

First Bancshares of Texas

4th Quarter 2009 Quarterly Report



Midland * Lubbock * Amarillo

4th Quarter 2009 – Shareholder’s Report

2009 Overview

2009 turned out to be the most tumultuous year in the Company’s 11 year history. From regulatory expense increases of almost 300%, decreases in net interest margins due to the lowest interest rate environment in history and increases in loan losses due to the quick and precipitous decline in oil and gas prices, the Company faced a number of challenges. In spite of these challenges, the Company increased earnings over 2008 by almost 17.5%. We were able to accomplish this by holding the line on most non-regulatory operating expenses and through the outstanding operating performance of our mortgage division.

Challenging times can induce changes in organizations that produce positive results. We saw the economic challenges headed our way in late 2008 and we made significant changes in the management of operating costs that allowed us to weather the storm in 2009. In addition, due to the low rate environment and due to continued increases in the market share of our mortgage operation, we had a record year for mortgage originations. The Midland department was the market leader for most of the year and the Lubbock and Odessa departments saw significant increases in volume. Gross revenue for the mortgage division was up almost 59% over 2008.

Current Outlook

2010 is shaping up to be better than 2009. Economic conditions are improving in each of our markets. The three markets we serve continue to hold the top three spots in the state in terms of low unemployment rates and these rates have improved over the last few months. We have also seen signs of improvement with our customers who were impacted by the low oil and gas prices. They seem to be recovering rapidly as oil and gas prices stabilize.

We are poised for rising interest rates. If rates begin to rise in 2010, it should improve our net interest margins and as a result our net income. We are continuing to hold the line on operating costs and with continued asset growth this policy will produce increased earnings.

Stock Offering

We began a stock offering in November of 2009 in an effort to assure adequate capital for continued growth and to make sure we are prepared for any regulatory capital changes that might be looming on the horizon. I am happy to say that the offering is going very well. It is set to close at the end of February 2010. We appreciate the support each of you are showing as well as the support from the new shareholders we will have after the offering closes.

Thank you for your support as customers and as shareholders. We hope the new year has started well for each of you.

Sincerely,

Ken L. Burgess, Jr.
CEO

Financial Highlights

At and For the Twelve Months Ended December 31,

	<u>2009</u>	<u>2008</u>	<u>Change</u>
	(In Thousands)		
Total Assets	\$ 376,334	\$ 315,958	19.11%
Average Assets	342,025	275,882	23.98%
Investments*	86,127	50,672	69.97%
Loans, net	264,756	242,952	8.97%
Deposits	339,860	282,746	20.20%
Shareholders' Equity	29,881	25,988	14.98%
Interest Income	17,408	16,172	7.64%
Interest Expense	3,266	3,891	-16.06%
Net Income	\$ 2,288	\$ 2,010	13.83%
Per Share Data:			
Net Income**	\$ 0.33	\$ 0.28	
Book Value**	\$ 4.32	\$ 3.95	
Ratios:			
Return on Average Assets	0.68%	0.73%	
Return on Shareholders' Equity	8.27%	8.64%	
Net Interest Margin (tax equivalent basis)	4.40%	4.80%	
Number of Shareholders (of record)**	267	252	

*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)

	December 31,	
	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Assets		
CASH AND DUE FROM BANKS	\$ 10,485	\$ 9,300
INVESTMENTS:		
Municipal securities	10,584	8,681
U.S. gov't agencies	499	9,044
Mortgage backed securities	27,827	27,356
Due from bank certificates of deposit	-	-
Due from bank money market account	41,413	4,661
Federal Reserve Bank stock	604	574
Federal Home Loan Bank stock	228	156
Independent Bank Capital Fund	38	-
Texas Independent Bankers Bank Stock	200	200
Total Investments	81,393	50,672
FEDERAL FUNDS SOLD	4,734	-
LOANS:		
Real estate	157,435	120,064
Secondary mortgage	8,096	6,751
Commercial, industrial, and agricultural	81,801	103,852
Government entities	6,152	3,411
Consumer	14,376	12,197
Other	55	34
Total Loans	267,915	246,309
Less - Allowance for possible loan losses	(3,159)	(3,357)
Loans, net	264,756	242,952
BANK PREMISES AND EQUIPMENT, NET	10,019	10,587
OTHER ASSETS	4,947	2,447
TOTAL ASSETS	\$ 376,334	\$ 315,958
Liabilities & Shareholders' Equity		
DEPOSITS:		
Demand	\$ 93,289	\$ 87,829
NOW Accounts	26,030	23,718
Savings	5,860	5,490
Time	164,181	154,292
CDARS	50,500	11,417
Total Deposits	339,860	282,746
SHORT-TERM BORROWINGS		
Federal funds purchased	-	-
Securities sold under agreement to repurchase	5,821	6,345
Federal Home Loan Bank borrowings	-	-
Total short-term borrowings	5,821	6,345
ACCRUED EXPENSES AND OTHER LIABILITIES	772	879
Total Liabilities	346,453	289,970
SHAREHOLDER'S EQUITY		
Common Stock	3,096	3,096
Surplus	17,546	16,046
Retained earnings	9,239	6,846
Total shareholders' equity	29,881	25,988
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 376,334	\$ 315,958

Statement of Income

For the Twelve Months Ended December 31,

First National Bank of Midland

(Unaudited Bank Subsidiary Only)

	<u>2009</u>	<u>2009</u>
	(In Thousands)	
Interest Income:		
Interest and fees on loans	\$ 15,544	\$ 14,053
Interest on investment securities	1,688	1,938
Interest on Federal funds sold	25	89
Other interest income	151	92
TOTAL INTEREST INCOME	<u>17,408</u>	<u>16,172</u>
Interest Expense:		
Deposits	3,210	3,756
Short-term borrowings	56	135
TOTAL INTEREST EXPENSE	<u>3,266</u>	<u>3,891</u>
Net Interest Income	14,142	12,281
Provision for possible loan losses	<u>2,500</u>	<u>1,390</u>
Net Interest Income After Provision For Possible Loan Losses	11,642	10,891
Other Income:		
Mortgage	3,958	2,493
Trust, net	189	217
Other income	872	734
TOTAL OTHER INCOME	<u>5,019</u>	<u>3,444</u>
Other Expenses:		
Salary and employee benefits	7,686	6,825
Building occupancy expense	2,166	1,878
Marketing expense	229	351
Data processing expense	298	280
Other employee expense	231	302
Regulatory expense	773	232
Other operating expense	2,071	1,602
TOTAL OTHER EXPENSES	<u>13,454</u>	<u>11,470</u>
Income Before Income Taxes	3,207	2,865
Provision for income taxes	<u>919</u>	<u>855</u>
NET INCOME	<u>\$ 2,288</u>	<u>\$ 2,010</u>

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

Robin Richey

Sr. Vice President, Secretary to the Board & Trust Administration Officer

Lynne M. Sawyer

Sr. Vice President, Credit Administration & Customer Services 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 Manager

R. Kyle Clifton

Vice President, Cashier & Controller

Debbie K. Glennan

Vice President & Branch Operations Manager

Jeremy M. Bishop

Assistant Vice President & Relationship Manager

Melanie J. Horton

Assistant Vice President & Assistant Controller

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

Rodger L. Horton

Banking Officer & Sr. Credit Analyst

Kathy Mireles

Banking Officer & Midland Market Teller Supervisor

Veronica S. Pyle

Banking Officer & Personal Banker

Michael D. Stoltz

Banking Officer & Sr. Credit Analyst

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

Vice President & Asst. Operations Manager

Dora M. Evans

Assistant Vice President & Executive Assistant

Landon M. Gann

Assistant Vice President & Relationship Manager

Kenneth L. Burgess, III

Banking Officer & Sr. Credit Analyst

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

Lisha F. King

Vice President & Branch Operations Manager

Cindi Lea

Vice President & Lubbock Mortgage Manager

Beverly R. Holland

Assistant Vice President & Executive Assistant

Raina Keneda

Assistant Vice President & Executive Assistant

Brady Campbell

Banking Officer & Sr. Credit Analyst

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