

# **First Bancshares of Texas**

3rd Quarter 2009 Quarterly Report



**Midland \* Lubbock \* Amarillo**

### 3rd Quarter 2009 – Shareholder’s Report

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The economy both locally and nationally continued to be weak in the 3<sup>rd</sup> quarter. Certain areas of the country continue to be much weaker than we have experienced locally, but the Midland area has had significant weakness as our unemployment rate has now reached about 6.1% as compared to the lows less than two years ago of close to 2%. We are starting to see signs of improvement in the Midland area as both oil and gas prices have rebounded off of their lows of a few months back. The Lubbock and Amarillo markets have fared better than Midland since they do not have a large exposure to oil and gas. Lubbock and Amarillo now have the lowest unemployment rates in the state.

Of course, these economic cycles cause their damages and for some of the unfortunate, they are critical. Our bank has been lucky to avoid significant exposure to the worst cases, but we have seen more weakness and more losses than we have experienced in recent times. In spite of this, our earnings through 9 months are about 16% above last year and we expect to show earnings for the full year of 2009 that remain above our full year performance in 2008.

As I have mentioned in previous reports, our earnings have been impacted this year by increased regulatory costs, namely FDIC Insurance premiums. Through 9 months of this year, our FDIC premiums are 3 times what they were through 9 months of 2008. The increases have come from increases in regular premiums and through a special one-time assessment in the 2<sup>nd</sup> quarter. These increased premiums will most likely continue for several years as the banking industry works to rebuild the fund to regulatory mandated levels. It is unfortunate that the banks, who did not play a part in the crisis, are the ones who are having to pick up the pieces and rebuild the fund, but the banking industry is paying its own way in this respect.

Overall credit quality remains strong. Past due and non-performing loans while increased from prior periods are still well below industry averages and well below the average of banks in the markets we serve. Due to the weakness in the economy, we have increased our provision for loan loss expense to build reserves for potential losses.

Net interest income increased from \$8.97 million in 2008 to \$10.43 million for the same 9 month period of 2009. While this was an increase in absolute dollar volume, our net interest margin declined from 4.88% in 2008 to 4.44% 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 9 months of the year has been our mortgage division. Gross revenue for the first 9 months of the year was \$2.98 million vs. \$1.91 million for the first 9 months of 2008. This represents an increase of 55.9%. We have seen large volume increases due to home re-financing and we continue 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, the increased regulatory expenses and the increases in provisions for loan losses.

We continue to experience strong growth. Deposits ended the quarter at \$329.5 million vs. \$270.9 million at September 30, 2008 representing an increase of 21.6%. Loans were up from \$228.5 million at September 30, 2008 to \$269.3 million at September 30, 2009, an increase of 17.9%. Total assets ended the quarter at \$365.3 million an increase of \$64.3 million or 21.4% from September 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 weeks which will raise capital to support the growth we have experienced to date and expect to experience in the future. The offering will 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)

	September 30,		December 31,
	<u>2009</u>	<u>2008</u>	<u>2008</u>
<b>Assets</b>		(In Thousands)	
CASH AND DUE FROM BANKS	\$ 7,478	\$ 10,214	\$ 9,300
INVESTMENTS:			
Municipal securities	9,891	8,692	8,681
U.S. gov't agencies	1,499	12,057	9,044
Mortgage backed securities	30,512	19,307	27,356
Due from bank certificates of deposit	-	-	-
Due from bank money market account	30,924	4,007	4,661
Federal Reserve Bank stock	604	514	574
Federal Home Loan Bank stock	228	371	156
Texas Independent Bankers Bank Stock	200	200	200
Total Investments	<u>73,858</u>	<u>45,148</u>	<u>50,672</u>
FEDERAL FUNDS SOLD	4,724	7,075	-
LOANS:			
Real estate	137,453	116,993	120,064
Secondary mortgage	7,052	4,592	6,751
Commercial, industrial, and agricultural	103,056	93,228	103,852
Government entities	6,331	3,179	3,411
Consumer	15,385	10,311	12,197
Other	55	163	34
Total Loans	<u>269,332</u>	<u>228,466</u>	<u>246,309</u>
Less - Allowance for possible loan losses	<u>(3,327)</u>	<u>(2,760)</u>	<u>(3,357)</u>
Loans, net	<u>266,005</u>	<u>225,706</u>	<u>242,952</u>
BANK PREMISES AND EQUIPMENT, NET	10,218	10,548	10,587
OTHER ASSETS	3,062	2,369	2,447
TOTAL ASSETS	<u>\$ 365,345</u>	<u>\$ 301,060</u>	<u>\$ 315,958</u>
<b>Liabilities &amp; Shareholders' Equity</b>			
DEPOSITS:			
Demand	\$ 79,234	\$ 85,801	\$ 87,829
NOW Accounts	23,873	23,494	23,718
Savings	6,510	4,921	5,490
Time	154,497	156,693	154,291
CDARS	65,412	-	11,418
Total Deposits	<u>329,526</u>	<u>270,909</u>	<u>282,746</u>
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	5,806	5,685	6,345
Federal Home Loan Bank borrowings	-	-	-
Total short-term borrowings	<u>5,806</u>	<u>5,685</u>	<u>6,345</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	1,059	940	879
Total Liabilities	<u>336,391</u>	<u>277,534</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	8,812	6,384	6,846
Total shareholders' equity	<u>28,954</u>	<u>23,526</u>	<u>25,988</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 365,345</u>	<u>\$ 301,060</u>	<u>\$ 315,958</u>

**Statement of Income**

For the Nine Months Ended September 30,

**First National Bank of Midland**

(Unaudited Bank Subsidiary Only)

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
<b>Interest Income:</b>		
Interest and fees on loans	\$ 11,506	\$ 10,303
Interest on investment securities	1,280	1,484
Interest on Federal funds sold	18	86
Other interest income	96	46
TOTAL INTEREST INCOME	<u>12,900</u>	<u>11,919</u>
<b>Interest Expense:</b>		
Deposits	2,422	2,840
Short-term borrowings	48	101
TOTAL INTEREST EXPENSE	<u>2,470</u>	<u>2,941</u>
<b>Net Interest Income</b>	<b>10,430</b>	8,978
Provision for possible loan losses	<u>1,450</u>	<u>790</u>
<b>Net Interest Income After Provision For Possible Loan Losses</b>	<b>8,980</b>	8,188
<b>Other Income:</b>		
Mortgage	2,983	1,913
Trust, net	151	157
Other income	748	693
TOTAL OTHER INCOME	<u>3,882</u>	<u>2,763</u>
<b>Other Expenses:</b>		
Salary and employee benefits	5,822	5,092
Building occupancy expense	1,610	1,365
Marketing expense	157	245
Data processing expense	222	207
Other employee expense	168	214
Regulatory expense	512	173
Other operating expense	1,685	1,326
TOTAL OTHER EXPENSES	<u>10,176</u>	<u>8,622</u>
<b>Income Before Income Taxes</b>	<b>2,686</b>	2,329
Provision for income taxes	<u>792</u>	<u>708</u>
<b>NET INCOME</b>	<b>\$ 1,894</b>	<b>\$ 1,621</b>

## Financial Highlights

At and For the Nine Months Ended September 30,

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	<u>2009</u>	<u>2008</u>	<u>Change</u>
	(In Thousands)		
Total Assets	\$ 365,345	\$ 301,060	21.35%
Average Assets	334,259	265,465	25.91%
Investments*	78,582	52,223	50.47%
Loans, net	266,005	225,706	17.85%
Deposits	329,526	270,909	21.64%
Shareholders' Equity	28,954	23,526	23.07%
Interest Income	12,900	11,919	8.23%
Interest Expense	2,470	2,941	-16.01%
Net Income	\$ 1,894	\$ 1,621	16.84%
Per Share Data:			
Net Income**	\$ 0.27	\$ 0.23	
Book Value**	\$ 4.24	\$ 3.89	
Ratios:			
Return on Average Assets	0.77%	0.81%	
Return on Shareholders' Equity	9.31%	9.50%	
Net Interest Margin (tax equivalent basis)	4.44%	4.88%	
Number of Shareholders (of record)**	258	251	

\*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 & Relationship Services 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

### **Rachel Glover**

Banking Officer & Sr. Credit Analyst

### **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