

First Bancshares of Texas

1st Quarter 2010 Shareholders' Report



Midland * Lubbock * Amarillo

1st Quarter 2010 – Shareholder’s Report

It is with great confidence and enthusiasm that the officers and directors of your First Bancshares of Texas announce a new name for First National Bank of Midland, First Bank of Texas of Amarillo and First Texas Bank of Lubbock.

We have chosen the name “FirstCapital Bank of Texas” to lead us forward.

Our new name was chosen for several reasons:

- 1) It retains the common element of the word “First” that all our banks share.
- 2) It is not in use anywhere in the state of Texas, allowing us to trademark this identity.
- 3) It is distinctive. There is a First National Bank in almost every town, while FirstCapital will be ours alone.

Under this new brand, we can at last bring together all our locations and reflect our identity as a strong united family.

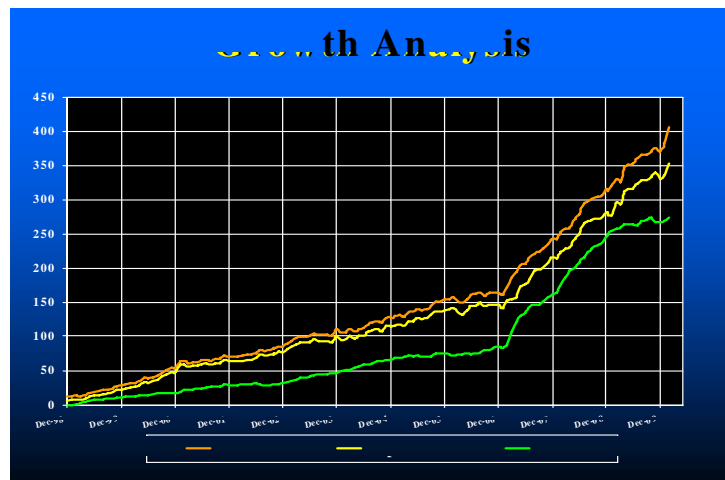
Our unique name will allow future expansion into new markets and will provide significant savings in communication and advertising costs. Instead of having to provide personalized messages and brochures in three different versions, only one set of materials will be produced at a significant cost savings. The same holds true for television and radio spots, print advertisements and web sites.

Best of all, the only thing that has changed is our name. Ownership, direction and operations will remain consistent, as will our commitment to provide excellence in all we do. We can now better promote the fact that we are the only independent bank located in all three of the major West Texas markets, Midland/Odessa, Lubbock and Amarillo.

The effective date of the name change will be July 1, 2010. You can expect to see the name change begin to show up in our signage, correspondence and many other areas over the next few months.

1st Quarter Review

We continued to see strong growth in our assets during the 1st quarter of 2010. Total Assets increased from \$330 million at March 31, 2009 to \$406 million at March 31, 2010, an increase of 23%. Along the same lines, deposits, the driver of asset growth increased from \$296 million at March 31, 2009 to



\$364 million at March 31, 2010, an increase of 22.8%.

Loans increased from \$258 million at March 31, 2009 to \$275 million at March 31, 2010, an increase of 6.74%. Management intentionally slowed loan growth about 18 months ago to lower our loan deposit ratio and to increase liquidity as the economy goes through its adjustment.

The growth rates we have seen over the past four years have allowed the Company to more than double its size year end 2006. The graph above shows the significant shift in our rate of growth that began in early 2007. The chart has been updated through March of 2010 and you can see that the rate of growth remains on the trend established in 2007.

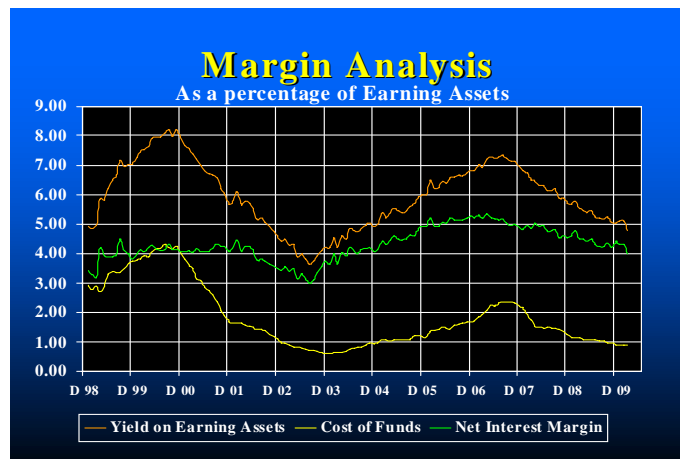
Stock Offering

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 may be looming on the horizon. I am happy to say that the offering went very well. We closed the offering on March 15, 2010 and raised about \$11.8 million in new capital. This new capital puts the Company in a very strong position as we continue our growth and continue to build franchise value.

Earnings Performance

Earnings for the 1st quarter were \$398 thousand, down from \$568 thousand in the 1st quarter of 2009. There were several reasons for the decline, most of which were one time events and should not burden the Company during the remainder of the year. The major items driving the reduced earnings were:

1. An increase in loan loss provision expense from \$475 thousand in 2009 to \$700 thousand in 2010. The increase was due to the final cleanup of two problem loans which arose during late 2008 and throughout 2009. The exposure in these two relationships has now been fully realized and will not impact earnings moving forward.
2. Net Interest income, while higher on an absolute basis from 2009, is lower as a percentage of assets than we have seen in the last few years. The low level of interest rates at the present time makes it difficult for banks to maintain historical net interest spreads. The graph



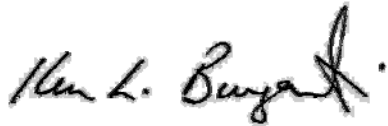
above reflects the decline in the net interest margin which coincides with the drop in interest rates over the last two years. We expect improvement in net interest income over the remainder of the year as we continue to lower our funding costs and improve our mix of earning assets. When interest rates begin to rise, the Company is poised to benefit significantly.

3. Regulatory expenses, primarily FDIC Insurance expense, was \$170 thousand for the 1st quarter of 2010 vs. \$73 thousand for the prior year. This area of expense is not a one time occurrence. It is an expense all banks will have to absorb and offset in other ways for the next several years as the banking industry works through the events of the last two years.
4. Revenue from our mortgage operation was \$653 thousand for the 1st quarter of 2010, down from \$795 thousand for the 1st quarter of 2009. This reduction was due to slightly higher interest rates in 2010 vs. 2009 and a slowdown in the housing market from last year. We are seeing a significant resurgence in the 2nd quarter and expect that full year mortgage revenue will meet our budget projections.

All this being said, we expect much stronger earnings for the remainder of the year. We expect earnings for the 2nd quarter of the year to be in the \$750 thousand range and quarterly earnings for the remaining two quarters to be above that level.

Thank you for your support.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken L. Burgess, Jr.", with a stylized flourish at the end.

Ken L. Burgess, Jr.
CEO

Financial Highlights

At and For the Three Months Ended March 31,

	<u>2010</u>	<u>2009</u>	<u>Change</u>
	(In Thousands)		
Total Assets	\$ 405,845	\$ 329,818	23.05%
Average Assets	378,611	313,667	20.70%
Investments*	107,180	53,666	99.72%
Loans, net	271,924	253,784	7.15%
Deposits	363,723	296,019	22.87%
Shareholders' Equity	35,368	26,646	32.73%
Interest Income	4,418	4,148	6.51%
Interest Expense	763	801	-4.74%
Net Income	\$ 398	\$ 568	-29.93%
Per Share Data:			
Net Income**	\$ 0.04	\$ 0.07	
Book Value**	\$ 4.68	\$ 4.05	
Ratios:			
Return on Average Assets	0.42%	0.74%	
Return on Shareholders' Equity	5.05%	8.88%	
Net Interest Margin (tax equivalent basis)	4.19%	4.62%	
Number of Shareholders (of record)**	370	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)

	March 31,		December 31,
	<u>2010</u>	<u>2009</u>	<u>2009</u>
		(In Thousands)	
Assets			
CASH AND DUE FROM BANKS	\$ 11,269	\$ 8,647	\$ 10,485
INVESTMENTS:			
Municipal securities	11,618	8,253	10,584
U.S. gov't agencies	500	5,515	499
Mortgage backed securities	31,468	26,661	27,827
Due from bank certificates of deposit	-	-	-
Due from bank money market account	48,854	7,906	41,413
Federal Reserve Bank stock	769	574	604
Federal Home Loan Bank stock	229	557	228
Independent Bank Capital Fund	73	-	38
Texas Independent Bankers Bank Stock	200	200	200
Total Investments	93,711	49,666	81,393
FEDERAL FUNDS SOLD	13,469	4,000	4,734
LOANS:			
Real estate	164,247	127,980	157,435
Secondary mortgage	6,639	10,379	8,096
Commercial, industrial, and agricultural	83,329	101,894	81,801
Government entities	6,090	3,274	6,152
Consumer	14,634	13,945	14,376
Other	39	136	55
Total Loans	274,978	257,608	267,915
Less - Allowance for possible loan losses	(3,054)	(3,824)	(3,159)
Loans, net	271,924	253,784	264,756
BANK PREMISES AND EQUIPMENT, NET	9,857	10,576	10,019
OTHER ASSETS	5,615	3,145	4,947
TOTAL ASSETS	\$ 405,845	\$ 329,818	\$ 376,334
Liabilities & Shareholders' Equity			
DEPOSITS:			
Demand	\$ 99,391	\$ 83,858	\$ 93,289
NOW Accounts	27,153	23,099	26,030
Savings	7,108	6,363	5,860
Time	177,111	148,962	164,181
CDARS	52,960	33,737	50,500
Total Deposits	363,723	296,019	339,860
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	5,635	6,311	5,821
Federal Home Loan Bank borrowings	-	-	-
Total short-term borrowings	5,635	6,311	5,821
ACCRUED EXPENSES AND OTHER LIABILITIES	1,119	842	772
Total Liabilities	370,477	303,172	346,453
SHAREHOLDER'S EQUITY			
Common Stock	3,096	3,096	3,096
Surplus	22,546	16,046	17,546
Retained earnings	9,726	7,504	9,239
Total shareholders' equity	35,368	26,646	29,881
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 405,845	\$ 329,818	\$ 376,334

Statement of Income

For the Three Months Ended March 31,

First National Bank of Midland

(Unaudited Bank Subsidiary Only)

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Interest Income:		
Interest and fees on loans	\$ 3,965	\$ 3,674
Interest on investment securities	380	466
Interest on Federal funds sold	12	0
Other interest income	61	8
TOTAL INTEREST INCOME	<u>4,418</u>	<u>4,148</u>
Interest Expense:		
Deposits	755	779
Short-term borrowings	8	22
TOTAL INTEREST EXPENSE	<u>763</u>	<u>801</u>
Net Interest Income	3,655	3,347
Provision for possible loan losses	<u>700</u>	<u>475</u>
Net Interest Income After Provision For Possible Loan Losses	2,955	2,872
Other Income:		
Mortgage	653	795
Trust, net	39	63
Other income	230	238
TOTAL OTHER INCOME	<u>922</u>	<u>1,096</u>
Other Expenses:		
Salary and employee benefits	1,866	1,883
Building occupancy expense	541	531
Marketing expense	49	62
Data processing expense	80	74
Other employee expense	75	57
Regulatory expense	170	73
Other expenses	569	477
TOTAL OTHER EXPENSES	<u>3,350</u>	<u>3,157</u>
Income Before Income Taxes	527	811
Provision for income taxes	<u>129</u>	<u>243</u>
NET INCOME	\$ 398	\$ 568

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

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

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