# First Bancshares of Texas, Inc.
# and Subsidiaries

## Financial Statements
### Years Ended December 31, 2005 and 2004

**Johnson Miller & Co.**
*Certified Public Accountants*
*A Professional Corporation*

# First Bancshares of Texas, Inc. and Subsidiaries

## Contents

JOHNSON MILLER & CO., CPA's PC
*Certified Public Accountants*
*A Professional Corporation*
*An Independent Member Of BDO Seidman Alliance*

Odessa, Texas
Midland, Texas
Hobbs, New Mexico

# Report of Independent Certified Public Accountants

Board of Directors and Stockholders
First Bancshares of Texas, Inc. and Subsidiaries
Midland, Texas

We have audited the consolidated statements of financial condition of First Bancshares of Texas, Inc. (the "Company") and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Bancshares of Texas, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Johnson Miller & Co., CPA's PC

Odessa, Texas
February 23, 2006



2626 JBS Parkway, Suite A-200 • Odessa, Texas 79761 • (432) 362-3800 • Fax (432) 362-4476
audit@jmaudit.com

# Consolidated Financial Statements

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidated Statements of Financial Condition

| *December 31,* | | **2005** | 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash Equivalents (Note 1)** | | | |
| Cash and due from banks | $ | **7,833,253** | 5,162,602 |
| Interest bearing deposits with banks | | **3,009,695** | 2,406,391 |
| Federal funds sold | | **9,970,000** | 12,985,000 |
| **Total cash equivalents** | | **20,812,948** | 20,553,993 |
| **Securities (Notes 1 and 2)** | | | |
| Held to maturity | | **40,656,401** | 29,408,779 |
| Available for sale | | **8,915,798** | 11,377,009 |
| Restricted | | **259,300** | 244,300 |
| **Loans Held for Sale (Note 1)** | | **1,001,000** | - |
| **Loans, Net (Notes 1 and 3)** | | **75,597,711** | 66,723,837 |
| **Bank Premises and Equipment (Notes 1 and 4)** | | **4,304,338** | 2,965,648 |
| **Investment in Unconsolidated Subsidiary (Note 9)** | | **102,568** | 97,132 |
| **Deferred Income Taxes (Notes 1 and 6)** | | **398,157** | 249,165 |
| **Interest Receivable and Other Assets** | | **1,210,065** | 954,920 |
| **Total assets** | $ | **153,258,286** | 132,574,783 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | | |
| **Liabilities** | | | |
| Deposits | | | |
| Non-interest bearing demand | $ | **57,128,085** | 37,030,497 |
| Interest bearing: | | | |
| Demand deposits | | **55,889,302** | 52,932,304 |
| Savings accounts | | **2,072,706** | 1,885,912 |
| Time certificates of deposit (Note 5) | | **21,164,569** | 23,993,121 |
| **Total deposits** | | **136,254,662** | 115,841,834 |
| Securities sold under agreements to repurchase (Note 1) | | **3,772,146** | 3,375,286 |
| Interest payable and other liabilities | | **492,361** | 1,528,779 |
| Subordinated debentures (Note 9) | | **3,093,000** | 3,093,000 |
| **Total liabilities** | | **143,612,169** | 123,838,899 |
| **Commitments and Contingencies (Notes 7, 10, 11 and 12)** | | | |
| **Stockholder's Equity** | | | |
| Common stock; $1 par value; 10,000,000 shares authorized; 3,874,518 and 3,864,518 shares issued and outstanding at December 31, 2005 and 2004, respectively | | **3,874,518** | 3,864,518 |
| Capital surplus | | **4,445,576** | 4,435,576 |
| Accumulated surplus | | **1,527,749** | 624,297 |
| Treasury stock at cost; 417 and 34,560 shares at December 31, 2005 and 2004, respectively | | **(1,355)** | (103,680) |
| Accumulated other comprehensive (loss) income | | **(200,371)** | (84,827) |
| **Total stockholder's equity** | | **9,646,117** | 8,735,884 |
| **Total liabilities and stockholder's equity** | $ | **153,258,286** | 132,574,783 |

*See accompanying notes to consolidated financial statements.*

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidated Statements of Income

| ***Years Ended December 31,*** | | **2005** | 2004 |
|---|---|---|---|
| **Interest Income:** | | | |
| Loans | $ | **5,029,104** | 3,545,121 |
| Securities | | **1,779,829** | 1,441,361 |
| Federal funds sold | | **280,369** | 76,506 |
| Deposits with banks | | **97,866** | 62,251 |
| | | **7,187,168** | 5,125,239 |
| **Interest Expense:** | | | |
| Deposits and securities sold under agreements to repurchase | | **1,365,344** | 806,008 |
| Other borrowed funds | | **192,470** | 149,543 |
| | | **1,557,814** | 955,551 |
| Net interest income | | **5,629,354** | 4,169,688 |
| **Provision for Loan Losses (Note 3)** | | **530,000** | 343,000 |
| Net interest income after provision for loan losses | | **5,099,354** | 3,826,688 |
| **Noninterest Income:** | | | |
| Service charges and fees | | **900,047** | 528,854 |
| Income from fiduciary activities | | **176,836** | 140,132 |
| Net (loss) gain on sale or call of investment securities | | **(12,351)** | 31,116 |
| | | **1,064,532** | 700,102 |
| **Noninterest Expense:** | | | |
| Salaries and employee benefits | | **2,449,938** | 1,865,331 |
| Occupancy and equipment expense | | **892,768** | 769,888 |
| Data processing | | **291,629** | 282,557 |
| Professional fees | | **188,808** | 142,412 |
| Advertising and promotion (Note 1) | | **157,731** | 124,262 |
| Director fees and other expense | | **117,153** | 82,390 |
| Postage and freight | | **87,087** | 68,806 |
| Telephone | | **76,477** | 65,845 |
| Supplies | | **62,255** | 47,138 |
| Regulatory fees | | **53,102** | 47,128 |
| Other | | **517,786** | 351,071 |
| | | **4,894,734** | 3,846,828 |
| Income before income taxes | | **1,269,152** | 679,962 |
| **Income Tax Expense (Note 6)** | | **365,700** | 177,121 |
| **NET INCOME** | $ | **903,452** | 502,841 |

*See accompanying notes to consolidated financial statements.*

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidated Statements of Stockholder's Equity

| ***Years Ended December 31, 2005 and 2004*** | | Common Stock | Capital Surplus | Accumulated Surplus | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2004 | $ | 3,645,518 | 4,211,986 | 121,456 | (160,429) | 56,038 | 7,874,569 |
| Issuance of Common Stock (Note 8) | | 219,000 | 219,340 | - | - | - | 438,340 |
| Sale of Treasury Stock, 20,333 Shares | | - | 4,250 | - | 56,749 | - | 60,999 |
| Comprehensive Income: | | | | | | | |
| Net income for the year | | - | - | 502,841 | - | - | 502,841 |
| Unrealized gain on securities transferred from available-for-sale to held-to-maturity, net of tax of $12,627 | | - | - | - | - | 24,511 | 24,511 |
| Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity, net of tax of $510 | | - | - | - | - | (991) | (991) |
| Net change in unrealized appreciation (depreciation) on the Bank's available-for-sale securities, net of tax $86,184 | | - | - | - | - | (164,385) | (164,385) |
| Total Comprehensive Income | | - | - | - | - | - | 361,976 |
| Balance at December 31, 2004 | | 3,864,518 | 4,435,576 | 624,297 | (103,680) | (84,827) | 8,735,884 |
| Issuance of Common Stock (Note 8) | | 10,000 | 10,000 | - | - | - | 20,000 |
| Sale of Treasury Stock, 34,560 Shares | | - | - | - | 103,680 | - | 103,680 |
| Purchase of Treasury Stock, 417 Shares | | - | - | - | (1,355) | - | (1,355) |

*See accompanying notes to consolidated financial statements.*

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidated Statements of Stockholder's Equity (Continued)

| ***Years Ended December 31, 2005 and 2004*** | | Common Stock | Capital Surplus | Accumulated Surplus | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| Comprehensive Income: | | | | | | | |
| Net income for the year | | - | - | 903,452 | - | - | 903,452 |
| Amortization of unrealized gain on securities transferred from available-for-sale to held-to-maturity, net of tax of $1,350 | | - | - | - | - | 2,620 | 2,620 |
| Net change in unrealized appreciation (depreciation) on the Bank's available-for-sale securities, net of tax $60,578 | | - | - | - | - | (118,164) | (118,164) |
| Total Comprehensive Income | | - | - | - | - | - | 787,908 |
| **Balance at December 31, 2005** | $ | 3,874,518 | 4,445,576 | 1,527,749 | (1,355) | (200,371) | 9,646,117 |

*See accompanying notes to consolidated financial statements.*

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

| *Years Ended December 31,* | | 2005 | 2004 |
|---|---|---|---|
| **Increase (Decrease) in Cash and Cash Equivalents** | | | |
| **Cash flows from operating activities:** | | | |
| Net income | $ | **903,452** | 502,841 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | | **366,398** | 311,634 |
| Deferred income taxes | | **(89,764)** | (78,908) |
| Net gain on sales and calls of securities – held to maturity | | **(13,199)** | (23,439) |
| Net (gain) on sales and calls of securities – available for sale | | **28** | (7,677) |
| Net amortization (accretion) of marketable securities | | **322,997** | 364,974 |
| Provision for possible credit losses | | **530,000** | 343,000 |
| Equity in undistributed earnings of unconsolidated subsidiary | | **(5,436)** | (4,132) |
| Net increase in loans held for sale | | **(1,001,000)** | - |
| (Increase) in interest receivable and other assets | | **(255,145)** | (146,172) |
| (Decrease) increase in interest payable and other liabilities | | **(30,277)** | 384,030 |
| Net cash provided by operating activities | | **728,054** | 1,646,151 |
| **Cash flows from investing activities:** | | | |
| Purchases of securities – held to maturity | | **(16,869,155)** | (10,056,728) |
| Purchases of securities – available for sale securities | | **(511,438)** | (8,151,063) |
| Purchases of securities – restricted | | **(15,000)** | (58,500) |
| Proceeds from calls and maturities of securities – held to maturity | | **4,444,149** | 8,908,557 |
| Proceeds from sales, calls and maturities of securities – available for sale | | **2,659,294** | 7,845,621 |
| Net increase in loans | | **(9,403,874)** | (20,738,146) |
| Purchase of bank premises and equipment | | **(1,784,967)** | (724,756) |
| Proceeds from sale of bank premises and equipment | | **79,879** | 8,422 |
| Net cash used in investing activities | | **(21,401,112)** | (22,966,593) |
| **Cash flows from financing activities:** | | | |
| Net increase in non-interest bearing demand, NOW, savings and money market accounts | | **23,241,380** | 12,076,998 |
| Net increase in time certificates of deposits | | **(2,828,552)** | 6,143,667 |
| Net increase in securities sold under agreements to repurchase | | **396,860** | 1,333,808 |
| Proceeds from issuance of common stock | | **20,000** | 438,340 |
| Purchase of treasury stock | | **(1,355)** | - |
| Proceeds from sale of treasury stock | | **103,680** | 60,999 |
| Net cash provided by financing activities | | **20,932,013** | 20,053,812 |
| Net increase (decrease) in cash and cash equivalents | | **258,955** | (1,266,630) |
| Cash and cash equivalents at beginning of year | | **20,553,993** | 21,820,623 |
| **Cash and cash equivalents at end of year** | $ | **20,812,948** | 20,553,993 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Cash Flows (Continued)

| ***Years Ended December 31,*** | | **2005** | 2004 |
|---|---|---|---|
| Cash paid during the year for: | | | |
| Interest | $ | 1,539,324 | 927,636 |
| Income taxes | | 315,490 | 12,937 |
| Noncash investing and financing activities: | | | |
| Purchase of securities to be held to maturity, through payable to broker | $ | - | 1,006,141 |
| Changes in unrealized appreciation (depreciation) on available-for-sale securities and securities transferred from available-for-sale to held-to-maturity | $ | 174,772 | (214,932) |
| Changes in available deferred tax | | (59,228) | 74,067 |
| | $ | 115,544 | (140,865) |

*See accompanying notes to consolidated financial statements.*

**1. Summary of Significant Accounting Policies**

First Bancshares of Texas, Inc. (the "Company") through its wholly-owned subsidiaries, First Midland Nevada Corp. ("Nevada"), the First National Bank of Midland (the "Bank") and First Bancshares of Texas Statutory Trust 1 (the "Trust"), conducts business in the commercial and consumer banking industry. The Company generates commercial and consumer loans and receives deposits from customers located in Midland, the surrounding Permian Basin, and the Panhandle of Texas.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. A summary of the Company's more significant accounting policies follows:

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company, and its subsidiaries except for the Trust. All significant intercompany accounts have been eliminated in consolidation. As a result of the Company's implementation of the Financial Accounting Standards Board ("FASB") Interpretations ("FIN") 46R, the Trust is not consolidated, but recorded under the equity method of accounting.

*Cash Equivalents*

For purposes of the statement of cash flows, the Company considers cash and due from banks, interest bearing deposits, and federal funds sold to be cash equivalents.

The Company maintains cash balances including federal funds sold at several financial institutions located in the Southwest. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. Uninsured balances aggregate to approximately $14,538,000 and $16,859,000 at December 31, 2005 and 2004, respectively. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

*Securities Held to Maturity*

Bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

*Securities Available for Sale*

Available-for-sale securities consist of bonds, notes, and debentures, not classified as held-to-maturity securities. Such securities are carried at estimated fair value based on quoted market prices.

**1. Summary of Significant Accounting Policies (Continued)**

*Securities Available-for-Sale*

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of shareholders' equity until realized.

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

Any nontemporary declines in the fair value of individual held-to-maturity or available-for-sale securities below their cost would result in write-downs on the individual securities to their fair value. The related write-downs, if any, have been included in earnings as realized losses. During 2005 and 2004, the Company was not required to write-down any securities for such market declines.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

*Restricted Securities*

Restricted securities consist of stock in depository institutions, including the Federal Reserve Bank (FRB). Ownership in these stocks is restricted and such stocks do not have a readily determinable fair value. Accordingly, the Company reports these securities at cost.

*Loans Held for Sale*

Loans held for sale are comprised of mortgage loans and are stated at the lower of aggregate cost or market value. The determination of market value includes consideration of all open positions, outstanding commitments from investors, related fees paid and related hedging gains and losses, if any. Gains and losses on sales are recognized at settlement dates and are determined by the difference between sales proceeds and the carrying values of the mortgages. Gains and losses are recorded in noninterest income.

*Loans Receivable*

Loans receivable for which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans.

Loan origination fees and certain direct origination costs are generally recognized in the period in which fees were received and/or costs were incurred. Under accounting principles generally accepted in the United States of America, such fees and costs are deferred and recognized over the life of the loan as an adjustment of the yield. As of December 31, 2005 and 2004, management believes that the effect of not deferring such fees and costs, and amortizing them over the life of the related loan does not materially affect the financial position of the Bank.

**1. Summary of Significant Accounting Policies (Continued)**

*Loans Receivable (Continued)*

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

A loan is considered impaired when it is probable, based upon current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are accounted for at the net present value of expected future cash flows, discounted at the loan's effective interest rate, the observable market price of the loan or at the fair value of the collateral if the loan is collateral dependent.

The Company grants commercial, real estate and consumer loans to customers primarily in Midland, the surrounding Permian Basin, and the Panhandle of Texas. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the general economic conditions of the area.

*Bank Premises and Equipment*

Land, buildings, furniture and equipment are stated at cost less accumulated depreciation, computed on the straight-line method over estimated useful lives of 20 years for buildings and 3 to 7 years for furniture and equipment. Gains or losses on dispositions are credited or charged to income. Maintenance, repairs and minor improvements are charged to expense as incurred.

**1. Summary of Significant Accounting Policies (Continued)**

*Income Taxes*

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

*Advertising Expenses*

All advertising costs are expensed when incurred. Advertising expenses were approximately $158,000 and $124,000 for the years ended December 31, 2005 and 2004, respectively.

*Off-Balance-Sheet Financial Instruments*

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

*Fair Values of Financial Instruments*

The FASB Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosures about Fair Value of Financial Instruments,* requires disclosure of the estimated fair value of an entity's financial instrument assets and liabilities. For the Company, as for most financial institutions, the bulk of its assets and liabilities are considered financial instruments as defined in SFAS No. 107. However, many of these instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments, other than available-for-sale securities, to maturity and not to engage in trading or sales activities with those instruments. Therefore, the Company had to use significant estimations and present value calculations to prepare this disclosure.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, management is concerned that there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Fair values have been estimated using data that management considered the best available, as generally provided in the Company's Regulatory Reports, and the estimation methodologies deemed suitable for the pertinent category of financial instrument. The carrying amounts are the amounts at which the financial instruments are reported in the financial statements.

**1. Summary of Significant Accounting Policies (Continued)**

*Fair Value of Financial Instruments (Continued)*

The following methods and assumptions were used by the Company in estimating fair values of financial instruments as disclosed herein:

*Cash and Cash Equivalents* - The carrying amounts of cash and short-term instruments approximate their fair value.

*Held-to-Maturity and Available-for-Sale Securities* - Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

*Loans Held for Sale* – The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between loan origination and sale.

*Loans Receivable* - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

*Deposit Liabilities* - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on CDs to a schedule of aggregated expected monthly maturities.

*Short-Term Borrowings* - The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

*Long-Term Debt* - The fair values of the Company's long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

**1. Summary of Significant Accounting Policies (Continued)**

*Fair Value of Financial Instruments (Continued)*

*Accrued Interest* - The carrying amounts of accrued interest approximate their fair values.

*Off-Balance-Sheet Instruments* - Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

*Securities Sold Under Agreements to Repurchase*

The Company's repurchase agreements mature within 90 days. The Company requires collateral, i.e., the underlying securities, sufficient to cover the redemption of the repurchase agreements. At December 31, 2005, the repurchase agreements were secured by certain of the Bank's available-for-sale securities, with fair values of approximately $3,772,000.

*Stock Option Plan*

The Company has elected to account for its stock option plan using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB 25). Under APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount the employee must pay to acquire the stock. Stock options issued under the Company's stock option plan have no intrinsic value at the grant date. As a result, no compensation cost has been recognized for them.

*Use of Estimates*

In preparing the Company's financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Certain Reclassifications*

Certain reclassifications have been made to conform to the 2005 presentation.

**1. Summary of Significant Accounting Policies (Continued)**

*Recent Accounting Pronouncements*

In December 2004, the FASB issued a revised Statement No. 123, *Accounting for Stock-Based Compensation*. This Statement eliminates the alternative to use Accounting Principles Board (APB) Opinion No. 25's intrinsic value method of accounting. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of these instruments. An entity will measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of those instruments, except in certain circum-stances. The provisions of this interpretation become effective as of the beginning of the first annual reporting period that begins after December 15, 2005.

In December 2004, the FASB issued SFAS No. 152, *Accounting for Real Estate Time-Sharing Transactions*. This Statement amends SFAS No. 66 and SFAS No. 67 to state the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The account-ing for those operations and costs is subject to the guidance in Statement of Position (SOP) 04-2, *Accounting for Real Estate Time-Sharing Transactions*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*. This Statement amends APB Opinion No. 29, to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of this Statement shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. This Statement replaces APB Opinion 20 and FASB Statement No. 3 and changes the require-ments for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The provisions of this Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Management does not believe these new standards will have a material impact on its financial statements.

### 2. Investment Securities

Investment securities have been classified in the statement of financial condition according to management's intent. The amortized cost of securities and their approximate fair values were as follows:

| | December 31, 2005 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| HELD-TO-MATURITY: | | |
| Mortgage backed securities | $ 18,336,362 | 17,909,501 |
| Municipals | 8,559,716 | 8,485,552 |
| U.S. Agency securities | 13,760,323 | 13,507,143 |
| | $ 40,656,401 | 39,902,196 |

| | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|
| HELD-TO-MATURITY: | | |
| Mortgage backed securities | $ 812 | (427,673) |
| Municipals | 37,993 | (112,157) |
| U.S. Agency securities | - | (253,180) |
| | $ 38,805 | (793,010) |

| | Amortized Cost | Fair Value |
|---|---|---|
| AVAILABLE-FOR-SALE: | | |
| Mortgage backed securities | $ 2,399,050 | 2,342,177 |
| U.S. Agency securities | 6,788,674 | 6,573,621 |
| | $ 9,187,724 | 8,915,798 |

| | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|
| AVAILABLE-FOR-SALE: | | |
| Mortgage backed securities | $ 6,793 | (63,666) |
| U.S. Agency securities | - | (215,053) |
| | $ 6,793 | (278,719) |

**2. Investment Securities (Continued)**

| | | December 31, 2004 | |
|---|---|---|---|
| | | Amortized Cost | Fair Value |
| HELD-TO-MATURITY: | | | |
| Mortgage backed securities | $ | 16,384,172 | 16,297,711 |
| Municipals | | 6,762,214 | 6,734,944 |
| U.S. Agency securities | | 5,757,450 | 5,754,583 |
| Corporate bonds | | 504,943 | 511,266 |
| | $ | 29,408,779 | 29,298,504 |

| | | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|---|
| HELD-TO-MATURITY: | | | |
| Mortgage backed securities | $ | 16,159 | (102,620) |
| Municipals | | 41,200 | (68,469) |
| U.S. Agency securities | | 15,904 | (18,772) |
| Corporate bonds | | 6,323 | - |
| | $ | 79,586 | (189,861) |

| | | December 31, 2004 | |
|---|---|---|---|
| | | Amortized Cost | Fair Value |
| AVAILABLE-FOR-SALE: | | | |
| Mortgage backed securities | $ | 5,094,573 | 5,068,542 |
| U.S. Agency securities | | 6,375,326 | 6,308,467 |
| | $ | 11,469,899 | 11,377,009 |

| | | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|---|
| AVAILABLE-FOR-SALE: | | | |
| Mortgage backed securities | $ | 19,418 | (45,449) |
| U.S. Agency securities | | 543 | (67,402) |
| | $ | 19,961 | (112,851) |

**2. Investment Securities (Continued)**

Investment securities also include restricted securities with a cost of $259,300 and $244,300, respectively at December 31, 2005 and 2004. The carrying values approximate fair values.

Gross realized gains and losses on held-to-maturity securities called and on sales of available-for-sale securities were:

| | | 2005 | 2004 |
|---|---|---|---|
| Gross realized gains: | | | |
| HELD-TO-MATURITY | | | |
| U.S. Agency securities | $ | - | 7,677 |
| AVAILABLE-FOR-SALE | | | |
| Mortgage backed securities | $ | 28 | 528 |
| Municipals | | - | 648 |
| U.S. Agency securities | | - | 22,263 |
| | $ | 28 | 23,439 |
| Gross realized losses: | | | |
| HELD-TO-MATURITY | | | |
| Mortgage backed securities | $ | 126 | - |
| Corporate securities | | 13,073 | - |
| | $ | 13,199 | - |

The scheduled maturities of securities held-to-maturity and securities available-for-sale at December 31, 2005 were as follows:

| | | Held-to-Maturity | |
|---|---|---|---|
| | | Carrying Value | Fair Value |
| Due in one year or less | $ | 859,830 | 846,225 |
| Due in one to five years | | 14,115,425 | 13,889,672 |
| Due in five to ten years | | 10,777,891 | 10,595,147 |
| Due after ten years | | 14,903,255 | 14,571,152 |
| | $ | 40,656,401 | 39,902,196 |

| | | Available-for-Sale | |
|---|---|---|---|
| | | Amortized Cost | Fair Value |
| Due in one year or less | $ | - | - |
| Due in one to five years | | 6,788,674 | 6,573,621 |
| Due in five to ten years | | - | - |
| Due after ten years | | 2,399,050 | 2,342,177 |
| | $ | 9,187,724 | 8,915,798 |

**2. Investment Securities (Continued)**

The maturity distribution above is based on contractual lives of the underlying securities. The amortized cost and fair value of mortgage backed securities are presented by contractual maturity in the preceding table. Management believes a significant portion of the mortgage backed securities will pay down prior to the end of their contractual lives. Some securities have call dates which are not reflected in the above maturity distribution.

Investment securities with a carrying amount of approximately $7,200,000 and $5,979,000 at December 31, 2005 and 2004, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

**3. Loans**

Major classifications of loans are summarized as follows at December 31:

| | **2005** | 2004 |
|---|---|---|
| Commercial | $ **40,300,313** | 38,244,949 |
| Real estate | **33,984,626** | 25,294,434 |
| Consumer | **2,653,146** | 3,837,783 |
| Agricultural | **632,954** | 186,830 |
| Less – allowance for possible loan losses | **(972,328)** | (840,159) |
| Loans, net | $ **76,598,711** | 66,723,837 |

Changes in the allowance for loan losses were as follows for the years ended December 31:

| | **2005** | 2004 |
|---|---|---|
| Balance, beginning of year | $ **840,159** | 537,093 |
| Provision charged to earnings | **530,000** | 343,000 |
| Loans recoveries | **8,763** | 1,136 |
| Loans charged off | **(406,594)** | (41,070) |
| Balance at end of year | $ **972,328** | 840,159 |

Loans considered to be impaired have carrying values of approximately $331,000 and $657,000 at December 31, 2005 and 2004, respectively. The total allowance for credit losses related to these loans was approximately $182,000 and $69,000 at December 31, 2005 and 2004, respectively. Had these loans been on the accrual basis during the year, additional interest income recognized would have been insignificant to these financial statements. No additional funds are committed to be advanced in connection with these loans.

**4. Bank Premises and Equipment**

Major categories of bank premises and equipment are summarized as follows at December 31:

| | 2005 | 2004 |
|---|---|---|
| Land and improvements | $ **804,265** | 804,265 |
| Building and improvements | **1,856,511** | 1,649,557 |
| Furniture and equipment | **1,810,926** | 1,489,117 |
| Construction in progress | **1,348,338** | 174,972 |
| | **5,820,040** | 4,117,911 |
| Less – accumulated depreciation | **(1,515,702)** | (1,152,263) |
| Total | $ **4,304,338** | 2,965,648 |

Depreciation expense was $366,398 and $311,634 in 2004 and 2003, respectively.

**5. Deposits**

The aggregate amount of certificates of deposit (CDs) issued in amounts of $100,000 or more, was approximately $10,535,000 and $11,299,000 at December 31, 2005 and 2004, respectively.

At December 31, 2005, the scheduled maturities of CDs are as follows:

| | |
|---|---|
| 2006 | $ 19,602,558 |
| 2007 | 1,418,723 |
| 2008 | 141,199 |
| 2009 | 2,089 |
| 2010 | - |
| | $ 21,164,569 |

**6. Income Taxes**

Taxes are provided on all revenues and expenses in the statement of earnings, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting and taxable income, or the effect of a valuation allowance on deferred tax assets. The following reconciliation summarizes those differences:

| | 2005 | 2004 |
|---|---|---|
| Tax expense at statutory federal rate on income before taxes | $ **307,174** | 237,187 |
| Permanent differences and other | | |
| Nontaxable interest income | **(82,903)** | (66,519) |
| Other, net | **141,429** | 6,453 |
| | $ **365,700** | 177,121 |

**6. Income Taxes (Continued)**

The Bank's income tax expense (benefit) is comprised of the following components:

| | | 2005 | 2004 |
|---|---|---|---|
| Current provision | $ | **455,464** | 256,029 |
| Deferred | | **(89,764)** | (78,908) |
| | $ | **365,700** | 177,121 |

The main components of the net deferred tax asset (liability) consist of the following at December 31:

| | | 2005 | 2004 |
|---|---|---|---|
| Deferred tax assets (liabilities): | | | |
| Allowance for possible loan losses | $ | **330,592** | 287,155 |
| Depreciation on premises and equipment | | **(35,657)** | (81,689) |
| Net unrealized appreciation (depreciation) on available-for-sale securities | | **103,222** | 43,699 |
| Net deferred tax asset | $ | **398,157** | 249,165 |

**7. Related Party Transactions**

The Company conducts banking transactions with its directors, officers, employees and their associates in the ordinary course of business. It is the Company's policy that all such loan and deposit transactions be on approximately the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with other customers. These related parties had aggregate loan balances of approximately $2,751,000 and $6,811,000, and deposit balances of approximately $13,349,000 and $11,089,000 at December 31, 2005 and 2004, respectively.

Effective January 1, 2001, the Company entered into an operating lease agreement, with a related party, for one of its branch facilities. The lease will expire December 31, 2010. The minimum future lease payments for years subsequent to December 31, 2005, are as follows:

| | | |
|---|---|---|
| 2006 | $ | 107,273 |
| 2007 | | 107,273 |
| 2008 | | 107,273 |
| 2009 | | 71,515 |
| 2010 | | - |
| | $ | 393,334 |

## 8. Employee Benefits

*401(k) Plan*

The Company has a 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. The Company's expense for the plan was $62,816 and $42,685 for the years ended December 31, 2005 and 2004, respectively.

*Stock Option Plan*

Under the Company's stock option plan, the Company has granted options for 279,000 shares of its $1 par common stock to several key employees, officers and directors. The exercise price of each option equals an amount greater than the estimated market price of the Company's stock on the date of grant. As of December 31, 2005 and 2004, all options were fully vested and exercisable under the plan at an option rate of $2.00 per share. During 2005 and 2004, 10,000 and 219,000 of the options were exercised. The remaining options for 50,000 shares expire in 2007.

The Company applies APB 25 and related Interpretations in accounting for the stock option plan. Accordingly, no compensation cost has been recognized. Had compensation cost been determined based on the fair value of the options consistent with SFAS 123, the Company believes the effect on consolidated income would have been insignificant.

The following is the Company's stock option activity and per share option prices for the years ended December 31, 2005 and 2004:

| Options | 2005 | 2004 |
|---|---|---|
| Beginning balance | **60,000** | 279,000 |
| Options granted | **-** | - |
| Options exercised | **10,000** | 219,000 |
| Options forfeited | **-** | - |
| Ending balance | **50,000** | 60,000 |

| Option Prices | 2005 | 2004 |
|---|---|---|
| Beginning option prices | **$ 2** | 2 |
| Options granted | **-** | - |
| Options exercised | **2** | 2 |
| Ending option prices | **2** | 2 |

## 9. Floating Rate Junior Subordinated Deferrable Interest Debentures

On December 30, 2003, the Company completed the placement of $3,093,000 in subordinated debentures to the Trust. The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank National Association with a liquidation value of $3,000,000.

**9. Floating Rate Junior Subordinated Deferrable Interest Debentures (Continued)**

Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on June 17, 2004. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 2.85% (currently 4.5298%). Also, the interest rate cannot exceed the maximum rate permitted by New York law. Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in March 2034 unless the Company elects and obtains regulatory approval to accelerate the maturity date to as early as December 30, 2008.

Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital. For the years ended December 31, 2005 and 2004, interest expense on the subordinated debentures was $192,470 and $137,405. Deferred debt financing costs of $60,691 are included in other assets at December 31, 2005 and 2004. These costs are being amortized to the first call date of the debentures. Amortization of deferred debt financing costs for 2005 and 2004 was $12,138.

**10. Financial Instruments**

*Financial Instruments with Off-Balance-Sheet Risk*

The Company is party to financial instruments with off-balance-sheet risk which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. At December 31, 2005 and 2004, unused commitments under standby letters of credit totaled approximately $2,230,000 and $2,167,000, respectively, and commitments to fund loans totaled approximately $26,898,000 and $18,024,000, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Standby letters of credit are conditional commitments used by the bank to guarantee the performance of a customer to a third party. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

**10. Financial Instruments (Continued)**

*Financial Instruments with Off-Balance-Sheet Risk (Continued)*

Since many of the commitments and letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

*Fair Value of Financial Instruments*

The estimated fair values of the Company's financial instruments were as follows at December 31:

| | 2005 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Financial assets (liabilities): | | |
| Cash and short-term investments | $ **20,812,948** | **20,812,948** |
| Securities available for sale | **8,915,798** | **8,915,798** |
| Securities held to maturity | **40,656,401** | **39,902,196** |
| Restricted securities | **259,300** | **259,300** |
| Loans receivable | **76,598,711** | **76,930,374** |
| Accrued interest receivable | **969,829** | **969,829** |
| Deposits | **(136,254,662)** | **(126,830,534)** |
| Securities sold under agreement to repurchase | **(3,772,146)** | **(3,772,146)** |
| Subordinated debentures | **(3,093,000)** | **(3,093,000)** |

| | 2004 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Financial assets (liabilities): | | |
| Cash and short-term investments | $ 20,553,993 | 20,553,993 |
| Securities available for sale | 11,377,009 | 11,377,009 |
| Securities held to maturity | 29,408,779 | 29,408,779 |
| Restricted securities | 244,300 | 244,300 |
| Loans receivable | 66,723,837 | 67,367,812 |
| Accrued interest receivable | 616,845 | 616,845 |
| Deposits | (115,841,834) | (115,204,181) |
| Securities sold under agreement to repurchase | (3,375,286) | (3,375,286) |
| Subordinated debentures | (3,093,000) | (3,093,000) |

The fair value of the off-balance sheet financial instruments is not significant to these financial statements.

**11. Operating Leases**

Pursuant to terms of operating lease agreements, the Company leases three of its branch facilities, including one with a related party as discussed in Note 8. Lease terms range from five to eight years. Future minimum lease payments are as follows:

| | |
|---|---|
| 2006 | $ 148,818 |
| 2007 | 133,013 |
| 2008 | 107,273 |
| 2009 | 71,515 |
| 2010 and thereafter | - |
| | $ 460,619 |

**12. Regulatory Matters**

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if under-taken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005, that the Company meets all capital adequacy requirements to which it is subject.

As of October 20, 2005, the most recent notification from the Federal Reserve Bank of Dallas categorized the Company as adequately capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's category.

**12. Regulatory Matters (Continued)**

The Company's actual capital amounts and ratios are presented in the table.

**As of December 31, 2005:**

| | | Actual | |
|---|---|---|---|
| | | Amount 000s | Ratio |
| Total Capital (to Risk-Weighted Assets) | $ | **13,821** | **14.4%** |
| Tier 1 Capital (to Risk-Weighted Assets) | | **12,849** | **13.39%** |
| Tier 1 Capital (to Average Assets) | | **12,849** | **8.72%** |

| | | For Capital Adequacy Purposes | |
|---|---|---|---|
| | | Amount 000s | Ratio |
| Total Capital (to Risk-Weighted Assets) | $ | **≥7,677** | **≥8.0%** |
| Tier 1 Capital (to Risk-Weighted Assets) | | **≥3,839** | **≥4.0%** |
| Tier 1 Capital (to Average Assets) | | **≥5,894** | **≥4.0%** |

**12. Regulatory Matters (Continued)**

As of December 31, 2004:

| | Actual | |
|---|---|---|
| | Amount 000s | Ratio |
| Total Capital (to Risk-Weighted Assets) | $ 12,858 | 15.28% |
| Tier 1 Capital (to Risk-Weighted Assets) | 11,899 | 14.14% |
| Tier 1 Capital (to Average Assets) | 11,899 | 9.50% |

| | For Capital Adequacy Purposes | |
|---|---|---|
| | Amount 000s | Ratio |
| Total Capital (to Risk-Weighted Assets) | $ ≥6,729 | ≥8.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | ≥3,364 | ≥4.0% |
| Tier 1 Capital (to Average Assets) | ≥4,867 | ≥4.0% |

# Supplementary Information

JOHNSON MILLER & CO., CPA's PC
*Certified Public Accountants*
*A Professional Corporation*
*An Independent Member Of BDO Seidman Alliance*

Odessa, Texas
Midland, Texas
Hobbs, New Mexico

**Report of Independent Certified Public Accountants on Supplementary Information**

The Board of Directors
First Bancshares of Texas, Inc. and Subsidiaries

Our report on our audit of the consolidated financial statements of First Bancshares of Texas, Inc. (the "Company") and Subsidiaries as of December 31, 2005 and 2004, and for the years then ended, is included separately herein. That audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating statement of financial condition information as of December 31, 2005, and the consolidating statement of income information for the year ended December 31, 2005, have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Johnson Miller & Co., CPA's PC

Odessa, Texas
February 23, 2006



2626 JBS Parkway, Suite A-200 • Odessa, Texas 79761 • (432) 362-3800 • Fax (432) 362-4476
audit@jmaudit.com

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidating Statement of Financial Condition Information

***December 31, 2005***

**ASSETS**

| | First Bancshares of Texas, Inc. | First Midland Nevada Corp. | FNB Midland | | Eliminations Debit | Eliminations Credit | Consolidated |
|---|---|---|---|---|---|---|---|
| CASH EQUIVALENTS | | | | | | | |
| Cash and due from banks | $ 143,309 | 157 | 7,833,253 | 1 | - | 143,466 | 7,833,253 |
| Interest bearing deposits | 9,695 | - | 3,000,000 | | - | - | 3,009,695 |
| Federal funds sold | - | - | 9,970,000 | | - | - | 9,970,000 |
| SECURITIES | | | | | | | |
| Held to maturity | - | - | 40,656,401 | | - | - | 40,656,401 |
| Available for sale | - | - | 8,915,798 | | - | - | 8,915,798 |
| Restricted | - | - | 259,300 | | - | - | 259,300 |
| LOANS HELD FOR SALE | - | - | 1,001,000 | | - | - | 1,001,000 |
| LOANS, net | 1,958,374 | - | 73,639,337 | | - | - | 75,597,711 |
| BANK PREMISES and equipment, net | - | - | 4,304,338 | | - | - | 4,304,338 |
| INVESTMENT IN SUBSIDIARIES | 10,641,695 | 10,538,969 | - | 3 | - | 1,920,504 | - |
| | - | - | - | 4 | - | 19,558,334 | - |
| | - | - | - | 5 | 400,742 | - | 102,568 |
| DEFERRED INCOME TAXES | - | - | 398,157 | | - | - | 398,157 |
| INTEREST RECEIVABLE and other assets | 172,511 | - | 1,173,650 | 2 | - | 136,096 | 1,210,065 |
| Total assets | $ 12,925,584 | 10,539,126 | 151,151,234 | | 400,742 | 21,758,400 | 153,258,286 |

## Consolidating Statement of Financial Condition Information (Continued)

***December 31, 2005***

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | First Bancshares of Texas, Inc. | First Midland Nevada Corp. | FNB Midland | | Eliminations Debit | Eliminations Credit | Consolidated |
|---|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | | |
| Deposits | | | | | | | |
| Non-interest bearing demand | $ - | - | 57,271,551 | 1 | 143,466 | - | 57,128,085 |
| Demand deposits | - | - | 55,889,302 | | - | - | 55,889,302 |
| Savings accounts | - | - | 2,072,706 | | - | - | 2,072,706 |
| Time certificates of deposit | - | - | 21,164,569 | | - | - | 21,164,569 |
| Securities sold under agreements to repurchase | - | - | 3,772,146 | | - | - | 3,772,146 |
| Interest payable and other liabilities | 186,467 | - | 441,990 | 2 | 136,096 | - | 492,361 |
| Subordinated debentures | 3,093,000 | - | - | | - | - | 3,093,000 |
| Total liabilities | 3,279,467 | - | 140,612,264 | | 279,562 | - | 143,612,169 |
| STOCKHOLDERS' EQUITY | | | | | | | |
| Common stock | 3,874,518 | 1,000 | 3,096,250 | 4 | 3,097,250 | - | 3,874,518 |
| Capital surplus | 4,445,576 | 9,143,500 | 6,046,250 | 4 | 15,189,750 | - | 4,445,576 |
| Accumulated surplus | 1,527,749 | 1,594,997 | 1,596,841 | 4 | 1,271,334 | - | - |
| | - | - | - | 3 | 1,920,504 | - | 1,527,749 |
| Treasury stock | (1,355) | - | - | | - | - | (1,355) |
| Accumulated other comprehensive income (loss) | (200,371) | (200,371) | (200,371) | 5 | - | 400,742 | (200,371) |
| Total equity | 9,646,117 | 10,539,126 | 10,538,970 | | 21,478,838 | 400,742 | 9,646,117 |
| Total liabilities and equity | $ 12,925,584 | 10,539,126 | 151,151,234 | | 21,758,400 | 400,742 | 153,258,286 |

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidating Statement of Income Information

***December 31, 2005***

| | First Bancshares of Texas, Inc. | First Midland Nevada Corp. | FNB Midland | | Eliminations Debit | Eliminations Credit | Consolidated |
|---|---|---|---|---|---|---|---|
| Interest income: | | | | | | | |
| Loans | $ 128,683 | - | 4,900,421 | | - | - | 5,029,104 |
| Securities | 2,192 | - | 1,777,637 | | - | - | 1,779,829 |
| Federal funds sold | - | - | 280,369 | | - | - | 280,369 |
| Deposits with banks | - | - | 97,866 | | - | - | 97,866 |
| | 130,875 | - | 7,056,293 | | - | - | 7,187,168 |
| Interest expense: | | | | | | | |
| Deposit accounts and repurchase agreements | - | - | 1,365,344 | | - | - | 1,365,344 |
| Subordinated debentures | 192,470 | - | - | | - | - | 192,470 |
| Net interest income (loss) | (61,595 ) | - | 5,690,949 | | - | - | 5,629,354 |
| Provision for loan losses | - | - | 530,000 | | - | - | 530,000 |
| Net interest income (loss) after provision for loan losses | (61,595 ) | - | 5,160,949 | | - | - | 5,099,354 |
| Noninterest income: | | | | | | | |
| Service charges and fees | - | - | 900,047 | | - | - | 900,047 |
| Income from fiduciary activities | - | - | 171,399 | | - | - | 171,399 |
| Net loss on sale or call of securities | - | - | (12,351 ) | | - | - | (12,351) |
| Equity in income of unconsolidated subsidiary | 965,482 | 960,459 | - | 3 | 1,920,504 | - | 5,437 |
| | 965,482 | 960,459 | 1,059,095 | | 1,920,504 | - | 1,064,532 |

# First Bancshares of Texas, Inc. and Subsidiaries

## Consolidating Statement of Income Information (Continued)

***December 31, 2005***

| | First Bancshares of Texas, Inc. | First Midland Nevada Corp. | FNB Midland | Eliminations Debit | Eliminations Credit | Consolidated |
|---|---|---|---|---|---|---|
| Noninterest expense:: | | | | | | |
| Salaries and employee benefits | $ - | - | 2,449,938 | - | - | 2,449,938 |
| Occupancy and equipment expense | - | - | 892,768 | - | - | 892,768 |
| Data processing expense | - | - | 291,629 | - | - | 291,629 |
| Professional services | 2,138 | 415 | 186,255 | - | - | 188,808 |
| Advertisement and promotion | - | - | 157,731 | - | - | 157,731 |
| Directors fees and other expense | - | - | 117,153 | - | - | 117,153 |
| Postage and freight | - | - | 87,087 | - | - | 87,087 |
| Telephone | - | - | 76,477 | - | - | 76,477 |
| Supplies | - | - | 62,255 | - | - | 62,255 |
| Regulatory fees | - | - | 53,102 | - | - | 53,102 |
| Other expense | 12,738 | - | 505,048 | - | - | 517,786 |
| | 14,876 | 415 | 4,879,443 | - | - | 4,894,734 |
| Income before taxes | 889,011 | 960,044 | 1,340,601 | 1,920,504 | - | 1,269,152 |
| Income tax benefit (expense) | 14,441 | - | (380,141) | - | - | (365,700) |
| NET INCOME | $ 903,452 | 960,044 | 960,460 | 1,920,504 | - | 903,452 |

## Description of Eliminating Entries

1. To eliminate intercompany cash and deposits
2. To eliminate intercompany accounts receivable/payable
3. To eliminate intercompany income
4. To eliminate the Company's investment in consolidated subsidiaries
5. To eliminate equity in accumulated comprehensive income of subsidiaries