

First Bancshares of Texas

1st Quarter 2009 Quarterly Report



Midland * Lubbock * Amarillo

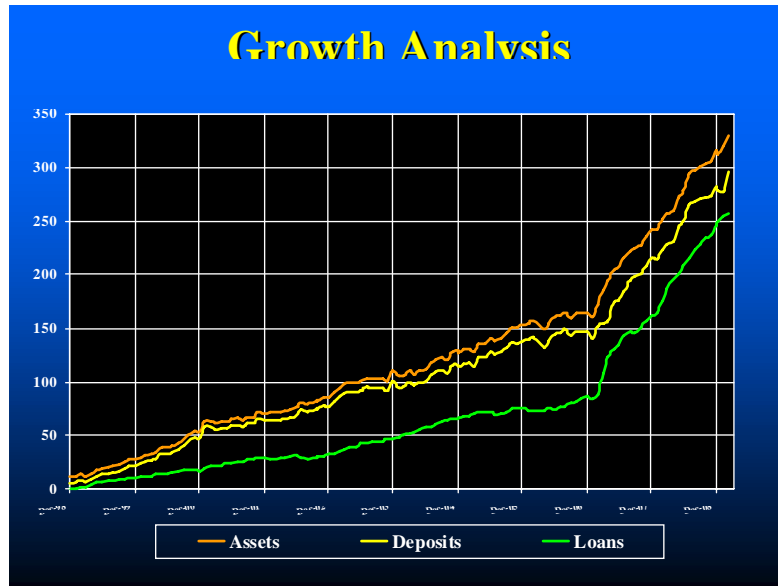
1st Quarter 2009 – Shareholder’s Report

Quarterly Summary

You have heard much talk lately in the media about banks and speculation that banks are not lending. Banks have received significant criticism in Washington primarily as a result of events that happened on Wall Street. Unfortunately, community banks have not been adequately separated from the big banks and from the investment banks on Wall Street. The fact is, community banks are the banks that are still lending and are still supporting the communities in which they operate. For the most part, banks located in Texas are still strong and are still operating in a normal manner. We are all being more careful, but we are still making loans to credit worthy borrowers and supporting our communities the way we always have.

I have included a chart reflecting growth in assets, loans & deposits since the inception of the Company to show that our growth has not decreased in the past year. In fact, in the past two years, our growth has significantly exceeded the first eight years of our existence.

We continued to see strong growth in the first quarter. From December 31, 2008 to March 31, 2009, assets grew at an annualized rate of 17.8%, loans at 18.6% and deposits at 19.0%. As a result of this continued growth, the Board of Directors and management intend to



present a stock offering later this year. We expect the offering will be a combination of common and preferred stock. The offering will enable us to take advantage of the growth opportunities that we are seeing in each of the markets we serve.

Economic Environment

The economic environment we are currently experiencing continues to be a concern to everyone. It has not yet had much effect on West Texas other than the effect that the drop in oil and gas price has had on our Midland market. We have seen some layoffs in primarily drilling and drilling related service businesses. So far though, unemployment rates overall are still very strong in all three markets we serve.

The primary effect the current economic environment has on us is the effect it has on our net interest margin, which is our largest source of income. The following chart shows our net interest margin by month since the inception of the bank. The closer short term interest rates come to 0%, the harder it is for the bank to achieve its desired margin.

Since the Federal Reserve Board started lowering interest rates in September of 2008, our net interest margin has declined from 4.81% to 4.49%. To put this in perspective; our monthly net interest income is about \$83,000 per month less before tax as a result of the interest rate environment.

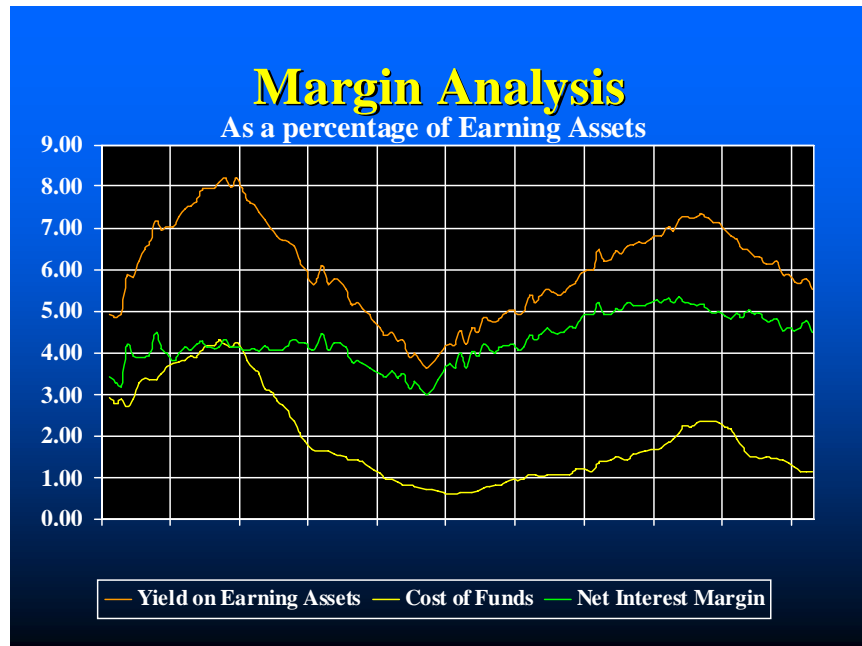
Despite lower margins, we have been able to maintain good earnings in the first quarter of the year. Net income after tax for the 1st quarter was \$568 thousand vs. \$446 thousand for the 1st quarter of 2008 representing an

increase of 27.4%. We have been able to offset the impact of the margin decline through a strong focus on expense management and the outstanding performance of our mortgage division. Mortgage loan originations have been very strong during the 1st quarter and have produced significant increases in non-interest income. The low interest rate environment has produced strong re-financing demand and we have continued to see solid home purchase financing volume as well.

Thank you for your support as shareholders and customers. If we can help you in any way, please give any of us a call.

Sincerely,

Ken L. Burgess, Jr.
CEO



Financial Highlights

At and For the Three Months Ended March 31,

	<u>2009</u>	<u>2008</u>	<u>Change</u>
	(In Thousands)		
Total Assets	\$ 329,818	\$ 257,800	27.94%
Average Assets	313,667	244,274	28.41%
Investments*	53,666	52,367	2.48%
Loans, net	253,784	184,841	37.30%
Deposits	296,019	228,367	29.62%
Shareholders' Equity	26,646	22,382	19.05%
Interest Income	4,148	3,800	9.16%
Interest Expense	801	1,067	-24.93%
Net Income	\$ 568	\$ 446	27.35%
Per Share Data:			
Net Income**	\$ 0.07	\$ 0.06	
Book Value**	\$ 4.05	\$ 3.73	
Ratios:			
Return on Average Assets	0.74%	0.72%	
Return on Shareholders' Equity	8.88%	7.99%	
Net Interest Margin (tax equivalent basis)	4.62%	4.87%	
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.

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

	March 31,		December 31,
	<u>2009</u>	<u>2008</u>	<u>2008</u>
Assets		(In Thousands)	
CASH AND DUE FROM BANKS	\$ 8,647	\$ 9,242	\$ 9,300
INVESTMENTS:			
Municipal securities	8,253	8,901	8,681
U.S. gov't agencies	5,515	17,972	9,044
Mortgage backed securities	26,661	19,884	27,356
Due from bank certificates of deposit	-	-	-
Due from bank money market account	7,906	4	4,661
Federal Reserve Bank stock	574	514	574
Federal Home Loan Bank stock	557	367	156
Texas Independent Bankers Bank Stock	200	200	200
Total Investments	<u>49,666</u>	<u>47,842</u>	<u>50,672</u>
FEDERAL FUNDS SOLD	4,000	4,525	-
LOANS:			
Real estate	127,980	74,753	120,064
Secondary mortgage	10,379	6,961	6,751
Commercial, industrial, and agricultural	101,894	95,164	103,852
Government entities	3,274	1,928	3,411
Consumer	13,945	8,149	12,197
Other	136	50	34
Total Loans	<u>257,608</u>	<u>187,005</u>	<u>246,309</u>
Less - Allowance for possible loan losses	<u>(3,824)</u>	<u>(2,164)</u>	<u>(3,357)</u>
Loans, net	<u>253,784</u>	<u>184,841</u>	<u>242,952</u>
BANK PREMISES AND EQUIPMENT, NET	10,576	8,921	10,587
OTHER ASSETS	3,145	2,429	2,447
TOTAL ASSETS	<u>\$ 329,818</u>	<u>\$ 257,800</u>	<u>\$ 315,958</u>
Liabilities & Shareholders' Equity			
DEPOSITS:			
Demand	\$ 83,858	\$ 72,105	\$ 87,829
NOW Accounts	23,099	20,614	23,718
Savings	6,363	4,665	5,490
Time	148,962	130,983	154,291
CDARS	33,737	-	11,418
Total Deposits	<u>296,019</u>	<u>228,367</u>	<u>282,746</u>
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	6,311	6,247	6,345
Federal Home Loan Bank borrowings	-	-	-
Total short-term borrowings	<u>6,311</u>	<u>6,247</u>	<u>6,345</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	842	804	879
Total Liabilities	<u>303,172</u>	<u>235,418</u>	<u>289,970</u>
SHAREHOLDER'S EQUITY			
Common Stock	3,096	3,096	3,096
Surplus	16,046	14,046	16,046
Retained earnings	7,504	5,240	6,846
Total shareholders' equity	<u>26,646</u>	<u>22,382</u>	<u>25,988</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 329,818</u>	<u>\$ 257,800</u>	<u>\$ 315,958</u>

Statement of Income

For the Three Months Ended March 31,

First National Bank of Midland

(Unaudited Bank Subsidiary Only)

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Interest Income:		
Interest and fees on loans	\$ 3,674	\$ 3,208
Interest on investment securities	466	537
Interest on Federal funds sold	0	36
Other interest income	8	19
TOTAL INTEREST INCOME	<u>4,148</u>	<u>3,800</u>
Interest Expense:		
Deposits	779	1,026
Short-term borrowings	22	41
TOTAL INTEREST EXPENSE	<u>801</u>	<u>1,067</u>
Net Interest Income	3,347	2,733
Provision for possible loan losses	<u>475</u>	<u>190</u>
Net Interest Income After Provision For Possible Loan Losses	2,872	2,543
Other Income:		
Mortgage	795	526
Trust, net	63	44
Other income	238	217
TOTAL OTHER INCOME	<u>1,096</u>	<u>787</u>
Other Expenses:		
Salary and employee benefits	1,883	1,616
Building occupancy expense	531	430
Marketing expense	62	64
Data processing expense	74	60
Other employee expense	57	69
Other operating expense	467	396
Other expenses	83	59
TOTAL OTHER EXPENSES	<u>3,157</u>	<u>2,694</u>
Income Before Income Taxes	811	636
Provision for income taxes	<u>243</u>	<u>190</u>
NET INCOME	\$ 568	\$ 446

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

Bill J. Hill

Sr. Vice President & Trust Administration Officer

Toby D. Payne

Sr. Vice President & Relationship Manager

Shannon L. Smith

Sr. Vice President & Sr. Relationship Manager

Tracy A. Timlin

Sr. Vice President & Mortgage Division Manager

Janene D. Binnion

Vice President & Team Resources Department Manager

Jon D. Black

Vice President, Odessa Mortgage

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

Jeremy M. Bishop

Assistant Vice President, Relationship Manager

Chris L. McGinnis

Assistant Vice President, IT Manager

Martin F. Ruehl

Assistant Vice President, Branch Manager & Relationship Manager

Katie J. Boyd

Banking Officer, Compliance Specialist

Griselda J. Bujanda

Banking Officer & Loan Operations Manager

Michael J. Canon, Jr.

Banking Officer & IT Support

Melanie J. Horton

Banking Officer, Assistant Controller

Rodger L. Horton

Banking Officer, Credit Analyst

Veronica S. Pyle

Banking Officer & Personal Banker

Chris A. Whitney

Banking Officer, Branch Manager & Personal Banker

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

Landon M. Gann

Assistant Vice President, Relationship Manager

Kenneth L. Burgess, III

Banking Officer, Credit Analyst

Dora M. Evans

Banking Officer & Executive Assistant

Stacye M. Worthen

Banking Officer & Branch 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

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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