

First Bancshares of Texas

4th Quarter 2008 Quarterly Report



Midland * Lubbock * Amarillo

4th Quarter 2009 – Shareholder’s Report

General Outlook

The first thing you will notice about this quarter’s report is that it is not printed on high gloss paper by a professional printing company. This is symbolic of the efforts we began making recently to become more efficient in our operations in response to the economic slowdown. We expect earnings in 2009 to exceed 2008 performance, but our net interest margin has declined somewhat in the last few months and we are working to offset the reduced margins through more efficient operations.

During the past quarter, there has been much talk about banks taking government assistance through the TARP program. First Bancshares declined the offer based upon our already strong capital position and concerns about additional government intervention that would come along with the funds. We did agree to participate in the extended deposit insurance coverage provided by the FDIC. We felt this program was important to our customer base in the current economic environment.

Earnings for 2008 were \$2.01 million up from \$1.73 million in 2007, an increase of about 16.3%. The increase in earnings came in spite of reduced net interest margins in the last half of the year. Since the Fed has reduced overnight borrowing rates to near zero, additional declines in margin from where we currently stand should be minimal. As I mentioned above, we are projecting an increase in net income for 2009 as well.

You have heard much talk in the media recently about banks and comments that banks are not lending. That is not the case with First Bancshares. We are continuing to lend in all three markets we serve. During the 4th quarter, loans increased by \$17.8 million or 31% on an annualized basis. For the full year of 2008, loans increased by \$84.5 million or about 52%. We expect loan growth in the first half of 2009 to be significantly slower than 2008 due to a slowdown in activity, but we will still be making loans.

Deposit growth has continued to be strong. Deposits increased about \$11.8 million in the 4th quarter and \$66.4 million for the full year. The increases occurred amidst the market turmoil we have experienced in the last 6 months. A significant amount of the growth came from other banks or investment firms as First Bancshares has been viewed as a safe haven for funds.

2009 will be a challenging year in many ways, but First Bancshares is well positioned to weather the storm. Times like these cause people and companies to make decisions and changes that will make them stronger in the long run and I expect that will be the case this time.

Thank you for your investment, your business and your support.

Sincerely,

Ken L. Burgess, Jr.
CEO

Balance Sheet**First National Bank of Midland**
(Unaudited Bank Subsidiary Only)

	December 31,	
	<u>2008</u>	<u>2007</u>
	(In Thousands)	
Assets		
CASH AND DUE FROM BANKS	\$ 9,300	\$ 9,905
INVESTMENTS:		
Municipal securities	8,681	9,040
U.S. gov't agencies	9,044	21,402
Mortgage backed securities	27,356	20,518
Due from bank certificates of deposit	-	-
Due from bank money market account	4,661	4,015
Federal Reserve Bank stock	574	514
Federal Home Loan Bank stock	156	363
Texas Independent Bankers Bank Stock	200	200
Total Investments	<u>50,672</u>	<u>56,052</u>
FEDERAL FUNDS SOLD	-	6,925
LOANS:		
Real estate	120,064	71,277
Secondary mortgage	6,751	4,511
Commercial, industrial, and agricultural	103,852	79,237
Government entities	3,411	543
Consumer	12,197	6,250
Other	34	29
Total Loans	<u>246,309</u>	<u>161,847</u>
Less - Allowance for possible loan losses	<u>(3,357)</u>	<u>(1,974)</u>
Loans, net	<u>242,952</u>	<u>159,873</u>
BANK PREMISES AND EQUIPMENT, NET	10,587	7,853
OTHER ASSETS	2,447	2,307
TOTAL ASSETS	<u>\$ 315,958</u>	<u>\$ 242,915</u>
Liabilities & Shareholders' Equity		
DEPOSITS:		
Demand	\$ 87,829	\$ 72,433
NOW Accounts	23,718	20,744
Savings	5,490	4,117
Time	165,709	119,039
Total Deposits	<u>282,746</u>	<u>216,333</u>
SHORT-TERM BORROWINGS		
Federal funds purchased	-	-
Securities sold under agreement to repurchase	6,345	3,859
Federal Home Loan Bank borrowings	-	-
Total short-term borrowings	<u>6,345</u>	<u>3,859</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	879	876
Total Liabilities	<u>289,970</u>	<u>221,068</u>
SHAREHOLDER'S EQUITY		
Common Stock	3,096	3,096
Surplus	16,046	14,046
Retained earnings	6,846	4,705
Total shareholders' equity	<u>25,988</u>	<u>21,847</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 315,958</u>	<u>\$ 242,915</u>

Statement of Income

For the Twelve Months Ended December 31,

First National Bank of Midland

(Unaudited Bank Subsidiary Only)

	<u>2008</u>	<u>2007</u>
	(In Thousands)	
Interest Income:		
Interest and fees on loans	\$ 14,053	\$ 10,787
Interest on investment securities	1,938	2,429
Interest on Federal funds sold	89	167
Other interest income	92	34
TOTAL INTEREST INCOME	<u>16,172</u>	<u>13,417</u>
Interest Expense:		
Deposits	3,756	3,674
Short-term borrowings	135	277
TOTAL INTEREST EXPENSE	<u>3,891</u>	<u>3,951</u>
Net Interest Income	12,281	9,466
Provision for possible loan losses	<u>1,390</u>	<u>820</u>
Net Interest Income After Provision For Possible Loan Losses	10,891	8,646
Other Income:		
Mortgage	2,493	1,603
Trust, net	217	171
Other income	734	702
TOTAL OTHER INCOME	<u>3,444</u>	<u>2,476</u>
Other Expenses:		
Salary and employee benefits	6,824	5,005
Building occupancy expense	1,878	1,331
Marketing expense	351	277
Data processing expense	280	224
Other employee expense	302	272
Other operating expense	1,768	1,255
Other expenses	67	265
TOTAL OTHER EXPENSES	<u>11,470</u>	<u>8,629</u>
Income Before Income Taxes	2,865	2,493
Provision for income taxes	<u>855</u>	<u>764</u>
NET INCOME	\$ 2,010	\$ 1,729

Financial Highlights

At and For the Twelve Months Ended December 31,

	<u>2008</u>	<u>2007</u>	<u>Change</u>
	(In Thousands)		
Total Assets	\$ 315,958	\$ 242,915	30.07%
Average Assets	275,882	201,320	37.04%
Investments*	50,672	62,977	-19.54%
Loans, net	242,952	159,873	51.97%
Deposits	282,746	216,333	30.70%
Shareholders' Equity	25,988	21,847	18.95%
Interest Income	16,172	13,417	20.53%
Interest Expense	3,891	3,951	-1.52%
Net Income	\$ 2,010	\$ 1,729	16.25%
Per Share Data:			
Net Income**	\$ 0.28	\$ 0.27	
Book Value**	\$ 3.95	\$ 3.66	
Ratios:			
Return on Average Assets	0.73%	0.86%	
Return on Shareholders' Equity	8.64%	9.03%	
Net Interest Margin (tax equivalent basis)	4.80%	5.13%	
Number of Shareholders (of record)**	252	247	

*Includes investment securities, interest bearing deposits and Federal funds sold

**Data at the Bank holding company level. All other data shown is at Bank level.

Bank Officers

Michael J. Canon

Chairman of the Board

Kenneth L. Burgess, Jr.

Chief Executive Officer & President

Midland Market –

(First National Bank of Midland)

Jay W. Isaacs

President – Midland Market & Sr. Trust Officer

Brad D. Bullock

Executive Vice President & Compliance

Tracy A. Timlin

Sr. Vice President & Mortgage Division Manager

Shannon L. Smith

Sr. Vice President & Sr. Relationship Manager

Toby D. Payne

Sr. Vice President & Relationship Manager

Bill J. Hill

Sr. Vice President & Trust Administration Officer

Janene D. Binnion

Vice President & Team Resources Department Manager

R. Kyle Clifton

Vice President, Cashier & Controller

Debbie K. Glennan

Vice President & Branch Operations Manager

Robin Richey

Vice President, Secretary to the Board & Trust Administration Officer

Lynne M. Sawyer

Vice President & Credit Administration Department Manager

Jon D. Black

Vice President, Odessa Mortgage

Martin F. Ruehl

Assistant Vice President, Branch Manager & Relationship Manager

Chris A. Whitney

Banking Officer, Branch Manager & Personal Banker

Katie J. Boyd

Banking Officer, Branch Manager & Relationship Manager

Veronica S. Pyle

Banking Officer & Personal Banker

Griselda J. Bujanda

Banking Officer & Loan Operations Manager

Melanie J. Horton

Banking Officer, Assistant Controller

Jeremy M. Bishop

Banking Officer & Relationship Manager

Chris L. McGinnis

Banking Officer & IT Manager

Michael J. Canon, Jr.

Banking Officer & IT Support

Amarillo Market -

(First Bank of Texas)

J. Greg Burgess

President - Amarillo Market & Chief Lending Officer

George H. Reeves

Executive Vice President & Chief Operations Officer

Anita K. Fink

Assistant Vice President & Asst. Operations Manager

Stacye M. Worthen

Banking Officer & Branch Manager

Dora M. Evans

Banking Officer & Executive Assistant

Landon M. Gann

Banking Officer & Relationship Manager

Lubbock Market -

(First Texas Bank of Lubbock)

Brad D. Burgess

President - Lubbock Market & Sr. Relationship Manager

David R. Quintanilla

Executive Vice President & Sr. Relationship Manager

Patrick M. Irish

Vice President & Relationship Manager

Beverly R. Holland

Assistant Vice President & Executive Assistant

Raina Keneda

Assistant Vice President & Executive Assistant

Lisha F. King

Assistant Vice President & Branch Operations Manager

Bank Directors

Michael J. Canon

Chairman of the Board

Kenneth L. Burgess, Jr.

Chief Executive Officer & President

Jay W. Isaacs

President – Midland Market & Sr. Trust Officer

J. Greg Burgess

President – Amarillo Market & Chief Lending Officer

Brad D. Burgess

President – Lubbock Market & Sr. Relationship Manager

George H. Reeves

Executive Vice President & Chief Operations Officer

David R. Quintanilla

Executive Vice President & Sr. Relationship Manager

Brian J. Lucas

CFO, BJB Services, Inc.

John D. Bergman

Oil & Gas Independent

Cary Billingsley

Independent Petroleum Engineer

Stephen N. Castle

Oil & Gas Independent

Dr. David Daniel

Retired, former Midland College President

A. Scott Dufford

Oil & Gas Independent

H. Tevis Herd

Attorney at Law

Robert C. Leibrock

Oil & Gas Independent

Subodh I. Patel

Hospitality Industry

James W. Ramsey

Petroleum Engineer

C. Todd Sparks

Vice President & CFO, Discovery Operating, Inc.

Dr. James Welsh

Physician

Terry D. Wilkinson

Investments