appropriate by management based on the factors discussed under "--Financial Condition--Allowance for Loan Losses."

The 2000 provision for loan losses increased by \$2.0 million or 35.28% to \$7.5 million. The increase in 2000 was primarily due to the replenishment of the allowance for loan losses based on the loss in factoring receivables, net charge-offs and an additional provision to bring the allowance for loan losses to a level which management considers adequate to absorb probable losses inherent in the loan portfolio. The ratio of the allowance for loan losses to total loans in 2000 was 1.92% compared with 1.52% and 1.46% in 1999 and 1998, respectively. The 1999 provision for loan losses increased by \$2.1 million or 61.7% to \$5.6 million from \$3.4 million in 1998 due to an additional provision made in the fourth quarter of 1999 based on loan losses which had occurred.

Noninterest Income

Noninterest income for the years ended December 31, 2000, 1999 and 1998 was \$7.0 million, \$6.1 million and \$5.6 million, respectively. The majority of the growth in noninterest income occurred in the other loan related fees and other noninterest income categories due to increases in SBA servicing and packaging fees. The growth in service charges on deposit accounts is attributable to the growth experienced in the deposit portfolios. The following table presents the major categories of noninterest income:

	Years Ended December 31,		
	2000	1999	1998
	(Dollars in thousands)		
Service charges on deposit accounts.....	\$3,883	\$3,313	\$3,364
Other loan-related fees.....	1,697	1,658	1,371
Letters of credit commissions and fees.....	583	471	392
Gain (loss) on sale of investment securities, net.....	2	(14)	202
Other noninterest income.....	867	660	280
	\$7,032	\$6,088	\$5,609
	=====	=====	=====

Noninterest Expense

For the years ended December 31, 2000, 1999 and 1998, noninterest expense totaled \$27.2 million, \$22.4 million and \$21.0 million, respectively. The \$4.8 million or 21.5% increase from 1999 to 2000 was primarily due to one-time expenses, including expenses related to legal, forensic and special accounting projects, the implementation of new software for analysis and online/internet banking and operation systems improvements. The \$1.4 million or 6.8% increase from 1998 to 1999 was primarily due to increases in employee compensation and benefits, occupancy expenses and outside legal and professional services. The Company's efficiency ratios were 62.98%, 57.92% and 63.48% in 2000, 1999 and 1998, respectively. The softening of the efficiency ratio in 2000 was primarily due to the one-time expenses mentioned above. The Company's efficiency ratio in 2000, while softer than in 1999, and improved from 1998 and reflects the Company's continued efforts to control operating expenses and gain other efficiencies through such means as upgraded centralized computer and financial reporting systems. The following table presents the major categories of noninterest expense:

	Years Ended December 31,		
	2000	1999	1998
	(Dollars in thousands)		
Employee compensation and benefits.....	\$12,381	\$11,140	\$ 9,898
Non-staff expenses:			
Occupancy.....	5,790	5,117	4,907
Other real estate, net.....	(50)	83	374
Data processing.....	154	327	584
Advertising.....	436	459	392
Legal and professional fees.....	3,197	1,656	1,021
Director compensation.....	137	355	157
Printing and supplies.....	410	502	432
Telecommunications.....	580	504	414
Other noninterest expense.....	4,195	2,269	2,801
	14,849	11,272	11,082
	\$27,230	\$22,412	\$20,980
	=====	=====	=====

Employee compensation and benefits expense for the years ended December 31, 2000, 1999 and 1998 was \$12.4 million, \$11.1 million and \$9.9 million, respectively, reflecting increases of \$1.2 million during each

period. The increases in 2000 and 1999 resulted primarily from the full-year cost of the four new branches opened in 1999: the three Houston area branches, Dulles, Long Point and Boone Road, opened in March, April and November 1999, respectively, and the Garland (Dallas) branch opened in November 1999. The increase in 1998 resulted primarily from expenses related to the opening of two new branches: the Milam branch (Houston) that opened in January 1998 and the Harry Hines branch (Dallas) that opened in June 1998. Total full-time equivalent employees ("FTE") at December 31, 2000, 1999 and 1998 were 319, 283, and 280, respectively. Historically, part-time and temporary staff members have not been included in the calculations for FTE; although, their compensation and benefits have been included in noninterest expense in the employee compensation and benefits category. For the year ended December 31, 2000, the part-time and temporary FTE are included in the calculation for FTE. The adjusted number of FTE for 1999 and 1998, calculated to include the part-time and temporary FTE was 300 and 292, respectively.

Non-staff expenses for 2000, 1999 and 1998 were \$14.8 million, \$11.3 million and \$11.1 million, respectively, reflecting an increase of \$3.6 million or 31.7% in 2000 compared with 1999 and an increase of \$190,000 or 1.7%, in 1999 compared with 1998, respectively. The increase in 2000 was primarily due to one-time expenses as previously mentioned. The operations and system improvements include the implementation of a risk management system, pricing and new product committees, and a formal strategic planning and budgeting process. Additionally, during 2000, director compensation decreased by \$218,000 as there were no director stock bonus payments issued, and data processing expense declined by \$173,000 due to the full effect of moving the Company's processing systems in-house from a third party provider. The increase in 1999 was primarily due to legal and professional fees related to problem loans.

Income Taxes

Income tax expense includes the regular federal income tax at the statutory rate plus the income tax component of the Texas franchise tax. The amount of federal income tax expense is influenced by the amount of taxable income, the amount of tax-exempt income, the amount of non-deductible interest expense and the amount of other non-deductible expenses. Taxable income for the income tax component of the Texas franchise tax is the federal pre-tax income, plus certain officers' salaries, less interest income on federal securities.

Income tax expense is influenced by the level and mix of taxable and tax-exempt income and the amount of non-deductible interest and other expenses. In 2000, income tax expense was \$3.0 million, a \$637,000 or 17.5% decrease from income tax expense of \$3.6 million in 1999. Income tax expense for 1999 was up 31.0% over the 1998 income tax expense of \$2.8 million. The Texas franchise tax was \$298,600, \$209,900, and \$193,000 in 2000, 1999, and 1998, respectively. The effective tax rates in 2000, 1999 and 1998, respectively, were 35.4%, 33.8%, and 31.2%.

Impact of Inflation

The effects of inflation on the local economy and on the Company's operating results have been relatively modest for the past several years. Since substantially all of the Company's assets and liabilities are monetary in nature, such as cash, securities, loans and deposits, their values are less sensitive to the effects of inflation than to changing interest rates, which do not necessarily change in accordance with inflation rates. The Company tries to control the impact of interest rate fluctuations by managing the relationship between its interest rate sensitive assets and liabilities. See "---Financial Condition---Interest Rate Sensitivity and Liquidity."

Financial Condition

Loan Portfolio

At December 31, 2000, total loans decreased by \$11.9 million or 2.4% to \$483.7 million from \$495.7 million at December 31, 1999. The decrease was due to the \$5.3 million factoring receivables charge-off in May 2000, a \$13.0 million sale of SBA loans in July 2000 and was offset by net loan fundings of approximately \$6.4

million. At December 31, 1999, total loans were \$495.7 million, an increase of \$78.0 million or 18.7% compared to total loans at December 31, 1998. Total loans at December 31, 1998 were \$417.7 million. The growth in loans over the past five years reflected the healthy local economy, the opening of new branches and the Company's investment in loan production capacity.

For the years ended December 31, 2000, 1999 and 1998, the ratios of total loans to total deposits were 77.3%, 91.0% and 87.1%, respectively. For the same periods, total loans represented 65.7%, 75.0% and 71.1% of total assets, respectively.

The following table summarizes the loan portfolio of the Company by type of loan:

As of December 31,										
	2000		1999		1998		1997		1996	
	Amount	Percent								
(Dollars in thousands)										
Commercial and industrial.....	\$298,134	60.92%	\$298,150	59.55%	\$256,311	60.73%	\$193,355	54.77%	\$133,564	47.05%
Real estate mortgage:										
Residential.....	10,141	2.07	10,934	2.18	11,795	2.79	11,797	3.34	8,703	3.07
Commercial.....	128,242	26.20	126,363	25.24	103,677	24.57	110,860	31.40	104,425	36.78
	138,383	28.27	137,297	27.42	115,472	27.36	122,657	34.75	113,128	39.85
Real estate construction:										
Residential.....	7,542	1.54	11,348	2.27	10,842	2.57	9,859	2.79	1,543	0.54
Commercial.....	32,059	6.55	28,661	5.72	17,769	4.21	11,750	3.33	16,096	5.67
	39,601	8.09	40,009	7.99	28,611	6.78	21,609	6.12	17,639	6.21
Consumer and other.....	11,986	2.45	11,550	2.31	12,117	2.87	10,147	2.87	13,343	4.70
Factored receivables....	1,297	0.26	13,700	2.74	9,506	2.25	5,249	1.49	6,217	2.19
Gross loans.....	489,401	100.00%	500,706	100.00%	422,017	100.00%	353,017	100.00%	283,891	100.00%
Less: unearned discounts, interest and deferred fees.....	(5,663)		(5,037)		(4,331)		(4,107)		(3,294)	
Total loans.....	\$483,738		\$495,669		\$417,686		\$348,910		\$280,597	

Each of the following principal product lines is an outgrowth of the Company's expertise in meeting the particular needs of the small and medium-sized businesses and consumers in the Asian and Hispanic communities:

Commercial and Industrial Loans. The primary lending focus of the Company is to small and medium-sized businesses in a wide variety of industries. The Company's commercial lending emphasis includes loans to wholesalers, manufacturers and business service companies. A broad range of short and medium-term commercial lending products are made available to businesses for working capital (including inventory and accounts receivable), purchases of equipment and machinery and business expansion (including acquisitions of real estate and improvements). Generally, the Company's commercial loans are underwritten on the basis of the borrower's ability to service such debt as reflected by cash flow projections. Commercial loans are generally secured by business assets, which may include accounts receivable and inventory, certificates of deposit, securities, real estate, guarantees or other collateral. The Company also generally obtains personal guarantees from the principals of the business. Working capital loans are primarily collateralized by short-term assets, whereas term loans are primarily collateralized by long-term assets. As a result, commercial loans involve additional complexities, variables and risks and require more thorough underwriting and servicing than other types of loans. Indigenous to individuals in the Asian business community is the desire to own the building and land which houses their businesses. Accordingly, while a loan may be principally driven and classified by the type of business operated, real estate is frequently the primary source of collateral. As of December 31, 2000, approximately \$186.2 million or 62.4% of the commercial and industrial loan portfolio was secured by real estate. The Company continually monitors real estate value trends and takes into consideration changes in market

trends in its underwriting standards. Commercial loans are generally for amounts between \$10,000 and \$250,000, and as of December 31, 2000, the average commercial loan amount was \$166,000. As of December 31, 2000, the Company's commercial and industrial loan portfolio totaled \$298.1 million or 60.9% of the gross loan portfolio.

Commercial Mortgage Loans. In addition to commercial loans, the Company makes commercial mortgage loans to finance the purchase of real property, which generally consists of developed real estate. The Company's commercial mortgage loans are secured by first liens on real estate, typically have variable rates and amortize over a 15 to 20 year period with balloon payments due at the end of five to seven years. Payments on loans secured by such properties are dependent on the successful operation or management of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. In underwriting commercial mortgage loans, consideration is given to the property's historical cash flow, current and projected occupancy, location and physical condition. The underwriting analysis also includes credit checks, appraisals, environmental impact reports and a review of the financial condition of the borrower. As of December 31, 2000, the Company had a commercial mortgage portfolio of \$128.2 million.

Construction Loans. The Company makes loans to finance the construction of residential and non-residential properties. The substantial majority of the Company's residential construction loans are for single-family dwellings which are pre-sold or are under earnest money contracts.

The Company also originates loans to finance the construction of commercial properties such as multi-family, office, industrial, warehouse and retail centers. Construction loans involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If the Company is forced to foreclose on a project prior to completion, there is no assurance that the Company will be able to recover all of the unpaid portion of the loan. In addition, the Company may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminable period of time. While the Company has underwriting procedures designed to identify what it believes to be acceptable levels of risks in construction lending, no assurance can be given that these procedures will prevent losses from the risks described above. As of December 31, 2000, the Company had a real estate construction portfolio of \$39.6 million, of which \$7.5 million was residential and \$32.1 million was commercial.

Residential Mortgage Brokerage and Lending. The Company uses its existing branch network to offer a complete line of single-family residential mortgage products through third party mortgage companies. The Company specializes in mortgages that conform with government sponsored programs, such as those offered by the Federal National Mortgage Association ("FNMA"). The Company solicits and receives a fee to process these residential mortgage loans, which are then underwritten and pre-sold to third party mortgage companies. The Company does not fund or service these loans. The volume of residential mortgage loans processed by the Company and pre-sold to third party mortgage companies in 2000 was \$10.8 million. Since the Company does not fund these loans, there is no risk of nonpayment to the Company. The Company also makes five to seven year balloon residential mortgage loans primarily secured by non-owner occupied residential properties, which are retained in the Company's residential mortgage portfolio. At December 31, 2000, the Company's residential mortgage portfolio totaled \$10.1 million. In 2000, the Bank originated thirteen FNMA loans and two portfolio loans totaling \$1.2 million.

Government Guaranteed Small Business Lending. The Company has developed an expertise in several government guaranteed lending programs in order to provide credit enhancement to its commercial and industrial

and mortgage portfolio. As a Preferred Lender under the federally guaranteed SBA lending program, the Company's pre-approved status allows it to quickly respond to customers' needs. Under this program, the Company originates and funds SBA 7-A and 504 chapter loans qualifying for federal guarantees of 75% to 90% of principal and accrued interest. Depending upon prevailing market conditions, the Company may sell the guaranteed portion of these loans into the secondary market with servicing retained. The Company specializes in SBA loans to minority-owned businesses. Over the last eight years, the Company has originated over \$154.1 million in SBA guaranteed loans. As of December 31, 2000, the Company had \$88.1 million in the retained portion of SBA loans, approximately \$56.3 million of which was guaranteed by the SBA. For each of the last six years, the Company has been the second largest SBA loan originator in Houston in terms of dollar volume and in 2000 was the third largest SBA originator. SBA loan originations were \$24.1 million and \$27.9 million for the years ended December 31, 2000 and 1999, respectively. Another source of government guaranteed lending is B&I Loans which are secured by the U.S. Department of Agriculture and are available to borrowers in areas with a population of less than 50,000. The Company also offers guaranteed loans through the OCCGF, which is sponsored by the government of Taiwan. These loans are for people of Chinese decent or origin, who are not mainland Chinese by birth and reside "overseas." As of December 31, 2000, the Company's OCCGF portfolio totaled \$6.6 million.

Trade Finance. Since 1987, the Company has originated trade finance loans and letters of credit to facilitate export and import transactions for small and medium-sized businesses. In this capacity, the Company has worked with the Ex-Im Bank, an agency of the U.S. Government which provides guarantees for trade finance loans. In 1998, the Company was named Small Business Bank of the Year by the Ex-Im Bank, and it was the largest Ex-Im Bank producer in the State of Texas. Trade finance credit facilities rely heavily on the quality of the business customer's accounts receivable and the ability to perform the underlying transaction which, if monitored and controlled properly, limits the financial risks to the Company associated with this short-term financing. To mitigate the risk of nonpayment, the Company generally obtains a governmental guaranty or credit insurance from a governmental agency such as the Ex-Im Bank. At December 31, 2000, the Company's aggregate trade finance portfolio commitments totaled approximately \$11.3 million.

The Company offers a wide variety of loan products to retail customers through its branch network in Houston and Dallas. Loans to retail customers include residential mortgage loans, residential construction loans, automobile loans, lines of credit and other personal loans. The terms of these loans typically range from 12 to 60 months depending on the nature of the collateral and the size of the loan.

The Company selectively extends credit for the purpose of establishing long-term relationships with its customers. The Company mitigates the risks inherent in lending by focusing on businesses and individuals with demonstrated payment history, historically favorable profitability trends and stable cash flows. In addition to these primary sources of repayment, the Company looks to tangible collateral and personal guarantees as secondary sources of repayment. Lending officers are provided with detailed underwriting policies covering all lending activities in which the Company is engaged and that require all lenders to obtain appropriate approvals for the extension of credit. The Company also maintains documentation requirements and extensive credit quality assurance practices in order to identify credit portfolio weaknesses as early as possible so any exposures that are discovered may be reduced.

Inherent in all lending is the risk of nonpayment. The types of collateral required, the terms of the loans and the underwriting practices discussed under each category above are all designed to minimize the risk of nonpayment. In addition, as further risk protection, the Company rarely makes loans at its legal lending limit. Although the Company's legal loan limit is \$9.8 million, the Company generally does not make loans larger than \$4.0 million. Loans are approved by lending officers and the Directors Credit Committee pursuant to a lending authorization schedule delegated by the Directors Credit Committee which is based on each loan officer's credit experience and portfolio. Control systems and procedures are in place to ensure all loans are approved in accordance with credit policies. The Company's policies and procedures designed to minimize the risk of nonpayment with respect to outstanding loans are discussed under "--Nonperforming Assets."

At December 31, 2000, 1999 and 1998, (except for the 1998 concentrations in the convenience/gasoline stations and grocery store industries and the 2000 concentration in the apartment building industry) the Company had gross loan concentrations (greater than 25% of capital) in the following industries:

	As of December 31,		
	2000	1999	1998
	(in thousands)		
Hotels/motels.....	\$79,007	\$74,070	\$57,885
Retail centers.....	85,177	61,087	50,274
Restaurants.....	24,967	25,805	17,474
Apartment buildings.....	8,391	14,526	15,994
Convenience/gasoline stations.....	19,585	20,746	11,364
Grocery stores.....	--	--	2,066

The contractual maturity ranges of the commercial and industrial and real estate portfolio and the amount of such loans with predetermined interest rates and floating rates in each maturity range as of December 31, 2000 are summarized in the following table:

	As of December 31, 2000			
	One Year or Less	After One Through Five Years	After Five Years	Total
	(Dollars in thousands)			
Commercial and industrial.....	\$75,298	\$140,641	\$ 82,195	\$298,134
Real estate mortgage:				
Residential.....	352	19,946	11,761	32,059
Commercial.....	7,033	509	--	7,542
Real estate construction:				
Residential.....	9,814	100,048	18,380	128,242
Commercial.....	1,907	3,751	4,483	10,141
Total.....	\$94,404	\$264,895	\$116,819	\$476,118
Loans with a predetermined interest rate.....	\$19,794	\$ 77,553	\$ 27,196	\$124,543
Loans with a floating interest rate.....	74,610	187,342	89,623	351,575
Total.....	\$94,404	\$264,895	\$116,819	\$476,118

Effective January 1, 1995, the Company adopted SFAS 114, Accounting for Creditors for Impairment of a Loan, as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures. Under SFAS 114, as amended, a loan is considered impaired based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's observable market price or based on the fair value of the collateral if the loan is collateral-dependent. The implementation of SFAS 114 did not have a material adverse affect on the Company's financial statements.

Nonperforming Assets

The Company believes that it has procedures in place to maintain a high quality loan portfolio. These procedures include the approval of lending policies and underwriting guidelines by the Board of Directors, review by an independent internal loan review department, quarterly review by an independent outside loan review company, approval from the Directors Credit Committee for large credit relationships and loan documentation procedures. The loan review department reports credit risk grade changes on a monthly basis to management and the Board of Directors. The Company performs monthly and quarterly concentration analyses based on industries, collateral types, business lines, large credit sizes and officer portfolio loads. There can be no assurance, however, that the Company's loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The Company generally places a loan on nonaccrual status and ceases accruing interest when, in the opinion of management, full payment of loan principal or interest is in doubt. All loans past due 90 days are placed on nonaccrual status unless the loan is both well secured and in the process of collection. Cash payments received while a loan is classified as nonaccrual are recorded as a reduction of principal as long as significant doubt exists as to collection of the principal. Otherwise, interest is recognized on a cash basis. In addition to nonaccrual loans, the Company evaluates on an ongoing basis additional loans which are potential problem loans as to risk exposure in determining the adequacy of the allowance for loan losses.

The Company updates appraisals on loans secured by real estate when loans are renewed, prior to foreclosure and at other times as necessary, particularly in problem loan situations. In instances where updated appraisals reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible write downs or appropriate additions to the allowance for loan losses. The Company records other real estate at fair value at the time of acquisition less estimated costs to sell.

2000 versus 1999. Nonperforming assets at December 31, 2000 and 1999 were \$3.0 million and \$7.0 million, respectively. The decrease was primarily due to improvements in asset quality. Included in the nonperforming assets are the portions guaranteed by the SBA, OCCGF and Ex-Im Bank, which totaled \$1.0 million and \$1.8 million for December 31, 2000 and 1999, respectively. Nonperforming assets for the year ended December 31, 2000 decreased by \$4.0 million or 57.0% due to efforts to improve asset quality. Nonperforming assets, net of their guaranteed portions, were \$1.9 million and \$5.2 million at December 31, 2000 and 1999, respectively. The ratios for net nonperforming assets to total loans and other real estate were 0.40% and 1.05%, for December 31, 2000 and 1999, respectively. The ratios for net nonperforming assets to total assets were 0.26% and 0.79%, for the same periods, respectively.

1999 versus 1998. Nonperforming assets at December 31, 1999 and 1998 were \$7.0 million and \$5.3 million, respectively. Included in the nonperforming assets are the portions guaranteed by the SBA, OCCGF and Ex-Im Bank, which totaled \$1.8 million for 1999. Nonperforming assets for the year ended December 31, 1999 increased by \$1.7 million or 33.0%. The increase was due to the addition of eight loans to nonaccrual status because they were either 90 days or more past due.

The following table presents information regarding nonperforming assets at the periods indicated:

	As of December 31,				
	2000	1999	1998	1997	1996
	(Dollars in thousands)				
Nonaccrual loans.....	\$2,225	\$6,552	\$3,329	\$2,663	\$3,329
Accruing loans 90 days or more past due.....	--	--	1,291	--	1,291
Other real estate and other assets repossessed.....	757	490	654	606	654
Total nonperforming assets.....	\$2,982	\$7,042	\$5,274	\$3,269	\$5,274
Nonperforming assets to total loans and other real estate.....	0.62%	1.42%	1.26%	0.94%	0.82%
Nonperforming assets to total assets.....	0.40%	1.07%	0.90%	0.65%	0.54%

Allowance for Loan Losses

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Management has established an allowance for loan losses, which it believes, is adequate for estimated losses inherent in the Company's loan portfolio. Based on an evaluation of the loan portfolio, management presents a quarterly review of the allowance for loan losses to the Company's Board of Directors, indicating any change in the allowance since the last review and any recommendations as to adjustments in the allowance. In making its evaluation, management considers the diversification by industry of the Company's commercial loan portfolio, the effect of changes in the local real estate market on collateral values, the results of recent regulatory examinations, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, the amount of charge-offs for the period, the amount of nonperforming loans and related collateral security and the evaluation of its loan portfolio by the independent third party loan review function. Charge-offs occur when loans are deemed to be uncollectible in whole or in part.

The Company follows a loan review program to evaluate the credit risk in the loan portfolio. Through the loan review process, the Company maintains an internally classified loan list which, along with the delinquency list of loans, helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans classified as "substandard" are those loans with clear and defined weaknesses such as a highly-leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition, which may jeopardize recoverability of the debt. Loans classified as "doubtful" are those loans which have characteristics similar to substandard loans but with an increased risk that a 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 include some loans that are delinquent at least 30 days or on nonaccrual status. Loans classified as "loss" are those loans which are in the process of being charged off.

In addition to the internally classified loan list and delinquency list of loans, the Company maintains a separate "watch list" which further aids the Company in monitoring loan portfolios. Watch list loans show warning elements where the present status portrays one or more deficiencies that require attention in the short-term or where pertinent ratios of the loan account have weakened to a point where more frequent monitoring is warranted. These loans do not have all of the characteristics of a classified loan (substandard or doubtful) but do show weakened elements compared with those of a satisfactory credit. The Company reviews these loans to assist in assessing the adequacy of the allowance for loan losses.

In order to determine the adequacy of the allowance for loan losses, management establishes specific allowances for loans which management believes require reserves greater than those allocated according to their classification or the delinquent status of specific loans. Management then considers the risk classification or delinquency status of the remaining portfolio and other factors, such as collateral value, portfolio composition, trends in economic conditions and the financial strength of borrowers. The Company then charges to operations a provision for loan losses to maintain the allowance for loan losses at an adequate level determined by the foregoing methodology.

Beginning in December 1996, in accordance with the American Institute of Certified Public Accountants' ("AICPA") Audit and Accounting Guide for Banks and Savings Institutions, the Company allocates the allowance for loan losses according to management's assessments of risk inherent in the portfolio.

For the years ended December 31, 2000, 1999 and 1998, net loan charge-offs were \$5.8 million, \$4.1 million and \$0.8 million, respectively. Of the \$5.8 million in net charge-offs in 2000, \$5.3 million was the result of potential losses due to a fraudulent scheme by a customer of AFC. The ratios of net loan charge-offs to average total loans outstanding for the same periods were 1.19%, 0.90% and 0.22%, respectively.

During 2000, the provision for loan losses increased by \$2.0 million to \$7.5 million as the Company made additional provisions to bring the allowance for loan losses to a level which management considers adequate to absorb probable losses inherent in the loan portfolio.

In addition, as part of the sale of AFC, the Bank retained approximately \$216,000 of allowance for loan losses formerly allocated to AFC which resulted in an increased allowance spread over fewer loans. During 1999, the provision for loan losses increased by \$2.2 million to \$5.6 million as the Company made a \$2.1 million provision during the fourth quarter as a result of loan losses which occurred during the year. The provision for loan losses for the year ended December 31, 1998 was \$3.6 million. At December 31, 2000, 1999 and 1998, the allowance for loan losses aggregated \$9.3 million, \$7.5 million and \$6.1 million, respectively or 1.92%, 1.52% and 1.46% of total loans, respectively.

The following table presents an analysis of the allowance for loan losses and other related data:

As of December 31,					
	2000	1999	1998	1997	1996
(Dollars in thousands)					
Average total loans outstanding.....	\$486,549	\$456,653	\$368,394	\$310,781	\$223,514
Total loans outstanding at end of period.....	\$483,738	\$495,669	\$417,686	\$348,910	\$280,597
Allowance for loan losses at beginning of period.....	\$ 7,537	\$ 6,119	\$ 3,569	\$ 2,141	\$ 1,612
Provision for loan losses.....	7,508	5,550	3,377	3,350	2,118
Charge-offs:					
Commercial and industrial.....	(1,479)	(3,563)	(237)	(827)	(1,236)
Real estate-- mortgage.....	(23)	(32)	(114)	(584)	--
Real estate-- construction.....	--	--	--	--	--
Consumer and other....	(5,524)	(807)	(619)	(812)	(570)
Total charge-offs....	(7,026) (/1/)	(4,402) (/2/)	(970)	(2,223)	(1,806)
Recoveries:					
Commercial and industrial.....	901	94	77	79	146
Real estate-- mortgage.....	8	--	17	156	--
Real estate-- construction.....	--	--	16	--	--
Consumer and other....	343	176	33	66	71
Total recoveries....	1,252	270	143	301	217
Net loan charge-offs....	(5,774)	(4,132)	(827)	(1,922)	(1,589)
Allowance for loan losses at end of period.....	\$ 9,271	\$ 7,537	\$ 6,119	\$ 3,569	\$ 2,141
Ratio of allowance to end of period total loans.....	1.92%	1.52%	1.46%	1.02%	0.76%
Ratio of net loan charge-offs to average total loans.....	1.19%	0.90%	0.22%	0.62%	0.71%
Ratio of allowance to end of period non-performing loans.....	416.67%	115.03%	132.44%	134.02%	135.42%

(1) For the year ended December 31, 2000, the Company charged off \$7.0 million in loans or 1.19% of average total loans outstanding and recoveries were \$1.3 million. Of the loans charged off, \$5.3 million or 1.09% of average total loans outstanding consisted of a factoring receivables charge-off of which the Bank had been a victim of a fraudulent scheme by a long-time customer of AFC.

(2) For the year ended December 31, 1999, the Company charged off \$4.4 million in loans or 0.90% of average total loans outstanding and recoveries were \$270,000. Of the loans charged off, \$1.1 million or 0.22% of average total loans outstanding consisted of loans in the Company's stated areas of concentration while \$2.8 million or 0.55% of average total loans outstanding consisted of loans to entities in the oil related services, technology services, communication services and consumer lending industries.

The following table describes the allocation of the allowance for loan losses among various categories of loans and certain other information. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of the credit portfolio.

As of December 31,										
2000		1999		1998		1997		1996		
Amount	Percent of	Amount	Percent of	Amount	Percent of	Amount	Percent of	Amount	Percent of	Amount
	Loans to		Loans to		Loans to		Loans to		Loans to	
	Gross		Gross		Gross		Gross		Gross	
	Loans		Loans		Loans		Loans		Loans	
(Dollars in thousands)										
Balance of allowance for loan losses applicable to:										
Commercial and industrial.....	\$4,814	60.92%	\$3,783	59.55%	\$3,249	60.73%	\$1,414	54.77%	\$1,099	47.05%
Real estate--mortgage..	758	28.27%	823	27.42%	725	27.37%	883	34.75%	620	39.85%
Real estate--										
construction.....	230	8.09%	204	7.99%	139	6.78%	111	6.12%	88	6.21%
Consumer and other.....	444	2.45%	357	2.31%	415	2.87%	358	2.87%	248	4.70%
Factored receivables...	20	0.26%	243	2.74%	266	2.25%	341	1.49%	62	2.19%
Unallocated.....	3,005	--	2,127	--	1,325	--	462	--	24	--
Total allowance for loan losses.....	\$9,271	100.00%	\$7,537	100.00%	\$6,119	100.00%	\$3,569	100.00%	\$2,141	100.00%

Securities

The Company uses its securities portfolio primarily as a source of income and secondarily as a source of liquidity. At December 31, 2000, the fair value of securities net of FHLB and Federal Reserve Bank stock totaled \$139.0 million, an increase of \$34.1 million or 32.5%. At December 31, 1999, the fair value of securities net of FHLB and Federal Reserve Bank stock totaled \$104.9 million, a decrease of \$15.3 million or 12.7% from \$120.2 million in 1998. The increase in 2000 was primarily due to increased deposit growth. The decline in 1999 was primarily due to a year-end repositioning of securities to higher yielding issues, while growth in 1998 was due primarily to an increase in fixed rate mortgage-backed securities which were funded by \$25.0 million in borrowings from the FHLB.

The Company follows SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. At the date of purchase, the Company is required to classify debt and equity securities into one of three categories: held-to-maturity, trading or available-for-sale. Investments in debt securities are classified as held-to-maturity and measured at amortized cost in the financial statements only if management has the positive intent and ability to hold those securities to maturity. The Company does not have a trading account. Investments not classified as either held-to-maturity or trading are classified as available-for-sale and measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, as a component of accumulated other comprehensive income in shareholders' equity until realized. On January 1, 2001, the Company reclassified its held-to-maturity investment securities to the available-for-sale category as allowed under SFAS 133. The adoption of SFAS 133 allowed this one-time reclassification of securities between held-to-maturity or available-for-sale.

The following table presents the amortized cost of securities classified as available-for-sale and their approximate fair values as of the dates shown:

	As of December 31, 2000				As of December 31, 1999			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(Dollars in thousands)							
U.S. Treasury securities and obligations of U.S. government agencies....	\$ 25,810	\$ --	\$(142)	\$ 25,668	\$20,990	\$--	\$(1,924)	\$19,066
Obligations of state and political subdivisions.....	9,560	24	--	9,584	11,206	--	(653)	10,553
Mortgage-backed securities and collateralized mortgage obligations.....	68,511	247	--	68,758	39,274	--	(2,003)	37,271
Other debt securities... FHLB/Federal Reserve	3,010	72	--	3,082	3,767	--	(141)	3,626
Bank stock.....	4,924	--	--	4,924	4,443	--	--	4,443
Total securities.....	\$111,815	\$343	\$(142)	\$112,016	\$79,680	\$--	\$(4,721)	\$74,959

The following table presents the amortized cost of securities classified as held-to-maturity and their approximate fair values as of the dates shown:

	As of December 31, 2000				As of December 31, 1999			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(Dollars in thousands)							
U.S. Treasury securities and obligations of U.S. government agencies....	\$ 4,969	\$ --	\$(12)	\$ 4,957	\$ 4,965	\$--	\$(202)	\$ 4,763
Obligations of state and political subdivisions.....	10,447	--	(37)	10,410	10,445	--	(449)	9,997
Mortgage-backed securities and collateralized mortgage obligations.....	13,797	234	--	14,031	16,951	--	(26)	16,924
Other debt securities... FHLB/Federal Reserve	2,530	--	(67)	2,463	2,745	--	(44)	2,701
Total securities.....	\$31,743	\$234	\$(116)	\$31,861	\$35,106	\$--	\$(721)	\$34,385

The following table summarizes the contractual maturity of investment securities at amortized cost (including federal funds sold and other temporary investments) and their weighted average yields. No tax-equivalent adjustments were made.

	As of December 31, 2000									
	Within One Year		After One Year But Within Five Years		After Five Years But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Treasury securities and obligations of U.S. government agencies....	\$2,005	6.62%	\$4,961	7.17%	\$10,867	6.55%	\$ 12,766	6.92%	\$ 30,599	6.81%
Obligations of state and political subdivisions.....	--	--	870	4.80	6,703	5.03	12,410	4.98	19,983	4.99
Mortgage-backed securities and collateralized mortgage obligations.....	--	--	--	--	9,216	7.22	73,494	7.09	82,710	7.10
Other debt securities... FHLB/Federal Reserve	--	--	2,052	6.84	2,320	8.11	1,171	10.20	5,543	8.08
Bank stock.....	--	--	--	--	--	--	4,924	6.35	4,924	6.35
Total securities.....	\$2,005	6.62%	\$7,883	6.82%	\$29,106	6.54%	\$104,765	6.82%	\$143,759	6.76%

The following table summarizes the fair value and classification of securities:

As of December 31,		
2000	1999	1998

(Dollars in thousands)

Available-for-sale.....	\$112,016	\$ 74,959	\$ 83,623
Held-to-maturity.....	31,743	34,385	39,567
	-----	-----	-----
Total securities.....	\$143,759	\$109,344	\$123,190
	=====	=====	=====

The securities portfolio includes mortgage-backed securities which have been developed by pooling a number of real estate mortgages and are principally issued by federal agencies such as the FNMA and the Federal Home Loan Mortgage Corporation. These securities are deemed to have high credit ratings, and certain minimum levels of regular monthly cash flows of principal and interest are guaranteed by the issuing agencies. Included in the Company's mortgage-backed securities at years ended December 31, 2000, 1999 and 1998, were \$22.6 million, \$2.6 million and \$7.0 million in agency-issued collateral mortgage obligations.

As of the years ended December 31, 2000, 1999 and 1998, 88.9%, 46.2% and 50.6%, respectively, of the mortgage-backed securities held by the Company had final maturities of more than ten years. However, unlike U.S. Treasury and U.S. Government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Mortgage-backed securities which are purchased at a premium will generally suffer decreasing net yields as interest rates drop because homeowners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Therefore, securities purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and consequently, the average life of this security will not be unduly shortened. At December 31, 2000, approximately \$12.2 of the Company's mortgage-backed securities earn interest at floating rates and reprice within one year, and accordingly are less susceptible to declines in value should interest rates increase.

Derivatives

In the third quarter of 1999, the Company entered into two interest rate swaps in an effort to match the repricing of its liabilities with its assets. The swaps each have a notional amount of \$10 million. The Company pays a floating interest rate of LIBOR (London Interbank Offered Rate) less 5 basis points and receives a fixed rate of 7.15% on each swap. As of December 31, 2000, the swaps were in effect. Each swap matures in 2009 but is callable every six months. No additional derivatives were entered into during 2000.

Deposits

The Company's lending and investing activities are funded principally by deposits, approximately 39.9% of which were demand, savings and money market deposits at December 31, 2000. Average noninterest-bearing demand deposits at December 31, 2000 were \$102.5 million compared with \$91.5 million at year-end 1999, an increase of \$11.0 million or 12.0%. Total deposits at December 31, 2000 were \$625.9 million, an increase of \$81.5 million or 15.0% from \$544.4 million at December 31, 1999. Average total deposits during 2000 increased by 17.6% to \$590.2 million. Average total deposits during 1999 increased by 5.0% to \$501.8 million from \$477.8 million in 1998. The increases during 2000 and 1999 resulted primarily from the effect of opening new deposit gathering branches, the sale of certificates of deposit in established branches, and "relationship banking" initiatives. The Company's ratios of average noninterest-bearing demand deposits to average total deposits for the years ended December 31, 2000, 1999 and 1998 were 17.4%, 18.2% and 16.8%, respectively.

As part of its effort to cross-sell its products and services, the Company actively solicits time deposits from existing customers. In addition, the Company receives time deposits from government municipalities and utility districts as well as from corporations seeking to place deposits in minority-owned businesses, such as the Company. These time deposits typically renew at maturity and have provided a stable base of time deposits. Unlike other financial institutions, where large time deposits are often considered volatile, the Company believes that based on its historical experience its large time deposits have core-type characteristics. It has been the Company's experience that, generally, Asian customers and customers near retirement age have a higher proportion of savings in time deposits than in other investment vehicles because of the security provided by FDIC insurance. In pricing its time deposits, the Company seeks to be competitive but typically prices near the middle of a given market. Of the \$174.4 million of time deposits greater than \$100,000 at December 31, 2000, accounts totaling \$106.5 million have been with the Company longer than one year.

The average daily balances and weighted average rates paid on deposits for each of the years ended December 31, 2000, 1999, and 1998 are presented below:

	Years Ended December 31,					
	2000		1999		1998	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)					
Interest-bearing deposits:						
Money market checking.....	\$ 42,888	2.99%	\$ 37,011	2.81%	\$ 30,109	2.60%
Savings and money market deposits.....	96,520	3.35	97,629	3.09	90,328	3.61
Time deposits less than \$100,000.....	185,310	5.89	132,012	4.94	151,356	5.37
Time deposits \$100,000 and over.....	162,955	5.92	143,651	5.23	125,548	5.69
Total interest-bearing deposits.....	487,673	5.14	410,303	4.41	397,341	4.86
Noninterest-bearing deposits.....	102,544	--	91,505	--	80,452	--
Total deposits.....	\$590,217	4.25%	\$501,808	3.61%	\$477,793	4.04%

The following table sets forth the amount of the Company's time deposits that are \$100,000 or greater by time remaining until maturity:

	As of December 31, 2000
	(Dollars in thousands)
Three months or less.....	\$ 67,102
Over three through six months.....	40,695
Over six through 12 months.....	55,045
Over 12 months.....	11,583
Total.....	\$174,425

Other Borrowings

During the third quarter of 1998, the Company obtained two ten-year loans totaling \$25.0 million from the FHLB of Dallas to further leverage its balance sheet. The loans bear interest at the average rate of 4.99% per annum until the fifth anniversary of the loans, at which time the loans may be repaid or the interest rate may be renegotiated. Other short-term borrowings principally consist of U.S. Treasury tax note option accounts and have a maturity of 14 days or less.

Additionally, the Company had several unused, unsecured lines of credit with correspondent banks totaling \$5.0 million at December 31, 2000, \$12.0 million at December 31, 1999 and \$7.0 million at December 31, 1998.

The following table presents the categories of other borrowings by the Company:

	As of December 31,		
	2000	1999	1998
	(Dollars in thousands)		
FHLB short-term loans:			
on December 31.....	\$ --	\$20,000	\$25,000
average during the year.....	14,957	24,774	860
maximum month end balance during the year.....	20,000	39,430	25,000
FHLB notes:			
on December 31.....	\$25,000	\$35,000	\$25,000
average during the year.....	27,268	32,753	12,673
maximum month end balance during the year.....	35,000	35,000	25,000
Other short-term borrowings:			
on December 31.....	\$ 573	\$ 636	\$ 43
average during the year.....	532	510	487
maximum month end balance during the year.....	577	640	649

The weighted average rate paid on other borrowings as of December 31, 2000 was 4.99%.

As of December 31, 2000, FHLB notes consisted of two 10-year notes of \$15.0 and \$10.0 million with fixed interest rates of 4.97% and 5.02%, respectively, which are scheduled to mature during the fourth quarter of 2008. In the first quarter of 1999, the Company borrowed an additional \$10.0 million from the FHLB with a fixed interest rate of 4.70% that was repaid in March 2000. Additionally, this loan was renewed for one month at a rate of 6.08% and was repaid in April 2000. Six-month term funds were acquired in October 1999 in the amount of \$20.0 million with a fixed rate of 5.89% which repriced to 6.32% in March 2000 and was repaid in September 2000.

Interest Rate Sensitivity and Liquidity

The Company's Funds Management Policy provides management with the necessary guidelines for effective funds management, and the Company has established a measurement system for monitoring its net interest rate sensitivity position. The Company manages its sensitivity position within established guidelines.

Interest rate risk is managed by the Asset and Liability Committee ("ALCO") which is composed of directors and senior officers of the Company, in accordance with policies approved by the Company's Board of Directors. The ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the ALCO reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management uses two methodologies to manage interest rate risk: (i) an analysis of relationships between interest-earning assets and interest-bearing liabilities and (ii) an interest rate shock simulation model. The Company has traditionally managed its business to reduce its overall exposure to changes in interest rates, however, under current policies of the Company's Board of Directors, management has been given some latitude to increase the Company's interest rate sensitivity position within certain limits if, in management's judgment, it will enhance profitability. As a result, changes in market interest rates may have a greater impact on the Company's financial performance in the future than they have had historically.

The Company manages its exposure to interest rates by structuring its balance sheet in the ordinary course of business. The Company has not entered into instruments such as leveraged derivatives, structured notes, caps, floors, financial options, financial futures contracts or forward delivery contracts for the purpose of reducing interest rate risk. During 1999, the Company entered into two interest rate swaps. The Company pays a floating interest rate of LIBOR less 5 basis points and receives a fixed rate of 7.15% on each swap. Each swap matures in 2009 but is callable every six months.

An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market interest rates. The management of interest rate risk is performed by analyzing the maturity and repricing relationships between interest-earning assets and interest-bearing liabilities at specific points in time ("GAP") and by analyzing the effects of interest rate changes on net interest income over specific periods of time by projecting the performance of the mix of assets and liabilities in varied interest rate environments. Interest rate sensitivity reflects the potential effect on net interest income of a movement in interest rates. A company is considered to be asset sensitive, or having a positive GAP, when the amount of its interest-earning assets maturing or repricing within a given period exceeds the amount of its interest-bearing liabilities also maturing or repricing within that time period. Conversely, a company is considered to be liability sensitive, or having a negative GAP, when the amount of its interest-bearing liabilities maturing or repricing within a given period exceeds the amount of its interest-earning assets also maturing or repricing within that time period. During a period of rising interest rates, a negative GAP would tend to affect adversely net interest income, while a positive GAP would tend to result in an increase in net interest income. During a period of falling interest rates, a negative GAP would tend to result in an increase in net interest income, while a positive GAP would tend to affect net interest income adversely.

The following table sets forth an interest rate sensitivity analysis for the Company at December 31, 2000:

	Volumes Subject to Repricing Within							Total
	0-30 days	31-180 days	181-365 days	1-3 years	3-5 years	5-10 years	Greater than 10 years	
	(Dollars in thousands)							
Interest-earning assets:								
Securities.....	\$ 1,286	\$ 11,178	\$ 10,034	\$ 24,696	\$ 16,452	\$ 36,171	\$ 43,942	\$ 143,759
Total loans.....	353,606	23,078	23,394	53,381	22,957	4,868	2,454	483,738
Federal funds sold and other temporary investments.....	49,653	--	--	--	--	--	--	49,653
Total interest-bearing assets.....	404,545	34,256	33,428	78,077	39,409	41,039	46,396	677,150
Interest-bearing liabilities:								
Demand, money market and savings deposits...	--	28,341	28,340	70,851	14,170	--	--	141,702
Time deposits.....	76,245	159,381	102,763	24,395	4,669	8,823	4	376,280
Federal funds purchased.....	--	--	--	--	--	--	--	--
Other borrowings.....	--	25,000	--	573	--	--	--	25,573
Total interest-bearing liabilities.....	76,245	212,722	131,103	95,819	18,839	8,823	4	543,555
Period GAP.....	328,300	(178,466)	(97,675)	(17,742)	20,570	32,216	46,392	133,595
Cumulative GAP.....	\$328,300	\$149,834	\$ 52,159	\$ 34,417	\$54,987	\$87,203	\$133,595	
Period GAP to total assets.....	44.56%	(24.22)%	(13.26)%	(2.41)%	2.79%	4.37%	6.30%	
Cumulative GAP to total assets.....	44.56%	20.34 %	7.08 %	4.67 %	7.46%	11.84%	18.13%	
Cumulative interest-earning assets to cumulative interest-bearing liabilities...	530.59%	151.85 %	112.42 %	106.67 %	110.28%	116.04%	117.19%	

The preceding table provides Company management with repricing data within given time frames. The purpose of this information is to assist management in the elements of pricing and of matching interest sensitive assets with interest sensitive liabilities within time frames. The table indicates a positive GAP on a cumulative basis for the three time periods covering the next 365 days of \$328.3 million, \$149.8 million and \$52.2 million, respectively. With this condition, the Company is susceptible to a decrease in net interest income should market interest rates decrease. The Company is aware of this imbalance and has initiated strategies to lower the positive GAP by emphasizing the origination of fixed rate loans while shortening the terms of fixed rate liability products. GAP reflects a one-day position that is continually changing and is not indicative of the Company's position at any other time. While the GAP position is a useful tool in measuring interest rate risk and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates solely on that measure, without accounting for alterations in the maturity or repricing characteristics of the balance sheet that occur during changes in market interest rates. For example, the GAP position reflects only the prepayment assumptions pertaining to the current rate environment. Assets tend to prepay more rapidly during periods of declining interest rates than during periods of rising interest rates. Because of this and other risk factors not contemplated by the GAP position, an institution could have a matched GAP position in the current rate environment and still have its net interest income exposed to increased rate risk. The Company's Rate Committee and the ALCO review the Company's interest rate risk position on a weekly and monthly basis, respectively.

As a financial institution, the Company's primary component of market risk is interest rate volatility, primarily in the prime lending rate. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of the Company's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Based upon the nature of the Company's operations, the Company is not subject to foreign exchange or commodity price risk. The Company does not own any trading assets.

The Company's exposure to market risk is reviewed on a regular basis by the ALCO. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. Management realizes certain risks are inherent, and that the goal is to identify, monitor, manage or exploit the risks.

The Company applies an economic value of equity ("EVE") methodology to gauge its interest rate risk exposure as derived from its simulation model. Generally, EVE is the discounted present value of the difference between incoming cash flows on interest-earning assets and other investments and outgoing cash flows on interest-bearing liabilities. The application of the methodology attempts to quantify interest rate risk by measuring the change in the EVE that would result from a theoretical instantaneous and sustained 200 basis point shift in market interest rates.

Presented below, as of December 31, 2000, is an analysis of the Company's interest rate risk as measured by changes in EVE for parallel shifts of 200 basis points in market interest rates:

Change in Rates -----	\$ Change in EVE (Dollars in thousands) -----	% Change in EVE -----	EVE as a % of Present Value of Assets -----	
			EVE Ratio -----	Change -----
-200 bp	\$ 3,307	5.27%	8.87%	33 bp
0 bp	--	--	8.54%	--
+200 bp	(10,181)	(16.21)%	7.33%	(121) bp

The percentage change in EVE as a result of a 200 basis point decrease in interest rates at December 31, 2000 was 5.27%. The percentage change in EVE as a result of a 200 basis point increase in interest rates on December 31, 2000 was (16.21%).

The Company has attempted to narrow the bands of extremes in the investment portfolio's performance acknowledging that some earnings opportunities must be allowed to pass in the interest of minimizing extreme losses during periods of volatile interest rates. During the third and fourth quarters of 1999, increasing interest rates caused increased prepayment speeds in the Company's mortgage-backed securities as well as accelerating call activity in U.S. Government agency fixed income securities. As a result of a shift in investment philosophy combined with calls and increased prepayments, management has been able to restructure the portfolio and reduce the negative convexity.

The Company's EVE is most directly affected by the convexity and duration of its investment portfolio. The duration and negative convexity of the Company's investment portfolio produce disproportionate effects on the value of the portfolio with changes in interest rates. Convexity measures the percentage of portfolio price appreciation or depreciation relative to a decrease or increase in interest rates. The higher the negative convexity, the greater the decline in the value of a fixed income security as interest rates increase. The Company's investment portfolio is primarily comprised of long-term, fixed income securities, the value of which would be adversely affected in a rising interest rate environment.

Management believes that the EVE methodology overcomes three shortcomings of the typical maturity GAP methodology. First, it does not use arbitrary repricing intervals and accounts for all expected future cash flows. Second, because the EVE method projects cash flows of each financial instrument under different interest rate environments, it can incorporate the effect of embedded options on an institution's interest rate risk exposure. Third, it allows interest rates on different instruments to change by varying amounts in response to a change in market interest rates, resulting in more accurate estimates of cash flows.

As with any method of gauging interest rate risk, however, there are certain shortcomings inherent to the EVE methodology. The model assumes interest rate changes are instantaneous parallel shifts in the yield curve. In reality, rate changes are rarely instantaneous. The use of the simplifying assumption that short-term and long-

term rates change by the same degree may also misstate historical rate patterns which rarely show parallel yield curve shifts. Further, the model assumes that certain assets and liabilities of similar maturity or repricing will react identically to changes in rates. In reality, the market value of certain types of financial instruments may adjust in anticipation of changes in market rates, while any adjustment in the valuation of other types of financial instruments may lag behind the change in general market rates. Additionally, the EVE methodology does not reflect the full impact of contractual restrictions on changes in rates for certain assets, such as adjustable rate loans. When interest rates change, actual loan prepayments and actual early withdrawals from time deposits may deviate significantly from the assumptions used in the model. Finally, this methodology does not measure or reflect the impact that higher rates may have on the ability of adjustable rate loan clients to service their debt. All of these factors are considered in monitoring the Company's exposure to interest rate risk.

The prime rate in effect for December 31, 2000 and December 31, 1999 was 9.5% and 8.5%, respectively. Management believes that in the short-term the prime rate will continue to soften.

Liquidity

Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate the Company on an ongoing basis. The Company's liquidity needs are met primarily by financing activities, which consist mainly of growth in time deposits, supplemented by available investment securities available-for-sale, other borrowings and earnings through operating activities. Although access to purchased funds from correspondent banks is available and has been utilized on occasion to take advantage of investment opportunities, the Company does not generally rely on these external funding sources. The cash and federal funds sold position, supplemented by amortizing investments along with payments and maturities within the loan portfolio, have historically created an adequate liquidity position.

The Company uses federal funds purchased and other borrowings as funding sources and in its management of interest rate risk. Federal funds purchased generally represent overnight borrowings. Other borrowings principally consist of U.S. Treasury tax note option accounts that have maturities of 14 days or less and borrowings from the FHLB.

FHLB advances may be utilized from time to time as either a short-term funding source or a longer-term funding source. FHLB advances can be particularly attractive as a longer-term funding source to balance interest rate sensitivity and reduce interest rate risk. The Company is eligible for several borrowing programs through the FHLB. The first, a short-term borrowing program, requires delivery of eligible securities for collateral. Maturities under this program range from one to 365 days. At year end 1999, the Company had \$20.0 million in borrowings under this program which was repaid in September 2000. The Company currently maintains some of its investment securities in safekeeping at the FHLB of Dallas.

Under another borrowing program, long-term borrowings are available to the Company from the FHLB. These borrowings have maturities greater than one year and are collateralized first by FHLB stock, second by the Company's one to four family mortgage loans and third by the Company's investment securities in safekeeping at the FHLB. Borrowings secured by the Company's one to four family mortgage loans are limited to 75% of the loan value. At December 31, 1999, the Company had \$35.0 million in borrowings under this program of which \$10 million was repaid in March 2000.

Capital Resources

Capital management consists of providing equity to support both current and future operations. The Company is subject to capital adequacy requirements imposed by the Federal Reserve Board and the Bank is subject to capital adequacy requirements imposed by the OCC. Both the Federal Reserve Board and the OCC have adopted risk-based capital requirements for assessing bank holding company and bank capital adequacy. These standards define capital and establish minimum capital requirements in relation to assets and off-balance

sheet exposure, adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate relative risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The risk-based capital standards of the Federal Reserve Board require all bank holding companies to have "Tier 1 capital" of at least 4.0% and "total risk-based" capital (Tier 1 and Tier 2) of at least 8.0% of total risk-adjusted assets. "Tier 1 capital" generally includes common shareholders' equity and qualifying perpetual preferred stock together with related surpluses and retained earnings, less deductions for goodwill and various other intangibles. "Tier 2 capital" may consist of a limited amount of intermediate-term preferred stock, a limited amount of term subordinated debt, certain hybrid capital instruments and other debt securities, perpetual preferred stock not qualifying as Tier 1 capital, and a limited amount of the general valuation allowance for loan losses. The sum of Tier 1 capital and Tier 2 capital is "total risk-based capital."

The Federal Reserve Board has also adopted guidelines which supplement the risk-based capital guidelines with a minimum ratio of Tier 1 capital to average total consolidated assets ("leverage ratio") of 3.0% for institutions with well diversified risk, including no undue interest rate exposure; excellent asset quality; high liquidity; good earnings; and that are generally considered to be strong banking organizations, rated composite 1 under applicable federal guidelines, and that are not experiencing or anticipating significant growth. Other banking organizations are required to maintain a leverage ratio of at least 4.0%. These rules further provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels and comparable to peer group averages, without significant reliance on intangible assets.

Pursuant to FDICIA, each federal banking agency revised its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of nontraditional activities, as well as reflect the actual performance and expected risk of loss on multifamily mortgages. The Bank is subject to capital adequacy guidelines of the OCC that are substantially similar to the Federal Reserve Board's guidelines. Also pursuant to FDICIA, the OCC has promulgated regulations setting the levels at which an insured institution such as the Bank would be considered "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." The Bank is classified "well capitalized" for purposes of the OCC's prompt corrective action regulations. See "Business--Supervision and Regulation--The Company" and "--The Bank."

Shareholders' equity increased from \$52.6 million at December 31, 1999 to \$58.7 million at December 31, 2000, an increase of \$6.1 million or 11.6%. This increase was primarily the result of net income of \$5.5 million offset by dividends paid of \$1.7 million, common stock issuances of \$445,000, treasury stock purchases of \$1.4 million, and a net unrealized gain on securities of \$3.3 million.

The following table provides a comparison of the Company's and the Bank's leverage and risk-weighted capital ratios as of December 31, 2000 to the minimum and well-capitalized regulatory standards:

	Minimum Required for Capital Adequacy Purposes	To be Well Capitalized under Prompt Corrective Action Provisions	Actual Ratio at December 31, 2000
The Company			
Leverage ratio.....	4.00%(1)	N/A	8.39%
Tier 1 risk-based capital ratio.....	4.00	N/A	11.74
Risk-based capital ratio.....	8.00%	N/A	13.00%
The Bank			
Leverage ratio.....	4.00%(2)	5.00%	8.01%
Tier 1 risk-based capital ratio.....	4.00	8.00	11.21
Risk-based capital ratio.....	8.00%	10.00%	12.47%

-
- (1) The Federal Reserve Board may require the Company to maintain a leverage ratio above the required minimum.
- (2) The OCC may require the Bank to maintain a leverage ratio above the required minimum.

New Accounting Pronouncements

In June 1998, FASB issued SFAS 133, Accounting for Derivative Instruments and Hedging Activities. (SFAS 133). The statement becomes effective for reporting periods beginning after June 15, 2000, and will not be applied retroactively. SFAS 133 establishes accounting and reporting standards for derivatives instruments and hedging activities. Under the standard, all derivatives must be measured at fair value and recognized as either assets or liabilities in the financial condition. In addition, hedge accounting should only be provided for transactions that meet certain specified criteria. The accounting for changes in fair value (gains and losses) of a derivative is dependent on the intended use of the derivative and its designation. Derivatives may be used to: 1) hedge exposure to change in fair value of a recognized asset or liability or a from commitment, referred to as a fair value hedge, 2) hedge exposure to variable cash flow of forecasted transactions, referred to as cash flow hedge, or 3) hedge foreign currency exposure. For information regarding the market risk of the Company's financial instruments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Interest Rate Sensitivity and Liquidity." The Company's principal market risk exposure is to interest rates.

In September 2000, FASB issued SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which replaces SFAS 125. The Statement revises the standards for accounting for the securitization and other transfers of financial assets and collateral, and requires certain disclosures, but carries over most of SFAS 125's provisions without reconsideration. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Management believes that adopting these components of SFAS 140 will not have a material impact on the Company's financial position or results of operations. SFAS 140 must be applied prospectively.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

For information regarding the market risk of the Company's financial instruments, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Interest Rate Sensitivity and Liquidity." The Company's principal market risk exposure is to interest rates.

Item 8. Financial Statements and Supplementary Data

Reference is made to the financial statements, the reports thereon, the notes thereto and supplementary data commencing at page F-1 of this Form 10-K, which financial statements, reports, notes and data are incorporated herein by reference.

Quarterly Financial Data (Unaudited)

The following table represents summarized data for each of the quarters in fiscal 2000 and 1999 (in thousands, except earnings per share):

	2000				1999			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income.....	\$16,352	\$16,416	\$15,528	\$15,170	\$14,606	\$13,738	\$12,895	\$12,397
Interest expense.....	7,345	7,389	6,501	6,041	5,772	5,399	5,005	4,850
Net interest income...	9,007	9,027	9,027	9,129	8,834	8,339	7,890	7,547
Provision for loan losses.....	730	499	5,580	699	2,100	1,380	1,060	1,010
Net interest income after provision for loan losses.....	8,277	8,528	3,447	8,430	6,734	6,959	6,830	6,537
Noninterest income.....	1,813	1,832	1,913	1,474	1,135	1,445	1,833	1,589
Noninterest expense.....	6,757	6,719	7,265	6,489	6,047	5,410	5,468	5,369
Income before income taxes.....	3,333	3,641	(1,905)	3,415	1,822	2,994	3,195	2,757
Provision for income taxes.....	1,151	1,324	(752)	1,278	659	1,033	1,050	896
Net income.....	\$ 2,182	\$ 2,317	\$(1,153)	\$ 2,137	\$ 1,163	\$ 1,961	\$ 2,145	\$ 1,861
Earnings per share								
Basic.....	\$ 0.31	\$ 0.33	\$(0.17)	\$ 0.30	\$ 0.16	\$ 0.28	\$ 0.30	\$ 0.26
Diluted.....	0.31	0.33	(0.17)	0.30	0.16	0.28	0.30	0.26
Weighted average shares outstanding								
Basic.....	6,976	6,956	6,942	7,014	7,122	7,121	7,118	7,095
Diluted.....	6,977	6,956	6,942	7,014	7,122	7,121	7,118	7,095

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Company

The information under the captions "Election of Directors", "Continuing Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "2001 Proxy Statement"), is incorporated herein by reference in response to this item.

Item 11. Executive Compensation

The information under the caption "Executive Compensation and Other Matters" in the 2001 Proxy Statement is incorporated herein by reference in response to this item.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information under the caption "Beneficial Ownership of Common Stock by Management of the Company and Principal Shareholders" in the 2001 Proxy Statement is incorporated herein by reference in response to this item.

Item 13. Certain Relationships and Related Transactions

The information under the caption "Interests of Management and Others in Certain Transactions" in the 2001 Proxy Statement is incorporated herein by reference in response to this item.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 10-K

Consolidated Financial Statements

Reference is made to the Consolidated Financial Statements, the reports thereon, the notes thereto and supplementary data commencing at page F-1 of this Annual Report on Form 10-K. Set forth below is a list of such Consolidated Financial Statements:

Independent Auditors' Reports
Consolidated Balance Sheets as of December 31, 2000 and 1999
Consolidated Statements of Income for the Years Ended December 31, 2000, 1999, and 1998
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2000, 1999, and 1998
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2000, 1999, and 1998
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999, and 1998
Notes to Consolidated Financial Statements

Financial Statement Schedules

All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

Exhibits

Exhibit Number -----	Description -----
3.1	Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-62667) (the "Registration Statement")).
3.2	Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 to the Registration Statement).
4	Specimen form of certificate evidencing the Common Stock (incorporated herein by reference to Exhibit 4 to the Registration Statement).
10.1	Agreement and Plan of Reorganization by and among MetroCorp Bancshares, Inc., MC Bancshares of Delaware, Inc. and MetroBank, N.A. (incorporated herein by reference to Exhibit 10.1 to the Registration Statement).
10.2+	Form of Director Stock Option Agreement (incorporated herein by reference to Exhibit 10.2 to the Registration Statement).
10.3+	MetroCorp Bancshares, Inc. Non-Employee Director Stock Bonus Plan (incorporated herein by reference to Exhibit 10.3 to the Registration Statement).
10.4	MetroCorp Bancshares, Inc. 1998 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.4 to the Registration Statement).
10.5+	MetroCorp Bancshares, Inc. 1998 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.5 to the Registration Statement).
10.6+	First Amendment to the MetroCorp Bancshares, Inc. 1998 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K for the year ended December 31, 1998).
10.7+	First Amendment to the MetroCorp Bancshares, Inc. Non-Employee Director Stock Bonus Plan (incorporated herein by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 (Registration Number 333-94327)).
10.8+	Second Amendment to the MetroCorp Bancshares, Inc. Non-Employee Director Stock Bonus Plan (incorporated herein by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 (Registration Number 333-94327)).
10.9*+	MetroCorp Bancshares, Inc. Executive Bonus Plan
23.1*	Consent of Deloitte & Touche LLP.
23.2*	Consent of Pricewaterhouse Coopers LLP.

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

Reports on Form 8-K

The Company did not file any Current Reports on Form 8-K during the quarter ended December 31, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, on March 15, 2001.

MetroCorp Bancshares, Inc.

/s/ Don J. Wang

By: _____
 Don J. Wang
 Chairman of the Board, President
 and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the indicated capacities on March 15, 2001.

Signature -----	Title -----
/s/ Don J. Wang _____ Don J. Wang	Chairman of the Board, President and Chief Executive Officer (principal executive officer)
/s/ Ruth E. Ransom _____ Ruth E. Ransom	Chief Financial Officer and Senior Vice President (principal financial officer and principal accounting officer)
/s/ Tiong L. Ang _____ Tiong L. Ang	Director
/s/ May P. Chu _____ May P. Chu	Director
/s/ Helen P. Chen _____ Helen P. Chen	Director
/s/ Tommy F. Chen _____ Tommy F. Chen	Director
/s/ George M. Lee _____ George M. Lee	Director
/s/ John M. Lee _____ John M. Lee	Director
/s/ David Tai _____ David Tai	Director
/s/ Joe Ting _____ Joe Ting	Director

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METROCORP BANCSHARES, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
MetroCorp Bancshares, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of MetroCorp Bancshares, Inc. and subsidiary (the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of MetroCorp Bancshares, Inc. as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 13, 2001
Houston, Texas

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
MetroCorp Bancshares, Inc.

In our opinion, the accompanying consolidated statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the results of operations and cash flows of MetroCorp Bancshares, Inc. and subsidiaries (the Company) for the year ended December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Houston, Texas
March 19, 1999

METROCORP BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31,	
	2000	1999
ASSETS		
Cash and cash equivalents:		
Cash and due from banks.....	\$ 42,573	\$ 29,945
Federal funds sold and other temporary investments.....	49,653	6,471
Total cash and cash equivalents.....	92,226	36,416
Investment securities available-for-sale, at fair value (amortized cost of \$111,815 and \$79,680, respectively)....	112,016	74,959
Investment securities held-to-maturity, at amortized cost (fair value of \$31,861 and \$34,385, respectively).....	31,743	35,106
Loans, net.....	474,467	488,132
Premises and equipment, net.....	6,575	8,106
Accrued interest receivable.....	4,271	3,855
Deferred income taxes.....	5,797	6,477
Due from customers on acceptances.....	3,322	831
Other real estate and repossessed assets, net.....	757	490
Other assets.....	5,583	6,217
Total assets.....	\$736,757	\$660,589
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing.....	\$107,924	\$ 96,253
Interest-bearing.....	517,982	448,183
Total deposits.....	625,906	544,436
Other borrowings.....	25,000	55,636
Accrued interest payable.....	1,816	1,558
Income taxes payable.....	671	--
Acceptances outstanding.....	3,322	831
Other liabilities.....	21,341	5,548
Total liabilities.....	678,056	608,009
Commitments and contingencies (Note 15).....	--	--
Shareholders' equity:		
Preferred stock \$1.00 par value, 2,000,000 shares authorized; none of which are issued and outstanding....	--	--
Common stock, \$1.00 par value, 20,000,000 shares authorized; 7,180,030 and 7,122,479 shares are issued and 6,979,530 and 7,102,479 shares are outstanding at December 31, 2000 and 1999, respectively.....	7,180	7,122
Additional paid-in-capital.....	26,033	25,646
Retained earnings.....	26,936	23,124
Accumulated other comprehensive income (loss).....	121	(3,145)
Treasury stock, at cost (200,500 and 20,000 shares at December 31, 2000 and 1999, respectively).....	(1,569)	(167)
Total shareholders' equity.....	58,701	52,580
Total liabilities and shareholders' equity.....	\$736,757	\$660,589
	=====	=====

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

METROCORP BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Years ended December 31,		
	2000	1999	1998
Interest income:			
Loans.....	\$52,280	\$45,322	\$39,219
Investment securities:			
Taxable.....	7,668	6,624	6,312
Tax-exempt.....	1,046	1,091	964
Federal funds sold and other temporary investments.....	2,472	631	1,201
Total interest income.....	63,466	53,668	47,696
Interest expense:			
Time deposits.....	20,444	14,032	15,267
Demand and savings deposits.....	4,514	4,059	4,041
Other borrowings.....	2,318	2,935	744
Total interest expense.....	27,276	21,026	20,052
Net interest income.....	36,190	32,642	27,644
Provision for loan losses.....	7,508	5,550	3,377
Net interest income after provision for loan losses..	28,682	27,092	24,267
Noninterest income:			
Service charges on deposit accounts.....	3,883	3,313	3,364
Other loan-related fees.....	1,697	1,658	1,371
Letters of credit commissions and fees.....	583	471	392
Gain (loss) on sale of investment securities, net..	2	(14)	202
Other noninterest income.....	867	660	280
Total noninterest income.....	7,032	6,088	5,609
Noninterest expense:			
Employee compensation and benefits.....	12,381	11,140	9,898
Occupancy.....	5,790	5,117	4,907
Other real estate, net.....	(50)	83	374
Data processing.....	154	327	580
Professional fees.....	3,197	658	444
Advertising.....	436	459	392
Other noninterest expense.....	5,322	4,628	4,385
Total noninterest expense.....	27,230	22,412	20,980
Income before provision for income taxes.....	8,484	10,768	8,896
Provision for income taxes.....	3,001	3,638	2,777
Net income.....	\$ 5,483	\$ 7,130	\$ 6,119
Earnings per common share:			
Basic.....	\$ 0.79	\$ 1.00	\$ 1.08
Diluted.....	\$ 0.79	\$ 1.00	\$ 1.06
Weighted average shares outstanding:			
Basic.....	6,972	7,114	5,691
Diluted.....	6,973	7,114	5,749

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

METROCORP BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Years ended December		
	31,		
	2000	1999	1998
	-----	-----	-----
Net income.....	\$5,483	\$7,130	\$6,119
Other comprehensive income (loss), net of tax (Note 9):			
Unrealized gains (losses) on investment securities, net of tax:			
Unrealized holding gains (losses) arising during the period.....	3,237	(3,867)	73
Less: reclassification adjustment for gains (losses) included in net income.....	29	(26)	(133)
	-----	-----	-----
Other comprehensive income (loss)	3,266	(3,893)	(60)
	-----	-----	-----
Total comprehensive income.....	\$8,749	\$3,237	\$6,059
	=====	=====	=====

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

METROCORP BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2000, 1999 and 1998
(in thousands)

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	At par	paid-in capital	earnings	other comprehensive income (loss)	stock, at cost	
	-----	-----	-----	-----	-----	-----	-----
Balance at January 1, 1998.....	5,556	\$5,655	\$12,795	\$12,003	\$ 808	\$ (755)	\$30,506
Issuance of common stock.....	1,350	1,350	11,721	--	--	--	13,071
Repurchase of common stock.....	(26)	--	--	--	--	(204)	(204)
Shares issued for incentive plans.....	33	--	--	--	--	254	254
Sale of treasury stock..	92	--	53	--	--	705	758
Other comprehensive loss.....	--	--	--	--	(60)	--	(60)
Net income.....	--	--	--	6,119	--	--	6,119
Dividends.....	--	--	--	(420)	--	--	(420)
Balance at December 31, 1998.....	7,005	7,005	24,569	17,702	748	--	50,024
Issuance of common stock.....	117	117	1,077	--	--	--	1,194
Repurchase of common stock.....	(20)	--	--	--	--	(167)	(167)
Other comprehensive loss.....	--	--	--	--	(3,893)	--	(3,893)
Net income.....	--	--	--	7,130	--	--	7,130
Dividends.....	--	--	--	(1,708)	--	--	(1,708)
Balance at December 31, 1999.....	7,102	7,122	25,646	23,124	(3,145)	(167)	52,580
Issuance of common stock.....	58	58	387	--	--	--	445
Repurchase of common stock.....	(181)	--	--	--	--	(1,402)	(1,402)
Other comprehensive gain.....	--	--	--	--	3,266	--	3,266
Net income.....	--	--	--	5,483	--	--	5,483
Dividends.....	--	--	--	(1,671)	--	--	(1,671)
Balance at December 31, 2000.....	6,979	\$7,180	\$26,033	\$26,936	\$ 121	\$(1,569)	\$58,701
	=====	=====	=====	=====	=====	=====	=====

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

METROCORP BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the year ended December 31,		
	2000	1999	1998
Cash flows from operating activities:			
Net income.....	\$ 5,483	\$ 7,130	\$ 6,119
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	2,105	2,132	2,096
Provision for loan losses.....	7,508	5,550	3,377
(Gain) loss on securities sales.....	(2)	14	(202)
(Gain) loss on sale of other real estate.....	(50)	50	200
Loss (gain) on sale of premises.....	4	--	--
Deferred loan fees.....	625	668	204
Deferred income taxes.....	(963)	(1,464)	(1,354)
Changes in:			
Accrued interest receivable.....	(416)	(604)	(110)
Accrued interest payable.....	258	528	(6)
Income taxes payable.....	671	(27)	1,887
Other liabilities.....	15,204	(272)	(1,046)
Other assets.....	634	(5,526)	(357)
Net cash provided by operating activities...	31,061	8,179	10,808
Cash flows from investing:			
Purchases of securities available-for-sale.....	(49,398)	(29,221)	(52,601)
Proceeds from sales, maturities and principal paydowns of securities available-for-sale.....	17,264	31,990	10,472
Purchases of securities held-to-maturity.....	--	(2,822)	(1,218)
Proceeds from maturities and principal paydowns of securities held-to-maturity.....	3,375	7,283	32,882
Net change in loans.....	3,271	(83,310)	(69,807)
Proceeds from sale of other real estate.....	2,044	662	355
Proceeds from sale of premises & equipment.....	25	--	--
Purchases of premises and equipment.....	(603)	(2,087)	(2,174)
Net cash used in investing activities.....	(24,022)	(77,505)	(82,091)
Cash flows from financing:			
Net change in:			
Deposits.....	81,470	64,930	33,647
Other borrowings.....	(30,063)	5,593	28,432
Proceeds from issuance of common stock.....	445	1,194	13,071
Treasury stock issuance sold (purchased), net.....	(1,402)	(167)	808
Dividends paid.....	(1,679)	(1,701)	--
Net cash provided by financing activities...	48,771	69,849	75,958
Net increase in cash and cash equivalents.....	55,810	523	4,675
Cash and cash equivalents at beginning of period.....	36,416	35,893	31,218
Cash and cash equivalents at end of period.....	\$92,226	\$36,416	\$35,893

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

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The consolidated financial statements of MetroCorp Bancshares, Inc. (the "Company") include the accounts of the Company and its wholly-owned subsidiary, MetroBank, National Association (the "Bank"). The Bank was formed in 1987 and is engaged in commercial banking activities through its fourteen branches in Houston and Dallas, Texas. In August 1993, the Bank formed a wholly-owned subsidiary, Island Commercial Corporation (ICC), to own and operate certain foreclosed properties. ICC was dissolved in April 1999. In February 1994, the Bank formed a wholly-owned subsidiary, Advantage Finance Corporation (AFC), to purchase and finance accounts receivable. Effective December 20, 2000, AFC was sold to a third party.

Effective October 26, 1998, the Company was formed as a bank holding company. The Bank is indirectly a 100% wholly-owned subsidiary of the Company. The Company exchanged 5,654,560 shares of the Company's Common Stock for all of the issued and outstanding shares of common stock of the Bank through an exchange of four Company shares of Common Stock for one share of the Bank's common stock outstanding. The accompanying financial statements have been restated to reflect the effect of the four-for-one exchange ratio on all share amounts and earnings per share for all periods presented.

The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States and with general practices within the banking industry. Certain principles which significantly affect the determination of financial position, results of operations and cash flows are summarized below.

Use of Estimates

These financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions. These assumptions affect the reported amounts of assets and liabilities and the 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. Significant estimates include the allowance for loan losses. Amounts are recognized when it is probable that an asset has been impaired or a liability has been incurred and the cost can be reasonably estimated. Actual results could differ from those estimates.

Principles of Consolidation

All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and other temporary investments with original maturities of less than three months.

Investment Securities

Investments in securities for which the Company has both the ability and intent to hold to maturity are classified as investments held-to-maturity and are stated at amortized cost. Amortization of premiums and accretion of discounts are recognized as adjustments to interest income using the effective-interest method. Investments in securities which management believes may be sold prior to maturity are classified as investments available-for-sale and are stated at fair value. Unrealized net gains and losses, net of the associated deferred income tax effect, are excluded from income and reported as a separate component of shareholders' equity in "Accumulated other comprehensive income (loss)." Realized gains and losses from sales of investments available-for-sale are recognized through income at the time of sale using the specific identification method.

Loans and Allowance for Loan Losses

Loans are reported at the principal amount outstanding, reduced by unearned discounts, net deferred loan fees, and an allowance for loan losses. Unearned income on installment loans is recognized using the effective interest method over the term of the loan. Interest on other loans is calculated using the simple interest method on the daily principal amount outstanding.

From time to time, the Company may sell certain of its SBA loans or only the guaranteed portion of such loans. A portion of the gain on the sale of such SBA loans, or the guaranteed portions thereof, is recognized as other operating income at the time of the sale. The remaining portion of the gain is deferred and amortized over the remaining life of the loan as an adjustment to yield. Upon the sale of such loans, or the guaranteed portion thereof, the Company receives a fee for servicing the loans. The servicing costs are amortized over the estimated life of the loan, discounted at the rate of the related note plus 1%. The servicing asset is amortized in proportion to and over the period of estimated servicing income.

Loans are placed on nonaccrual status when principal or interest is past due more than 90 days or when, in management's opinion, collection of principal and interest is not likely to be made in accordance with a loan's contractual terms. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. In addition, the amortization of deferred loan fees is suspended when a loan is placed on nonaccrual status. Interest income on nonaccrual loans is recognized only to the extent received in cash; however, where there is doubt regarding the ultimate collectibility of the loan principal, cash receipts, whether designated as principal or interest, are thereafter applied to reduce the principal balance of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and, in management's judgement; future payments are reasonably assured.

The Bank applies SFAS 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS 118, Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures. Under SFAS 114, as amended, a loan, with the exception of groups of smaller-balance homogenous loans that are collectively evaluated for impairment, is considered impaired when, based on current information, it is probable that the borrower will be unable to pay contractual interest or principal payments as scheduled in the loan agreement. SFAS 118 permits a creditor to use existing methods for recognizing interest income on impaired loans. The Bank recognizes interest income on impaired loans pursuant to the discussion above for nonaccrual loans. Impairment is measured by the difference between the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount) and the estimated present value of total expected future cash flows, discounted at the loan's effective rate, or the fair value of the collateral, if the loan is collateral dependent. Impairment is recognized by adjusting an allocation of the existing allowance for loan losses.

Specifically, SFAS 114 requires that the allowance for loan losses related to impaired loans be determined based on the difference of carrying value of loans and the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Estimates of loan losses involve an exercise of judgment. While it is possible that in the short-term the Company may sustain losses which are substantial in relation to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the consolidated balance sheets is adequate to absorb probable losses that exist in the current loan portfolio.

The allowance for loan losses provides for the risk of losses inherent in the lending process. The allowance for loan losses is based on periodic reviews and analyses of the loan portfolio which include consideration of such factors as the risk rating of individual credits, the size and diversity of the portfolio, economic conditions, prior loss experience and results of periodic credit reviews of the portfolio. The allowance for loan losses is increased by provisions for loan losses charged against income and reduced by charge-offs, net of recoveries. In management's judgement, the allowance for loan losses is considered adequate to absorb losses inherent in the loan portfolio.

Nonrefundable Fees and Costs Associated with Lending Activities

Loan origination fees in excess of the associated costs are recognized over the life of the related loan as an adjustment to yield using the interest method.

Generally, loan commitment fees are deferred, except for certain retrospectively determined fees, and recognized as an adjustment of yield by the interest method over the related loan life or, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. For financial accounting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs, which do not extend the life of bank premises and equipment, are charged to operations as incurred.

Other Real Estate

Other real estate consists of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are initially recorded at fair value less estimated costs to sell. On an ongoing basis they are carried at the lower of cost or fair value minus estimated costs to sell based on appraised value. Operating expenses, net of related revenue and gain and losses on sale of such assets, are reported as other real estate expense.

Other Borrowings

Other borrowings include U.S. Treasury tax note option accounts with maturities of 14 days or less and Federal Home Loan Bank (FHLB) borrowings.

Income Taxes

The Bank accounts for income taxes in accordance with SFAS 109, Accounting for Income Taxes. SFAS 109 provides for an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Bank's financial statements or tax returns. When management determines that it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is established. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than enactments of changes in tax laws or rates.

Earnings Per Share

Basic earnings per common share is calculated by dividing earnings available for common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

calculated by dividing net earnings available for common shareholders by the weighted average number of common and potentially dilutive common shares. Stock options can be dilutive common shares and are therefore considered in the earnings per share calculation, if dilutive. The number of potentially dilutive common shares is determined using the treasury stock method. Earnings per common share have been computed based on weighted average number of shares outstanding after giving retroactive effect to the four-for-one stock exchange in connection with the holding company formation.

Interest Rate Risk Management

The operations of the Bank are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given a level of interest rate risk consistent with the Bank's business strategies.

Asset liability management activities are conducted in the context of the Bank's asset sensitivity to interest rate changes. This asset sensitivity arises due to interest-earning assets repricing more frequently than interest-bearing liabilities. For example, if interest rates are declining, margins will narrow as assets reprice downward more quickly than liabilities. The converse applies when interest rates are on the rise.

As part of the Bank's interest rate risk management, loans of approximately \$228,714,000 and \$185,721,000, at December 31, 2000 and December 31, 1999, respectively, contain interest rate floors to reduce the unfavorable impact to the Bank if interest rates were to decline. The interest rate floors on these loans range from 7.5% to 11.0%.

Financial Instruments with Off-Balance Sheet Risk

The Company enters into traditional off-balance sheet financial instruments such as interest rate exchange agreements ("swaps") in the normal course of business in an effort to reduce its exposure to changes in interest rates. The off-balance sheet financial instruments utilized by the Company are typically classified as hedges of existing assets, liabilities or anticipated transactions. To qualify for hedge accounting, the hedged asset or liability must be interest rate sensitive and the off-balance sheet financial instrument must be designated and be effective as a hedge of the asset, liability or anticipated transaction. The effectiveness of a hedge is evaluated at inception and throughout the hedge period. Gains or losses on early termination of financial contracts, if any, are amortized over the remaining terms of the hedged items. The market value of off-balance sheet instruments that are hedging assets carried at lower of cost or market value are included in the overall valuation analysis of the hedged asset to determine if a loss allowance is necessary. Payments made and received on off-balance sheet instruments entered into in an effort to alter the interest rate characteristics of the hedged item are offset against the related interest income and expense.

Other Off-Balance Sheet Instruments

The Company has entered into other off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133, as amended, becomes effective for reporting periods beginning after June 15, 2000, and will not be applied retroactively. In June 1999, FASB issued SFAS 137 that

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

deferred the effective date of adoption of SFAS 133 for one year. This was followed in June 2000 by the issuance of SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which amended SFAS 133. SFAS 133 establishes accounting and reporting standards for derivatives instruments and hedging activities. Under the standard, all derivatives must be measured at fair value and recognized as either assets or liabilities in the statement of financial condition. In addition, hedge accounting should only be provided for transactions that meet certain specified criteria. The accounting for changes in fair value (gains or losses) of a derivative is dependent on the intended use of the derivative and its designation. Derivatives may be used to: 1) hedge exposure to change the fair value of a recognized asset or liability or from a commitment, referred to as a fair value hedge, 2) hedge exposure to variable cash flow of forecasted transactions, referred to as cash flow hedge, or 3) hedge foreign currency exposure. The implementation of this pronouncement on January 1, 2001 did not have a material effect on the Company's financial statements, nor does management expect SFAS 133 to have a significant impact on future operations.

The Bank entered into two interest rate swaps in 1999 which are each considered a fair value hedge under SFAS 133. Amounts receivable or payable based on the interest rate differentials of interest rate swaps are accrued monthly and are reflected in interest expense. At December 31, 2000, the fair value of the swaps were estimated to be (\$35,000).

In September 2000, FASB issued SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which replaces SFAS 125. The Statement revises the standards for accounting for the securitization and other transfers of financial assets and collateral, and requires certain disclosures, but carries over most of SFAS 125's provisions without reconsideration. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Management believes that adopting these components of SFAS 140 will not have a material impact on the Company's financial position or results of operations. SFAS 140 must be applied prospectively.

Reclassifications

Certain 1999 and 1998 amounts have been reclassified to conform to the 2000 presentation.

2. Cash and Cash Equivalents

The Bank is required by the Board of Governors of the Federal Reserve System to maintain average reserve balances. "Cash and cash equivalents" in the consolidated balance sheets includes amounts so restricted of approximately \$200,000 at both December 31, 2000 and 1999.

3. Investment Securities

In the normal course of business, the Bank invests in federal government, federal agency, state and municipal securities which inherently carry interest rate risks based upon overall economic trends and related market yield fluctuations. Securities within the available-for-sale portfolio may be used as part of the Company's asset/liability strategy and may be sold in response to changes in interest rate risk, prepayment risk or other similar economic factors. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary would result in write-down of the individual securities to their fair value. The related write-downs would be included in earnings as realized losses.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

As of December 31, 2000				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(in thousands)				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government agencies.....	\$ 25,810	\$ --	\$ (142)	\$ 25,668
Obligations of state and political subdivisions.....	9,560	24	--	9,584
Mortgage-backed securities and collateralized mortgage obligations.....	68,511	247	--	68,758
Other debt securities.....	3,010	72	--	3,082
FHLB and Federal Reserve Bank stock (1)(2).....	4,924	--	--	4,924
Total securities.....	\$111,815	\$343	\$ (142)	\$112,016
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government agencies.....	\$ 4,969	\$ --	\$ (12)	\$ 4,957
Obligations of state and political subdivisions.....	10,447	--	(37)	10,410
Mortgage-backed securities and collateralized mortgage obligations.....	13,797	234	--	14,031
Other debt securities.....	2,530	--	(67)	2,463
Total securities.....	\$ 31,743	\$234	\$ (116)	\$ 31,861
As of December 31, 1999				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
(in thousands)				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government agencies.....	\$ 20,990	\$ --	\$ (1,924)	\$ 19,066
Obligations of state and political subdivisions.....	11,206	--	(653)	10,553
Mortgage-backed securities and collateralized mortgage obligations.....	39,274	--	(2,003)	37,271
Other debt securities.....	3,767	--	(141)	3,626
FHLB and Federal Reserve Bank stock (1)(2).....	4,443	--	--	4,443
Total securities.....	\$ 79,680	\$ --	\$ (4,721)	\$ 74,959
Held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government agencies.....	\$ 4,965	\$ --	\$ (202)	\$ 4,763
Obligations of state and political subdivisions.....	10,446	--	(449)	9,997
Mortgage-backed securities and collateralized mortgage obligations.....	16,950	--	(26)	16,924
Other debt securities.....	2,745	--	(44)	2,701
Total securities.....	\$ 35,106	\$ --	\$ (721)	\$ 34,385

- (1) FHLB stock held by the Bank is subject to certain restrictions under a credit policy of the FHLB dated May 1, 1997. Redemption of FHLB stock is dependent upon repayment of borrowings from the FHLB.
- (2) Federal Reserve Bank stock held by the Bank is subject to certain restrictions under Federal Reserve Bank policy.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following sets forth information concerning sales (excluding maturities) of available-for-sale securities (in thousands):

	Years ended December 31,		
	2000	1999	1998
Available-for-sale:			
Amortized cost	\$11,153	\$21,433	\$--
Proceeds.....	11,231	21,419	--
Gross realized gains.....	121	404	--
Gross realized losses.....	119	418	--

Investments carried at approximately \$5,501,000 and \$7,032,000 at December 31, 2000 and 1999, respectively, were pledged to secure public deposits and short-term borrowings of approximately \$1,768,000 and \$1,703,000, respectively. Additionally, investments in the securities portfolio carried at approximately \$21,780,000 and \$55,024,000 were pledged as collateral for borrowed funds at December 31, 2000 and 1999, respectively.

At December 31, 2000, future contractual maturities of securities are as follows (in thousands):

	Investments available-for-sale		Investments held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Within one year.....	\$ 1,998	\$ 2,005	\$ --	\$ --
Within two to five years.....	4,893	5,048	779	788
Within six to ten years.....	8,163	8,161	13,909	13,942
After ten years.....	23,326	23,120	3,258	3,100
Mortgage-backed securities and collateralized mortgage obligations.....	68,511	68,758	13,797	14,031
Debt securities.....	106,891	107,092	31,743	31,861
FHLB/Federal Reserve Bank equity securities.....	4,924	4,924	--	--
Total securities.....	\$111,815	\$112,016	\$31,743	\$31,861
	=====	=====	=====	=====

The Bank holds mortgage-backed securities which may mature at an earlier date than the contractual maturity due to prepayments. The Bank also holds certain securities which may be called by the issuer at an earlier date than the contractual maturity date.

The Company does not own any securities of any one issuer (other than U.S. government and its agencies) of which aggregate adjusted cost exceeded 10% of consolidated shareholders' equity at December 31, 2000 or 1999.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

4. Loans and Allowance for Loan Losses

The Bank makes commercial, real estate and other loans to commercial and individual customers throughout the markets it serves in Texas and Louisiana.

The loan portfolio is summarized by major categories as follows (in thousands):

	As of December 31,	
	2000	1999
Commercial and industrial.....	\$298,134	\$298,150
Real estate-mortgage.....	138,383	137,297
Real estate-construction.....	39,601	40,009
Consumer and other.....	11,986	11,550
Factored receivables.....	1,297	13,700
Gross loans.....	489,401	500,706
Unearned discounts and interest.....	(1,061)	(1,038)
Deferred loan fees.....	(4,602)	(3,999)
Total loans.....	483,738	495,669
Allowance for loan losses.....	(9,271)	(7,537)
Loans, net.....	\$474,467	\$488,132

Although the Bank's loan portfolio is diversified, a substantial portion of its customers' ability to service their debts is dependent primarily on the service sectors of the economy. At December 31, 2000 and 1999, the Bank's loan portfolio consisted of concentrations in the following industries. With the exception of the concentration in the apartment building industry at December 31, 2000, all such amounts represent a concentration greater than 25% of capital (in thousands):

	As of December 31,	
	2000	1999
Hotels/motels.....	\$ 79,007	\$ 74,070
Retail centers.....	85,177	61,087
Restaurants.....	24,967	25,805
Apartment buildings.....	8,391	14,526
Convenience/gasoline stations	19,585	20,746
All other	272,274	304,472
Gross loans	\$489,401	\$500,706

Selected information regarding the loan portfolio is presented below (in thousands):

	As of December 31,	
	2000	1999
Variable rate loans.....	\$351,575	\$345,095
Fixed rate loans.....	137,826	155,611
Gross loans.....	\$489,401	\$500,706

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Changes in the allowance for loan losses are as follows (in thousands):

	As of December 31,		
	2000	1999	1998
Balance at beginning of year.....	\$ 7,537	\$ 6,119	\$ 3,569
Provision for loan losses.....	7,508	5,550	3,377
Charge-offs	(7,025)	(4,402)	(970)
Recoveries	1,251	270	143
Balance at end of year.....	\$ 9,271	\$ 7,537	\$ 6,119

Loans for which the accrual of interest has been discontinued totaled approximately \$2,225,000 and \$6,552,000 at December 31, 2000 and 1999, respectively. Had these loans remained on an accrual basis, interest in the amount of approximately \$215,000 and \$357,000 would have been accrued on these loans during the years ended December 31, 2000 and 1999, respectively.

Included in "other assets" on the balance sheet at December 31, 2000 is \$4.7 million due from the SBA, the Export Import Bank of the United States ("Ex-Im Bank"), an independent agency of the United States Government, and the Overseas Chinese Community Guaranty Fund ("OCCGF"), an agency sponsored by the government of Taiwan. This amount represents the guaranteed portion of loans previously charged-off. Included on the balance sheet at December 31, 1999 is \$5.2 million due from the SBA.

The recorded investment in loans for which impairment has been recognized in accordance with SFAS 114, as amended by SFAS 118, and the related specific allowance for loan losses on such loans at December 31, 2000 and 1999, is presented below (in thousands):

	Real Estate	Commercial	Consumer	Total
December 31, 2000				
Impaired loans having related allowance for loan losses.....	\$ 242	\$ 1,944	\$39	\$ 2,225
Less: Allowance for loan losses.....	(11)	(370)	(14)	(395)
Less: Guaranteed portion (SBA, OCCGF and Ex-Im Bank).....	--	(1,049)	--	(1,049)
Impaired loans, net of allowance for loan losses and guarantees.....	\$ 231	\$ 525	\$25	\$ 781
December 31, 1999				
Impaired loans having related allowance for loan losses.....	\$1,981	\$ 4,490	\$81	\$ 6,552
Less: Allowance for loan losses.....	(163)	(869)	(22)	(1,054)
Less: Guaranteed portion (SBA, OCCGF and Ex-Im Bank).....	--	(1,821)	--	(1,821)
Impaired loans, net of allowance for loan losses and guarantees.....	\$1,818	\$ 1,800	\$59	\$ 3,677

For the years ended December 31, 2000 and 1999, the average recorded investment in impaired loans was approximately \$2,908,000 and \$6,552,000, respectively. The related amount of interest income recognized while the loans were impaired approximated \$64,000 and \$168,000 for the years ended December 31, 2000 and 1999, respectively.

Additionally, at December 31, 2000 and 1999, loans carried at approximately \$9,782,000 and \$148,589,000, respectively, were pledged to secure borrowed funds.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

5. Premises and Equipment

Premises and equipment are summarized as follows (in thousands):

	Estimated useful lives (in years)	As of December 31,	
		2000	1999
Furniture, fixtures and equipment.....	3-10	\$ 9,769	\$ 9,908
Building and improvements.....	3-20	3,943	3,943
Land.....	--	1,679	1,679
Leasehold improvements.....	5	2,298	2,397
		17,689	17,927
Accumulated depreciation.....		(11,114)	(9,821)
Premises and equipment, net.....		\$ 6,575	\$ 8,106

6. Interest-Bearing Deposits

The Bank had \$19.7 million in brokered deposits as of December 31, 2000. There were no major deposit concentrations as of December 31, 2000.

The types of accounts and their respective balances included in interest-bearing deposits are as follows (in thousands):

	As of December 31,	
	2000	1999
Interest-bearing demand deposits.....	\$ 46,530	\$ 40,473
Savings and money market accounts.....	95,172	96,869
Time deposits less than \$100,000.....	201,855	152,914
Time deposits \$100,000 and over.....	174,425	157,927
Interest-bearing deposits.....	\$517,982	\$448,183

At December 31, 2000, the scheduled maturities of time deposits are as follows (in thousands):

2001.....	\$331,530
2002.....	18,416
2003.....	4,596
2004.....	749
2005.....	1,149
After 2005.....	19,840
	\$376,280

7. Other Borrowings

During the third quarter 1998, the Company obtained two ten-year loans totaling \$25,000,000 from the FHLB of Dallas. The loans bear interest at the average rate of 4.99% per annum until the fifth anniversary of the loans, at which time the loans may be repaid or the interest rate may be renegotiated. In the first quarter of 1999, the Company obtained an additional ten-year loan in the amount of \$10,000,000 from the FHLB with a fixed interest rate of 4.7% which was repaid in March 2000.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Other short-term borrowings at December 31, 2000 and 1999 consist of \$573,000 and \$636,000, respectively, in Treasury, Tax and Loan ("TT&L") payments in Company accounts for the benefit of the U.S. Treasury. These funds typically remain in the Company for one day and are then moved to the U.S. Treasury.

Six-month term funds were acquired in October 1999 from the FHLB in the amount of \$20,000,000 with a fixed rate of 5.89% and were repaid in September 2000.

Additionally, the Bank has several unused, unsecured lines of credit with correspondent banks totaling \$5,000,000 at December 31, 2000 and \$12,000,000 at December 31, 1999.

8. Income Taxes

Deferred income taxes result from differences between the amounts of assets and liabilities as measured for income tax return and for financial reporting purposes. The significant components of the net deferred tax asset are as follows (in thousands):

	As of December 31,	
	2000	1999
Deferred Tax Assets:		
Unrealized losses on available-for-sale securities, net	\$ --	\$1,581
Allowance for loan losses	3,152	2,340
Recognition of deferred loan fees.....	1,621	1,463
Depreciation.....	1,066	867
Recognition of interest on nonaccrual loans.....	295	173
Other.....	107	240
Gross deferred tax assets.....	6,241	6,664
Deferred Tax Liabilities:		
Unrealized gains on investments securities available-for-sale, net.....	62	--
FHLB stock dividends.....	305	187
Other.....	77	--
Gross deferred tax liabilities.....	444	187
Net deferred tax asset.....	\$5,797	\$6,477

The Bank has provided no valuation allowance for the net deferred tax asset at December 31, 2000 or December 31, 1999 due primarily to its ability to offset reversals of net deductible temporary differences against income taxes paid in previous years and expected to be paid in future years.

Components of the provision for income taxes are as follows (in thousands):

	Years ended December 31,		
	2000	1999	1998
Current provision for federal income taxes.....	\$3,964	\$ 5,102	\$ 4,131
Deferred federal income tax benefit.....	(963)	(1,464)	(1,354)
Total provision for income taxes.....	\$3,001	\$ 3,638	\$ 2,777

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

A reconciliation of the provision for income taxes computed at statutory rates compared to the actual provision for income taxes is as follows (in thousands):

	Years ended December 31,					
	2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal income tax expense at statutory rate.....	\$2,885	34%	\$3,661	34%	\$3,025	34%
Tax-exempt interest income....	(356)	(4)	(371)	(3)	(321)	(4)
Other, net.....	472	5	348	3	73	1
Provision for income taxes..	\$3,001	35%	\$3,638	34%	\$2,777	31%

9. Other Comprehensive Income (Loss)

The following sets forth the deferred tax benefit (expense) related to other comprehensive income (in thousands):

	Years ended December 31,		
	2000	1999	1998
Unrealized gains (losses) arising during the period..	\$(1,682)	\$1,975	\$(38)
Less: reclassification adjustment for gains realized in net income.....	--	13	69
Other comprehensive income.....	\$(1,682)	\$1,988	\$ 31

10. 401(k) Profit Sharing Plan

The Company has established a defined contributory profit sharing plan pursuant to Internal Revenue Code Section 401(k) covering substantially all employees (the "Plan"). The Plan provides for pretax employee contributions of up to 15% of annual compensation. The Company matches each participant's contributions to the Plan up to 4% of such participant's salary. The Company made contributions before expenses to the Plan of approximately \$291,000, \$271,000 and \$235,000 during the years ended December 31, 2000, 1999 and 1998, respectively.

11. Shareholders' Equity

On December 16, 1998, the Company completed its initial public offering of Common Stock. After deduction of underwriting discount and expenses of the offering, the aggregate net offering proceeds were \$13.1 million.

The Company's Non-Employee Director Plan ("Non-Employee Director Plan") authorizes the issuance of up to 60,000 shares of Common Stock to the directors of the Company who do not serve as an officer or employee of the Company. Under the Non-Employee Director Plan, up to 12,000 shares of Common Stock may be issued each year for a five-year period if the Company achieves a certain return on equity ratio with no shares to be issued if the Company's return on equity is below 13.0%. In 1999 and 1998, the Company exceeded a 13.0% return on equity. As of December 31, 2000, 24,000 shares have been issued under the Non-Employee Director Plan. Based on the Company's return on average equity for the year ended December 31, 2000, no shares will be issued for 2000.

The Company's Executive Plan ("Executive Plan") authorizes the issuance of up to 50,000 shares of Common Stock to Don Wang as Chairman of the Board and Chief Executive Officer of the Bank, and David Tai as President of the Bank. Under the Executive Plan, up to 10,000 shares of Common Stock may be issued each

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

year for a five-year period if the Company achieves a certain return on equity ratio with no shares to be issued if the Company's return on equity is below 13.0%. Shares will be allocated to these executive officers based on the determination of the Company's Compensation Committee. There are currently no shares issued under the Executive Plan.

The Company's 1998 Employee Stock Purchase Plan ("Purchase Plan") authorizes the offer and sale of up to 200,000 shares of Common Stock to employees of the Company and its subsidiaries. The Purchase Plan will be implemented through ten annual offerings. Each year the Board of Directors will determine the number of shares to be offered under the Purchase Plan; provided that in any one year the offering may not exceed 20,000 shares plus any unsubscribed shares from prior years. The offering price per share will be an amount equal to 90% of the closing trading price of a share of Common Stock on the business day immediately prior to the commencement of such offering. In each offering, each employee may purchase a number of whole shares of Common Stock that are equal to 20% of the employee's base salary divided by the offering price. Pursuant to the Purchase Plan, the employee pays for the Common Stock either immediately or through a payroll deduction program over a period of up to one year, at the employee's option. The first annual offering under the Purchase Plan began in the second quarter of 1999. As of December 31, 2000, there have been 11,640 shares issued under this plan.

12. Regulatory Matters

Regulatory restrictions limit the payment of cash dividends by the Bank. The approval of the Office of the Comptroller of the Currency ("OCC") is required for any cash dividend paid by the Bank if the total of all cash dividends declared in any calendar year exceeds the total of its net income for that year combined with the net addition to undivided profits for the preceding two years. As of December 31, 2000, approximately \$17.4 million was available for payment of dividends by the Bank to the Company under applicable restrictions, without regulatory approval. The Company declared dividends of \$0.24 per share to the shareholders of record during the year ended December 31, 2000 and declared a dividend of \$0.06 per share to shareholders of record as of December 31, 1999, which was paid on January 15, 2000.

The declaration and payment of dividends on the Common Stock by the Company depends upon the earnings and financial condition of the Company, liquidity and capital requirements, the general economic and regulatory climate, the Company's ability to service any equity or debt obligations senior to the Common Stock and other factors deemed relevant by the Company's Board of Directors.

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 financial statements. The regulations require the Company to meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital classification is 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 of total and Tier 1 capital, as defined in the regulations, to risk-weighted assets, as defined, and of Tier 1 capital to average assets, as defined. Management believes, as of December 31, 2000, that the Company and the Bank meet all capital adequacy requirements to which it is subject.

The most recent notifications from the OCC categorized the Bank as "well capitalized", as defined, under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the notifications that management believes have changed the Bank's level of capital adequacy.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum required for capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
As of December 31, 2000						
Total risk-based capital ratio						
MetroCorp Bancshares, Inc.....						
	\$64,855	13.00%	\$39,920	8.00%	\$	N/A
MetroBank, N.A.....	62,217	12.47%	39,920	8.00%	51,809	10.00%
Tier 1 risk-based capital ratio						
MetroCorp Bancshares, Inc.....						
	58,580	11.74%	19,960	4.00%	N/A	N/A
MetroBank, N.A.....	55,942	11.21%	19,960	4.00%	31,085	6.00%
Leverage ratio						
MetroCorp Bancshares, Inc.....						
	58,580	8.39%	27,928	4.00%	N/A	N/A
MetroBank, N.A.....	55,942	8.01%	27,928	4.00%	32,846	5.00%
As of December 31, 1999						
Total risk-based capital ratio						
MetroCorp Bancshares, Inc.....						
	\$62,214	12.01%	\$41,447	8.00%	\$	N/A
MetroBank, N.A.....	57,595	11.12%	41,447	8.00%	51,809	10.00%
Tier 1 risk-based capital ratio						
MetroCorp Bancshares, Inc.....						
	55,725	10.76%	20,724	4.00%	N/A	N/A
MetroBank, N.A.....	51,106	9.86%	20,724	4.00%	31,085	6.00%
Leverage ratio						
MetroCorp Bancshares, Inc.....						
	55,725	8.48%	26,278	4.00%	N/A	N/A
MetroBank, N.A.....	51,106	7.78%	26,277	4.00%	32,846	5.00%

13. Off-Balance Sheet Risk

The Bank is 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 various guarantees, commitments to extend credit and standby letters of credit. Additionally, these instruments may involve, to varying degrees, credit risk in excess of the amount recognized in the statement of financial condition. The Bank's maximum exposure to credit loss under such arrangements is represented by the contractual amount of those instruments. The Bank applies the same credit policies and collateralization guidelines in making commitments and conditional obligations as it does for on-balance instruments. Commitments to extend credit at December 31, 2000 and 1999 aggregated approximately \$68,275,000 and \$79,400,000, respectively. Commitments under letters of credit at December 31, 2000 and 1999 totaled \$2,316,000 and \$4,300,000, respectively.

During 1999, the Bank entered into two interest rate swaps in an effort to match the repricing of its liabilities with its assets. The swaps each have a notional amount of \$10,000,000. With respect to each swap, the Bank pays a floating interest rate tied to LIBOR and receives a fixed rate of 7.15%. The interest rate on each swap was 6.0775% at December 31, 1999, and 6.6241% at December 31, 2000. The fair value of the interest rate swaps at December 31, 2000 was estimated to be (\$35,000).

14. Fair Value of Financial Instruments

SFAS 107, Disclosures About Fair Value of Financial Instruments, requires disclosures of estimated fair values for all financial instruments and the methods and assumptions used by management to estimate the fair value for each type of financial instrument. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Quoted market prices are not available for a significant portion of the Bank's financial instruments. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair value.

Certain financial instruments and all non-financial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of the Bank. For example, the values associated with the various ongoing businesses, which the Bank operates, are excluded. The Bank has developed long-term relationships with its customers through its deposit base referred to as core deposit intangibles. In the opinion of management, these items, in the aggregate, add value to the Bank under SFAS 107 however, their fair value is not disclosed in this note.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Bank's financial instruments, required to be valued pursuant to SFAS 107:

Assets for Which Fair Value Approximates Carrying Value

The fair values of certain financial assets and liabilities carried at cost, including cash and due from banks, deposits with banks, federal funds sold, due from customers on acceptances and accrued interest receivable, are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

Investment Securities

Fair values are based upon publicly quoted market prices.

Loans

The fair value of loans originated by the Bank is estimated by discounting the expected future cash flows using a discount rate commensurate with the risks involved. The loan portfolio is segregated into groups of loans with homogeneous characteristics and expected future cash flows and interest rates reflecting appropriate credit risk are determined for each group. An estimate of future credit losses based on historical experience is factored into the discounted cash flow calculation. Estimated fair value of the loan portfolio at December 31, 2000 and 1999 was \$494.2 million and \$497.9 million, respectively.

Liabilities for Which Fair Value Approximates Carrying Value

SFAS 107 requires that the fair value disclosed for deposit liabilities with no stated maturity (i.e., demand, savings, and certain money market deposits) be equal to the carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments. The fair value of federal funds purchased, borrowed funds, acceptances outstanding, accounts payable and accrued liabilities are considered to approximate their respective carrying values due to their short-term nature.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Time Deposits

The fair value of time deposits is estimated by discounting cash flows based on contractual maturities at the interest rates for raising funds of similar maturity. Given the level of interest rates prevalent at December 31, 2000, fair value of time deposits approximated their carrying value.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of the commitments to extend credit is considered to approximate carrying value at December 31, 2000 and 1999.

15. Commitments and Contingencies

The Bank leases certain branch premises and equipment under operating leases which expire between 2001 and 2006. The Bank incurred rental expense of approximately \$861,000, \$828,000, and \$689,000 for the years ended December 31, 2000, 1999 and 1998, respectively, under these lease agreements. Future minimum lease payments at December 31, 2000 due under these lease agreements are as follows (in thousands):

Year ----	Amount -----
2001.....	\$ 840
2002.....	705
2003.....	605
2004.....	594
2005.....	542
After 2005.....	417

	\$3,703
	=====

The Bank is a defendant in several legal actions arising from its normal business activities. Management, based on consultation with legal counsel, believes that the ultimate liability, if any, resulting from these legal actions will not materially affect the Company's financial position, results of operations, or cash flows.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

16. Parent Company Financial Information

The condensed balance sheets, statements of income and statements of cash flows for MetroCorp Bancshares, Inc. (parent only) are presented below:

Condensed Balance Sheets

(in thousands, except share amounts)

	As of December 31,	
	2000	1999
	-----	-----
Assets		
Cash and due from subsidiary bank.....	\$ 3,187	\$ 5,338
Investments in bank subsidiary.....	56,063	47,961
	-----	-----
Total assets.....	\$59,250	\$53,299
	=====	=====
Liabilities and Shareholders' Equity		
Other liabilities.....	\$ 549	\$ 719
	-----	-----
Total liabilities.....	549	719
Shareholders' equity:		
Preferred stock \$1.00 par value, 2,000,000 shares authorized, none of which are issued and outstanding.....	--	--
Common stock, \$1.00 par value, 20,000,000 shares authorized; 7,180,030 and 7,122,479 shares issued and 6,979,530 and 7,102,479 shares outstanding, respectively.....	7,180	7,122
Additional paid-in-capital.....	26,033	25,646
Retained earnings.....	26,936	23,124
Net accumulated other comprehensive income from subsidiary..	121	(3,145)
Treasury stock, at cost.....	(1,569)	(167)
	-----	-----
Total shareholders' equity.....	58,701	52,580
	-----	-----
Total liabilities and shareholders' equity.....	\$59,250	\$53,299
	=====	=====

Condensed Statement of Income

(in thousands)

	Years Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Dividends from subsidiary.....	\$1,671	\$1,708	\$ 420
Equity in undistributed income of subsidiary.....	4,136	5,902	5,699
	-----	-----	-----
Total income.....	5,807	7,610	6,119
Operating expenses.....	324	480	--
	-----	-----	-----
Net income.....	\$5,483	\$7,130	\$6,119
	=====	=====	=====

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Condensed Statement of Cash Flows

(in thousands)

	Years Ended December 31,		
	2000	1999	1998
Cash flow from operating activities:			
Net income.....	\$ 5,483	\$ 7,130	\$ 6,119
Equity in undistributed income of subsidiary.....	(4,136)	(5,902)	(5,699)
(Decrease) increase in other liabilities.....	(170)	65	--
Net cash provided by operating activities.....	1,177	1,293	420
Cash flow from investment activities:			
Investment in subsidiary.....	(700)	(5,000)	(4,000)
Net cash used in investing activities.....	(700)	(5,000)	(4,000)
Cash flow from financing activities:			
Proceeds from issuance of common stock.....	445	1,194	13,071
Payment to repurchase common stock.....	(1,402)	(167)	--
Dividends paid.....	(1,671)	(1,701)	--
Other, net.....	--	--	228
Net cash provided by (used in) financing activities.....	(2,628)	(674)	13,299
Net increase (decrease) in cash and cash equivalents.....	(2,151)	(4,381)	9,719
Cash and cash equivalents at beginning of year.....	5,338	9,719	--
Cash and cash equivalents at end of year.....	\$ 3,187	\$ 5,338	\$ 9,719
Dividends declared but not paid.....	\$ 419	\$ 427	\$ 420

17. Related Party Transactions

In the ordinary course of business, the Bank enters into transactions with its officers and directors and their affiliates. It is the Bank's policy that all transactions with these parties are on the same terms, including interest rates and collateral requirements on loans, as those prevailing at the same time for comparable transactions with unrelated parties. At December 31, 2000 and 1999, certain officers and directors and their affiliated companies were indebted to the Bank in the aggregate amounts of approximately \$6,263,000 and \$4,989,000, respectively.

The following is an analysis of activity for the years ended December 31, 2000 and 1999 for such amounts (in thousands):

	2000	1999
Balance at January 1.....	\$ 4,989	\$ 3,468
New loans and advances.....	5,270	4,370
Repayments.....	(3,996)	(2,849)
Balance at December 31.....	\$ 6,263	\$ 4,989

In addition, as of December 31, 2000 and 1999, the Bank held demand and other deposits for related parties of approximately \$2,685,000 and \$3,210,000, respectively.

New Era Insurance Company is the agency used by the Company for the insurance coverage the Company provides to employees of the Company and the Bank and their dependents. The insurance coverage consists of

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

medical, dental, life, accidental death and dismemberment and long-term disability insurance. The Company's President and CEO is a principal shareholder in New Era Insurance Company. The Company paid New Era Insurance Company \$1,140,000 and \$1,098,000 for such insurance coverage for the years ended December 31, 2000 and 1999, respectively.

Guamnitz, Inc. owns the buildings in which the Company's corporate headquarters and the Bank's Bellaire branch are located and has entered into lease agreements for these locations with the Company. A Company director is Chairman of the Board and the controlling shareholder of Gaumnitz, Inc. The lease covering the Company's headquarters is for a term of four years and nine months commencing on February 1, 2001 at a net rent of \$24,833 per month. The lease covering the Bank's Bellaire branch is for a term of four years and eleven months commencing on January 1, 1997 at a net rent of \$10,503 per month. For these respective lease agreements, the Company paid Gaumnitz, Inc. \$400,000 and \$380,000 during the years ended December 31, 2000 and 1999, respectively.

18. Earnings Per Share

The following data show the amounts used in computing earnings per share (EPS) and the weighted average number of shares of dilutive potential Common Stock. Computations reflect the effects of a four for one exchange of common shares, as further described in Note 1.

	Years ended December 31,		
	2000	1999	1998

	(in thousands)		
Net income available to common shareholders' equity used in basic and diluted EPS.....	\$5,483	\$7,130	\$6,119
	=====	=====	=====
Weighted average common shares in basic EPS.....	6,972	7,114	5,691
Effects of dilutive securities: Options.....	1	--	58
	-----	-----	-----
Weighted average common and potentially dilutive common shares used in diluted EPS.....	6,973	7,114	5,749
	=====	=====	=====

Outstanding options were excluded from the calculation of weighted average common and potentially dilutive common shares used in diluted earnings per share for the year ended December 31, 1999, because they were antidilutive.

19. Supplemental Statement of Cash Flow Information:

	Years ended December 31,		
	2000	1999	1998

	(in thousands)		
Cash payments during the year for:			
Interest.....	\$27,018	\$20,498	\$20,058
Income taxes.....	3,086	5,324	5,177
Noncash investing and financing activities:			
Dividends declared not paid.....	419	427	420
Other real estate acquired in foreclosure of customer loans.....	2,261	527	834

20. Stock-Based Compensation Plan

The Company grants stock options under several stock-based incentive compensation plans. The Company applies Accounting Principles Board ("APB") Opinion 25 and related Interpretations in accounting for such plans. In 1995, the FASB issued SFAS 123 Accounting for Stock-Based Compensation which, if fully adopted by the Company, would change the methods the Company applies in recognizing the cost of the plans. Adoption of the cost recognition provisions of SFAS 123 is optional and the Company has decided not to elect these provisions of SFAS 123. However, pro forma disclosures as if the Company adopted the cost recognition provisions of SFAS 123 in 1995 are required by SFAS 123 and are presented below.

Stock Options

The Company has outstanding options issued to five of the six founding directors of the Bank to purchase 100,000 shares of Common Stock pursuant to the 1998 Director Stock Option Agreement ("Founding Director Plan"). Pursuant to the Founding Director Plan, each of the five participants was granted non-qualified options to purchase 20,000 shares of Common Stock at a price of \$11.00 per share. A total of 20,000 share options which were initially granted to one of the founding directors were cancelled upon his resignation as a director. The options must be exercised by July 24, 2003. Of the six founding directors of the Bank, the five participants currently serve as directors of the Company and the Bank. The remaining options must be exercised by July 24, 2003.

The Company's 1998 Stock Incentive Plan ("Incentive Plan") authorizes the issuance of up to 200,000 shares of Common Stock under both "non-qualified" and "incentive" stock options and performance shares of Common Stock. Non-qualified options and incentive stock options will be granted at no less than the fair market value of the Common Stock and must be exercised within seven years. Performance shares are certificates representing the right to acquire shares of Common Stock upon the satisfaction of performance goals established by the Company. Holders of performance shares have all of the voting, dividend and other rights of shareholders of the Company, subject to the terms of the award agreement relating to such shares. If the performance goals are achieved, the performance shares will vest and may be exchanged for shares of Common Stock. If the performance goals are not achieved, the performance shares may be forfeited. There are options to acquire 50,200 shares of Common Stock outstanding under the Incentive Plan. In 2000, there were options granted to acquire 10,000 shares of Common Stock.

The options granted during 1998 vested under the Founding Director Plan immediately on the date of the grant and have contractual terms of five years. The options granted during 1999 and 2000 under the Incentive Plan vest 30% in each of the two years following the date of the grant and 40% in the third year following the date of the grant and have contractual terms of seven years. All options are granted at a fixed exercise price. The exercise price for the options granted under the Founding Director Plan is \$11.00 per share and the exercise price for the options granted under the Incentive Plan is the fair market value of the Company's Common Stock on the grant date, which was \$8.3125 for the options granted in 1999 and \$7.25 for the options granted in 2000. Any excess of the fair market value on the grant date over the exercise price is recognized as compensation expense in the accompanying financial statements. There was no compensation expense for the years ended December 31, 2000, 1999 or 1998. If the fair value method of valuing compensation related to options would have been used, pro forma net earnings and pro forma diluted earnings per share would have been \$5.4 million, or \$0.79 per share for the year ended December 31, 2000, \$7.1 million, or \$1.00 per share for the year ended December 31, 1999 and \$5.9 million, or \$1.03 per share for the year ended December 31, 1998.

METROCORP BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

A summary of the status of the Company's stock options granted to directors and employees as of December 31, 2000, 1999 and 1998 and the changes during the years ended on these dates is presented below:

	MCBI Stock Options					
	2000		1999		1998	
	# Shares of Underlying Options	Weighted Average Exercise Prices	# Shares of Underlying Options	Weighted Average Exercise Prices	# Shares of Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year.....	146,700	\$ 10.14	100,000	\$ 11.00	--	\$ --
Granted.....	10,000	7.25	46,700	8.3125	120,000	11.00
Exercised.....	--	--	--	--	--	--
Canceled.....	(6,000)	8.3125	--	--	(20,000)	11.00
Outstanding at end of the year.....	150,700	10.0253	146,700	10.14	100,000	11.00
Exercisable at end of the year.....	112,210	10.7076	100,000	11.00	100,000	11.00
Weighted average fair value of all options granted.....	\$ 2.78		\$ --		\$ 2.62	

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Assumptions	2000	1999	1998
Expected term.....	5 years	5 years	3 years
Expected Volatility.....	20.00%	19.30%	24.15%
Expected dividend yield.....	--	--	--
Risk-free interest rate.....	6.30%	6.40%	5.45%

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/00	Weighted Average Exercise Price	Wgtd.Avg. Remaining Contractual Life	Number Outstanding at 12/31/00	Weighted Average Exercise Price
\$7.25-\$11.00	150,700	\$10.0253	3.75 years	112,210	\$10.7076

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995, and the Company anticipates making awards in the future under its stock-based compensation plans. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

METROCORP BANCSHARES, INC.

EXECUTIVE BONUS PLAN

I. PLAN PURPOSE

The purpose of the Executive Bonus Plan (the "Plan") is to provide a means through which METROCORP BANCSHARES, INC., a Texas corporation, (the "Company"), may provide additional incentive and reward opportunities designed to enhance the profitable growth of the Company to Don J. Wang, Chairman of the Board and Chief Executive Officer of MetroBank, N.A., a national banking association and wholly owned subsidiary of the Company (the "Bank") and David Tai, President of the Bank (individually, an "Executive Officer" and collectively, "Executive Officers"), upon whom the responsibilities of the successful administration and management of the Bank and the Company rest, as long as the Executive Officers are serving in their above-stated capacities. Accordingly, the Plan provides for the annual award of Incentive Stock Options, Non-Qualified Stock Options, shares of Common Stock, or any combination of the foregoing, as is best suited to the circumstances, if a certain Return on Equity is achieved for that year as provided herein.

II. DEFINITIONS

2.1 "Award" means, individually or collectively, any Option or award of Common Stock.

2.2 "Bank" means MetroBank, N.A.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Change of Control" means the occurrence of any of the following events: (i) the Company shall not be the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company), (ii) the Company's subsidiary bank is merged or consolidated into, or otherwise acquired by, an entity other than a wholly-owned subsidiary of the Company, (iii) the Company sells, leases or exchanges all or substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (iv) the Company is to be dissolved and liquidated, (v) any person or entity, including a "group" as contemplated by Section 13(d)(3) of the 1934 Act, acquires or gains ownership or control (including, without limitation, power to vote or control the voting) of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power), or (vi) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board.

2.5 "Change of Control Value" shall mean (i) the per share price offered to shareholders of the Company in any such merger, consolidation, reorganization, sale of assets or dissolution transaction, (ii) the price per share offered to shareholders of the Company in any tender offer or

exchange offer whereby a Change of Control takes place, or (iii) if such Change of Control occurs other than pursuant to a tender or exchange offer, the Fair Market Value per share of the shares into which Awards are exercisable, as determined by the Committee, whichever is applicable. In the event that the consideration offered to shareholders of the Company consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered which is other than cash.

2.6 "Code" means the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to any section and any regulations under such section.

2.7 "Committee" means the Compensation Committee of the Board which shall be (i) constituted so as to permit the Plan to comply with Rule 16b-3 and (ii) composed solely of "outside directors," within the meaning of section 162(m) of the Code and applicable interpretive authority thereunder.

2.8 "Common Stock" means the Company's Common Stock, \$1.00 par value per share.

2.9 "Company" means MetroCorp Bancshares, Inc.

2.10 "1934 Act" means the Securities Exchange Act of 1934, as amended.

2.11 "Executive Officers" means Don J. Wang, while serving as Chairman of the Board and Chief Executive Officer of the Bank, and David Tai, while serving as President of the Bank.

2.12 "Fair Market Value" means, as of any specified date, the mean of the high and low sales prices of the Common Stock (i) reported by the any interdealer quotation system on which the Common Stock is quoted on that date or (ii) if the Common Stock is listed on a national stock exchange, reported on the stock exchange composite tape on that date; or, in either case, if no prices are reported on that date, on the last preceding date on which such prices of the Common Stock are so reported. If the Common Stock is traded over the counter at the time a determination of its fair market value is required to be made hereunder, its fair market value shall be deemed to be equal to the average between the reported high and low or closing bid and asked prices of Common Stock on the most recent date on which Common Stock was publicly traded. In the event Common Stock is not publicly traded at the time a determination of its value is required to be made hereunder, the determination of its fair market value shall be made by the Committee in such manner as it deems appropriate.

2.13 "Holder" means an Executive Officer who has been granted an Award.

2.14 "Incentive Stock Option" means an incentive stock option within the meaning of section 422(b) of the Code, commonly known as "qualified" stock options.

2.15 "Nonqualified Stock Option" means an option granted under Section VIII of the Plan to purchase Common Stock which does not constitute an Incentive Stock Option.

2.16 "Option" means an award granted under Section VIII of the Plan and includes both Incentive Stock Options to purchase Common Stock and Nonqualified Stock Options to purchase Common Stock.

2.17 "Option Agreement" means a written agreement between the Company and a Holder with respect to an Option.

2.18 "Plan" means the MetroCorp Bancshares, Inc. Executive Bonus Plan, as amended from time to time.

2.19 "Return on Equity" means for any year the net income of the Company as reflected on the Company's audited Statement of Income for such year divided by the average amount of shareholder's equity outstanding during such year. Return on Equity shall be expressed as a percentage to the second decimal point.

2.20 "Rule 16b-3" means SEC Rule 16b-3 promulgated under the 1934 Act, as such may be amended from time to time, and any successor rule, regulation or statute fulfilling the same or a similar function.

III. ADMINISTRATION

3.1 The Committee shall be responsible for the administration of the Plan.

3.2 Subject to the provisions of the Plan, the Committee, by majority action of its members, is authorized to interpret the Plan, prescribe, amend, and rescind rules and regulations relating to the Plan, provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company, and make all other determinations necessary or advisable for the administration of the Plan. The determinations, interpretations, and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

3.3 The Committee shall have sole authority, in its discretion, to determine the type of Award to be granted and the number of Options or shares of Common Stock which may be issued to each Executive Officer each year. In making such determination, the Committee may take into account the Executive Officer's contributions to the Company's performance.

IV. SHARES AUTHORIZED FOR ISSUANCE

4.1 Subject to Section IX, the aggregate number of shares of Common Stock that may be issued under the Plan shall not exceed 50,000. The Common Stock issued under this Plan shall be authorized and unissued or treasury shares of Common Stock of the Company. Shares of

Common Stock shall be deemed to have been issued under the Plan only to the extent actually issued and delivered pursuant to an Award. To the extent that an Award lapses or the rights of the Executive Officer to the Award terminate or the Award is paid in cash, any shares of Common Stock subject to such Award shall again be available for the grant of an Award. Separate stock certificates shall be issued by the Company for those shares acquired pursuant the exercise of an Incentive Stock Option and for those shares acquired pursuant to the exercise of a Nonqualified Stock Option.

V. ANNUAL BONUS; PROCEDURES

5.1 For each of the five calendar years beginning with 2000 and ending with 2004, up to an aggregate of 10,000 shares of Common Stock shall be issuable to the Executive Officers collectively subject to Options or pursuant to awards of Common Stock, subject to the following terms and conditions:

(a) For each calendar year, an aggregate of 10,000 shares of Common Stock is issuable pursuant to the grant of options or awards of Common Stock to the eligible Executive Officers collectively, but only in the event the Company shall have achieved a Return on Equity in excess of 13.0% for such calendar year.

(b) Return on Equity for any calendar year shall be determined by the independent public accounting firm of the Company after such firm has completed its audit of the Company's financial statements for such calendar year. The determination of such firm for any calendar year shall be final, binding and conclusive for all purposes.

(c) The total shares issuable to the Executive Officers as a group for any calendar year (as determined pursuant to subparagraph 5.1(c) above) shall be divided among such Executive Officers based on the determination of the Compensation Committee, in its sole discretion, of each individual's contributions to the Company's performance for that calendar year.

5.2 Any shares of Common Stock issued to an Executive Officer pursuant to the Plan for any calendar year shall be deemed to be fully paid and nonassessable shares of Common Stock on the date of issuance. Only whole shares of Common Stock shall be issued; fractional shares shall be rounded up to the nearest whole share.

VI. EFFECTIVE DATE AND TERM OF PLAN

6.1 The Plan shall become effective upon the date of its approval by the Company's Board of Directors, subject to approval of the Plan by the Company's shareholders within 12 months thereafter.

6.2 The Plan shall be effective for five calendar years beginning in 2000 and ending in 2004.

VII. ELIGIBILITY

7.1 Awards may be granted to Executive Officers once per calendar year in accordance with the provisions set forth in Section V hereof. An Executive Officer shall be eligible to participate in the Plan during a calendar year only if the Executive Officer served in such position during the entire calendar year and on December 31 of such calendar year. Subject to the limitations set forth in the Plan, such Award may include an Incentive Stock Option, a Nonqualified Stock Option, a stock award or any combination thereof.

VIII. STOCK OPTIONS

8.1 Option Period. The term of each Option shall be as specified by the Committee at the date of grant.

8.2 Limitations on Exercise of Option. An Option shall be exercisable in whole or in such installments and at such times as determined by the Committee.

8.3 Special Limitations on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined at the time the respective Incentive Stock Option is granted) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all incentive stock option plans of the Company and its parent and subsidiary corporations exceeds \$100,000, such Incentive Stock Options shall be treated as Nonqualified Stock Options as determined by the Committee. The Committee shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements, which of an optionee's Incentive Stock Options will not constitute Incentive Stock Options because of such limitation and shall notify the optionee of such determination as soon as practicable after such determination. No Incentive Stock Option shall be granted to an individual if, at the time the Option is granted, such individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporation, within the meaning of section 422(b)(6) of the Code, unless (i) at the time such Option is granted the option price is at least 110% of the Fair Market Value of the Stock subject to the Option and (ii) such Option by its terms is not exercisable after the expiration of five years from the date of grant.

8.4 Option Agreement. Each Option shall be evidenced by an Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, without limitation, provisions to qualify an Incentive Stock Option under section 422 of the Code. An Option Agreement may provide for the payment of the option price, in whole or in part, by the delivery of a number of shares of Common Stock (plus cash if necessary) having a Fair Market Value equal to such option price. Each Option Agreement shall provide that the Option may not be exercised earlier than six months from the date of grant and shall specify the effect of termination of employment on the exercisability of the Option. Moreover, an Option Agreement may provide for a "cashless exercise" of the Option by establishing procedures whereby the Holder, by a properly-executed written notice, directs (i) an immediate

market sale or margin loan respecting all or a part of the shares of Common Stock to which he is entitled upon exercise pursuant to an extension of credit by the Company to the Holder of the option price, (ii) the delivery of the shares of Stock from the Company directly to a brokerage firm and (iii) the delivery of the option price from the sale or margin loan proceeds from the brokerage firm directly to the Company. Such Option Agreement may also include, without limitation, provisions relating to (i) vesting of Options, subject to the provisions hereof accelerating such vesting on a Change of Control, (ii) tax matters (including provisions (y) permitting the delivery of additional shares of Common Stock or the withholding of shares of Common Stock from those acquired upon exercise to satisfy federal or state income tax withholding requirements and (z) dealing with any other applicable employee wage withholding requirements), and (iii) any other matters not inconsistent with the terms and provisions of this Plan that the Committee shall in its sole discretion determine. The terms and conditions of the respective Option Agreements need not be identical.

8.5 Option Price and Payment. The price at which a share of Common Stock may be purchased upon exercise of an Option shall be determined by the Committee, but (i) such purchase price shall not be less than the Fair Market Value of Stock subject to an Incentive Stock Option on the date the Incentive Stock Option is granted and (ii) such purchase price shall be subject to adjustment as provided in Section IX. The Option or portion thereof may be exercised by delivery of an irrevocable notice of exercise to the Company. The purchase price of the Option or portion thereof shall be paid in full in the manner prescribed by the Committee.

8.6 Shareholder Rights and Privileges. The Holder shall be entitled to all the privileges and rights of a shareholder only with respect to such shares of Common Stock as have been purchased under the Option and for which certificates of stock have been registered in the Holder's name.

IX. RECAPITALIZATION OR REORGANIZATION

9.1 The shares with respect to which Awards may be granted are shares of Common Stock as presently constituted, but if, and whenever, prior to the expiration of an Award theretofore granted, the Company shall effect a subdivision or consolidation by the Company, the number of shares of Common Stock with respect to which such Award may thereafter be exercised or satisfied, as applicable, (i) in the event of an increase in the number of outstanding shares shall be proportionately increased, and the purchase price per share shall be proportionately reduced, and (ii) in the event of a reduction in the number of outstanding shares shall be proportionately reduced, and the purchase price per share shall be proportionately increased.

9.2 If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise or satisfaction, as applicable, of an Award theretofore granted the Holder shall be entitled to (or entitled to purchase, if applicable) under such Award, in lieu of the number of shares of Common Stock then covered by such Award, the number and class of shares of stock and securities to which the Holder would have been entitled pursuant to the terms of the recapitalization

if, immediately prior to such recapitalization, the Holder had been the holder of record of the number of shares of Common Stock then covered by such Award.

9.3 In the event of a Change of Control, all outstanding Options shall immediately vest and become exercisable or satisfiable, as applicable. Further, in the event of a Change of Control, the Committee, in its discretion shall act to effect one or more of the following alternatives with respect to outstanding Options, which may vary among individual Holders and which may vary among Options held by any individual Holder: (i) determine a limited period of time on or before a specified date (before or after such Change of Control) after which specified date all unexercised Options and all rights of Holders thereunder shall terminate, (ii) require the mandatory surrender to the Company by selected Holders of some or all of the outstanding Options held by such Holders (irrespective of whether such Options are then exercisable under the provisions of the Plan) as of a date, before or after such Change of Control, specified by the Committee, in which event the Committee shall thereupon cancel such Options and the Company shall pay to each Holder an amount of cash per share equal to the excess, if any, of the Change of Control Value of the shares subject to such Option over the exercise price(s) under such Options for such shares, (iii) make such adjustments to Options then outstanding as the Committee deems appropriate to reflect such Change of Control (provided, however, that the Committee may determine in its sole discretion that no adjustment is necessary to Options then outstanding) or (iv) provide that thereafter upon any exercise of an Option theretofore granted the Holder shall be entitled to purchase under such Option, in lieu of the number of shares of Common Stock then covered by such Option the number and class of shares of stock or other securities or property (including, without limitation, cash) to which the Holder would have been entitled pursuant to the terms of the agreement of merger, consolidation or sale of assets and dissolution if, immediately prior to such merger, consolidation or sale of assets and dissolution the Holder has been the holder of record of the number of shares of Common Stock then covered by such Option. The provisions contained in this paragraph shall be inapplicable to an Award granted within six (6) months before the occurrence of a Change of Control if the Holder of such Award is subject to the reporting requirements of Section 16(a) of the 1934 Act. The provisions contained in this paragraph shall not terminate any rights of the Holder to further payments pursuant to any other agreement with the Company following a Change of Control.

9.4 In the event of changes in the outstanding Common Stock by reason of recapitalization, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Option and not otherwise provided for by this Section IX, any outstanding Options and any agreements evidencing such Options shall be subject to adjustment by the Committee at its discretion as to the number and price of shares of Common Stock or other consideration subject to such Options. In the event of any such change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

9.5 The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead

of or affecting Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

9.6 Any adjustment provided for in Section 9.1 through 9.4 inclusive shall be subject to any required shareholder action.

9.7 Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares of obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to Awards theretofore granted or the purchase price per share, if applicable.

X. AMENDMENT AND TERMINATION OF THE PLAN

The Board in its discretion may terminate the Plan at any time with respect to any shares for which Awards have not theretofore been granted. The Board shall have the right to alter or amend the Plan or any part thereof from time to time; provided that no change in any Option theretofore granted may be made which would impair the rights of the Holder without the consent of the Holder (unless such change is required in order to cause the benefits under the Plan to qualify as performance-based compensation within the meaning of section 162(m) of the Code and applicable interpretive authority thereunder), and provided, further, that the Board may not, without approval of the shareholders, amend the Plan:

- (a) to increase the maximum number of shares which may be issued on exercise or surrender of an Option, except as provided in Section IX;
- (b) to change the Option price;
- (c) to change the individuals eligible to receive Awards or materially increase the benefits accruing to the Executive Officers under the Plan;
- (d) to extend the maximum period during which Awards may be granted under the Plan;
- (e) to modify materially the requirements as to eligibility for participation in the Plan; or
- (f) to decrease any authority granted to the Committee hereunder in contravention of Rule 16b-3.

XI. TRANSFER RESTRICTIONS; INTENTION TO COMPLY
WITH APPLICABLE SECURITIES LAWS

11.1 Any shares of Common Stock issued pursuant to the Plan may not be resold for a period of six months following the issuance of such shares of Common Stock, or such longer period as may be required to comply with federal or state securities laws.

11.2 It is intended that the Plan and any award of Common Stock made to an Executive Officer pursuant to the Plan meet all of the requirements of Rule 16b-3 of the Securities Exchange Act of 1934, as amended. If any provision of the Plan or any such award of Common Stock would disqualify the Plan or the award of Common Stock hereunder, or would otherwise not comply with Rule 16b-3, such provision or award of Common Stock shall be construed or deemed amended to conform to Rule 16b-3.

11.3 All transactions pursuant to the terms of the Plan shall only be effective at such time as counsel to the Company shall have determined that such transaction will not violate federal or state securities or other laws. The Committee may, in its sole discretion, defer the effectiveness of such transaction to pursue whatever actions may be required to ensure compliance with such federal or state securities or other laws.

11.4 All certificates for shares of Common Stock delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Company, any stock exchange upon which the Common Stock is then listed and any applicable federal or state securities laws, and the Company may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

XII. WITHHOLDING TAXES

12.1 Whenever the Company issues shares of Common Stock under the Plan, the Company shall have the right to require the Executive Officer to remit to the Company an amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. Alternatively, at the Company's discretion, the Company may issue only such number of shares of Common Stock net of the number of shares sufficient to satisfy the withholding tax requirements. For withholding tax purposes, the shares of Common Stock shall be valued at their Fair Market Value on the date the withholding obligation is incurred.

XIII. MISCELLANEOUS

13.1 This Plan shall be construed in accordance with the laws of the State of Texas.

13.2 No Right to An Award. Neither the adoption of the Plan by the Company nor any action of the Board or the Committee shall be deemed to give an Executive Officer any right to be granted an Award to purchase Common Stock, an Award to receive shares of Common Stock or any

of the rights hereunder except as may be evidenced by an Award or by an Option Agreement on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to assure the payment of any Award.

13.3 Restrictions on Transfer. An Option shall not be transferable otherwise than by will or the laws of descent and distribution or pursuant to a "qualified domestic relations order" as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder, and shall be exercisable during the Holder's lifetime only by such Holder or the Holder's guardian or legal representative.

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INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-75487, 333-91589 and 333-94327 of MetroCorp Bancshares, Inc. on Form S-8 and Registration Statement No. 333-33730 of MetroCorp Bancshares, Inc. on Form S-3 of our report dated March 13, 2001, appearing in this Annual Report on Form 10-K of MetroCorp Bancshares, Inc. for the year ended December 31, 2000.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Houston, Texas
March 15, 2001
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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-75487, 333-91589 and 333-94327) and in the Registration Statement on Form S-3 (No. 333-33730) of MetroCorp Bancshares, Inc. of our report dated March 19, 1999 relating to the financial statements, which appears in this Annual Report on Form 10-K.

/s/PricewaterhouseCoopers LLP

Houston, Texas
March 14, 2001
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