

First Bancshares of Texas

2nd Quarter 2009 Quarterly Report



Midland * Lubbock * Amarillo

2nd Quarter 2009 – Shareholder’s Report

As the national economy continues to struggle through a very deep recession and as the banking industry continues to recover from heavy losses, the West Texas economy in which we operate continues to out-perform the nation. This being said, our economy is starting to feel some of the effects of the recession.

While many banks in Texas are showing flat or declining earnings through the first 6 months of 2009, I am happy to say that our bank produced earnings of \$1.21 million vs. \$1.04 million for the same 6 month period of last year. This represents a 16.6% increase in after tax earnings. The increase comes in spite of a one time \$160 thousand dollar special assessment to the FDIC for purposes of helping to rebuild the FDIC Insurance Fund which has taken a hit as a result of the banking industry crisis. All banks were required to accrue this one time charge during the 2nd quarter of the year. As a result, our regulatory expense for the first 6 months was three times more than the same period last year. We also reflected increased expenses from an increase in our loan loss provision from \$490 thousand for the first 6 months of last year to \$900 thousand for the same time period this year.

Overall credit quality remains strong. Past due and non-performing loans are well below industry averages and well below the average of banks in the markets we serve.

Net interest income increased from \$5.26 million in 2008 to \$5.95 million for the same 6 month period of 2009. While this was an increase in absolute dollar volume, our net interest margin declined from 4.92% in 2008 to 4.53% in 2009 as a result of the very low interest rate environment we are experiencing. Even with the decline in interest margin, we remain well above industry averages for this measure.

One of the brightest areas for the bank for the first 6 months of the year has been our mortgage division. Gross revenue for the first 6 months of the year was \$1.9 million vs. \$1.16 million for the first 6 months of 2008. This represents an increase of 63.8%. We have seen large volume increases due to home re-financing and we have continued to see strong home purchase financing in each of our markets. The results of the mortgage division have helped offset the affects of lower net interest margins discussed above.

We continue to experience strong growth performance. Deposits ended the quarter at \$316.7 million vs. \$250.4 million at June 30, 2008 representing an increase of 26.5%. Loans were up from \$208.8 million at June 30, 2008 to \$265.3 million at June 30, 2009, an increase of 27.0%. Total assets ended the quarter at \$351.8 million an increase of \$73.6 million or 26.5% from June 30, 2008. We are very pleased with our growth performance over the past year. It reflects the strength of our organization and the quality of our staff.

In spite of the challenges being faced by our country and our industry, we are excited about the future of our organization and the opportunities we have in front of us. From an

investment standpoint, we have been able to return almost a 10% return this year, which is very favorable to most other investments in this economy. We are working to improve this return over the next year through cost management and prudent growth.

We will be presenting a new stock offering within the next few months which will raise capital to support the growth we have experienced to date and expect to experience in the future. We expect the offering to include a mix of common and preferred stock. Existing shareholders will have first opportunity to purchase the stock and any remaining shares will be offered to new shareholders.

Thank you for your support.

Ken L. Burgess, Jr.
CEO & President

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

	June 30,		December 31,
	<u>2009</u>	<u>2008</u>	<u>2008</u>
Assets		(In Thousands)	
CASH AND DUE FROM BANKS	\$ 8,527	\$ 11,537	\$ 9,300
INVESTMENTS:			
Municipal securities	9,743	8,889	8,681
U.S. gov't agencies	2,998	14,560	9,044
Mortgage backed securities	26,569	19,024	27,356
Due from bank certificates of deposit	-	-	-
Due from bank money market account	23,685	2	4,661
Federal Reserve Bank stock	604	514	574
Federal Home Loan Bank stock	228	369	156
Texas Independent Bankers Bank Stock	200	200	200
Total Investments	<u>64,027</u>	<u>43,558</u>	<u>50,672</u>
FEDERAL FUNDS SOLD	3,640	4,750	-
LOANS:			
Real estate	129,440	85,695	120,064
Secondary mortgage	13,795	8,703	6,751
Commercial, industrial, and agricultural	100,696	103,280	103,852
Government entities	6,451	1,869	3,411
Consumer	14,832	9,199	12,197
Other	57	43	34
Total Loans	<u>265,271</u>	<u>208,789</u>	<u>246,309</u>
Less - Allowance for possible loan losses	<u>(3,229)</u>	<u>(2,464)</u>	<u>(3,357)</u>
Loans, net	<u>262,042</u>	<u>206,325</u>	<u>242,952</u>
BANK PREMISES AND EQUIPMENT, NET	10,448	9,793	10,587
OTHER ASSETS	3,116	2,205	2,447
TOTAL ASSETS	<u>\$ 351,800</u>	<u>\$ 278,168</u>	<u>\$ 315,958</u>
Liabilities & Shareholders' Equity			
DEPOSITS:			
Demand	\$ 81,983	\$ 79,281	\$ 87,829
NOW Accounts	23,620	19,675	23,718
Savings	6,641	5,219	5,490
Time	146,632	146,211	154,291
CDARS	57,844	-	11,418
Total Deposits	<u>316,720</u>	<u>250,386</u>	<u>282,746</u>
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	5,876	4,175	6,345
Federal Home Loan Bank borrowings	-	-	-
Total short-term borrowings	<u>5,876</u>	<u>4,175</u>	<u>6,345</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	1,010	692	879
Total Liabilities	<u>323,606</u>	<u>255,253</u>	<u>289,970</u>
SHAREHOLDER'S EQUITY			
Common Stock	3,096	3,096	3,096
Surplus	17,046	14,046	16,046
Retained earnings	8,052	5,773	6,846
Total shareholders' equity	<u>28,194</u>	<u>22,915</u>	<u>25,988</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 351,800</u>	<u>\$ 278,168</u>	<u>\$ 315,958</u>

Statement of Income

For the Six Months Ended June 30,

First National Bank of Midland

(Unaudited Bank Subsidiary Only)

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Interest Income:		
Interest and fees on loans	\$ 7,554	\$ 6,622
Interest on investment securities	871	1,020
Interest on Federal funds sold	9	56
Other interest income	40	21
TOTAL INTEREST INCOME	<u>8,474</u>	<u>7,719</u>
Interest Expense:		
Deposits	1,590	1,896
Short-term borrowings	36	68
TOTAL INTEREST EXPENSE	<u>1,626</u>	<u>1,964</u>
Net Interest Income	6,848	5,755
Provision for possible loan losses	<u>900</u>	<u>490</u>
Net Interest Income After Provision For Possible Loan Losses	5,948	5,265
Other Income:		
Mortgage	1,906	1,163
Trust, net	102	98
Other income	494	498
TOTAL OTHER INCOME	<u>2,502</u>	<u>1,759</u>
Other Expenses:		
Salary and employee benefits	3,826	3,294
Building occupancy expense	1,070	858
Marketing expense	115	154
Data processing expense	150	137
Other employee expense	118	136
Regulatory expense	364	113
Other operating expense	1,073	833
TOTAL OTHER EXPENSES	<u>6,716</u>	<u>5,525</u>
Income Before Income Taxes	1,734	1,499
Provision for income taxes	<u>517</u>	<u>455</u>
NET INCOME	\$ 1,217	\$ 1,044

Financial Highlights

At and For the Six Months Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>Change</u>
	(In Thousands)		
Total Assets	\$ 351,800	\$ 278,168	26.47%
Average Assets	324,355	253,936	27.73%
Investments*	67,667	48,309	40.07%
Loans, net	262,042	206,324	27.01%
Deposits	316,720	250,386	26.49%
Shareholders' Equity	28,194	22,915	23.04%
Interest Income	8,474	7,719	9.78%
Interest Expense	1,626	1,964	-17.21%
Net Income	\$ 1,217	\$ 1,044	16.57%
Per Share Data:			
Net Income**	\$ 0.17	\$ 0.15	
Book Value**	\$ 4.12	\$ 3.81	
Ratios:			
Return on Average Assets	0.77%	0.82%	
Return on Shareholders' Equity	9.23%	9.32%	
Net Interest Margin (tax equivalent basis)	4.53%	4.92%	
Number of Shareholders (of record)**	251	250	

*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 & Sr. Compliance Officer

Bill J. Hill

Sr. Vice President & Trust Administration Officer

Toby D. Payne

Sr. Vice President & Sr. 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

Michael J. Canon

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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