



# First Bancshares of Texas, Inc.

## Third Quarter 2006 Newsletter

### To Our Shareholders and Customers

The 3<sup>rd</sup> quarter of this year marked the end of the Federal Reserve tightening cycle that has taken place over the past two plus years. Over the past two years, we have seen interest rates increase by 325 basis points. First Bancshares was positioned for rising interest rates during the entire tightening cycle and the result has been significantly improved earnings. Our challenge going forward is to make sure that our balance sheet is positioned for a declining rate environment that is sure to come.

#### Record Earnings

Earnings for the 3<sup>rd</sup> quarter of 2006 were the highest in the company's history at \$411 thousand dollars. More significantly, the Bank's return on assets for the quarter was 1.02% crossing the important threshold of 1.00% return on assets for the first time. The quarters earnings brought overall earnings for the year to \$989 thousand dollars, surpassing earnings for the full year of 2005. We expect solid earnings for the remainder of 2006 which will make for a very good year.

#### Mortgage Operations

Our entry into the mortgage business is continuing to prove worthwhile. Through the first nine months of the year, the mortgage division has closed \$42 million in residential mortgage loans resulting in \$757 thousand dollars in gross revenue to the bank. The result is net earnings after tax from this division of \$140 thousand for the first 9 months of the year. As we continue to build our presence in the Midland, Odessa and Amarillo markets, we expect solid increases in all of these figures.

#### Looking Ahead

As we move through the rest of this year, our primary focus is on growing the assets of the Bank with a special emphasis on increasing our loan portfolio. Along with this, we are working to improve our operating efficiency so that we can continue to improve bottom line performance.

As always, thank you for your support through your investment and your business.

Sincerely,

Ken L. Burgess, Jr., CEO

### FINANCIAL HIGHLIGHTS

At and For the Nine Months ended September 30

	2006	2005	% Change
	(In Thousands)		
Total Assets	\$ 159,678	\$ 140,445	13.69%
Average Assets	153,603	132,180	16.22%
Investments*	66,893	61,100	9.48%
Loans, net	79,982	70,516	13.42%
Deposits	143,990	127,459	12.97%
Shareholders' Equity	12,009	9,787	22.70%
Interest Income	6,777	5,042	34.41%
Interest Expense	1,527	965	58.24%
Net Income	989	663	49.17%
Per Share Data			
Net Income**	\$0.23	\$0.16	43.75%
Book Value**	\$2.77	\$2.47	12.15%
Ratios:			
Return on Average Assets	0.87%	0.66%	31.82%
Return on Shareholders' Equity	12.07%	9.32%	29.51%
Net Interest Margin (tax equivalent basis)	5.06%	4.44%	13.96%
Number of Shareholders (of record)**	174	175	

\* Includes investment securities, interest bearing deposits and Federal Funds Sold

\*\*Data as of 9/30/2006 at the Bank holding company level. All other data shown is at Bank level.

**FIRST NATIONAL BANK OF MIDLAND**  
**STATEMENT OF CONDITION**

At and For the Nine Months ended September 30

(Unaudited)

Balance Sheet (in thousands)	9/30/2006	9/30/2005
<b>Assets</b>		
Cash and Due from banks	\$ 7,019	\$ 5,406
Investments	61,063	50,516
Federal Funds Sold	5,830	10,485
Loans	79,982	70,516
Less: allowance for loan losses	(1,179)	(1,115)
Net Loans	78,803	69,401
Fixed Assets	5,159	3,288
Other Assets	1,804	1,250
<b>Total Assets</b>	<b>\$ 159,678</b>	<b>\$ 140,445</b>
<b>Liabilities and Capital</b>		
Non interest bearing Deposits	\$ 55,000	\$ 44,429
Interest bearing Accounts	88,990	83,030
Total Deposits	143,990	127,459
FFP & Repo Agreements	3,258	2,799
Other Liabilities	421	400
Total Liabilities	147,669	130,658
Capital	3,096	3,096
Certified Surplus	6,546	5,546
Unrealized G(L) securities AFS	(220)	(154)
Undivided Profits	2,587	1,299
Total Capital	12,009	9,787
<b>Total Liabilities &amp; Capital</b>	<b>\$ 159,678</b>	<b>\$ 140,445</b>
<b>Statement of Earnings (in thousands)</b>		
<b>Operating Income</b>		
Interest and Fees on Loans	\$ 4,597	\$ 3,510
Interest and Dividends on Investments	2,180	1,532
Other Operating Income	1,229	709
Total Operating Income	8,006	5,751
<b>Operating Expense</b>		
Interest Expense	1,527	965
Salaries and Employee Benefits	2,722	1,765
Other Expense	2,350	2,096
Total Operating Expense	6,599	4,826
Earnings Before Inc Taxes & Extra	1,407	925
Applicable Income Taxes	418	262
Earnings Before Extraordinary Items	989	663
Extraordinary Items	0	0
<b>Net Earnings</b>	<b>\$ 989</b>	<b>\$ 663</b>