First Quarter 2021 Shareholders' Report

FIRST BANCSHARES
OF TEXAS, INC.

SHAREHOLDER LETTER

A Message from Ken Burgess

Dear Shareholder,

Thank goodness the country is pulling out of the Coronavirus pandemic which lasted much longer than anyone could predict. The first quarter of 2021 has seen the rollout of multiple Coronavirus vaccines; and, in Texas, a return to "normal" business when Gov. Abbot lifted pandemic restrictions, even as a second wave of Paycheck Protection Program (PPP) loans were being funded. The Bank originated approximately $85.1 million in this second wave of PPP loans during the first quarter. This program continues to provide relief to our customers as our economy re-opens, as well as another avenue of income for the Company in the form of interest and fees.

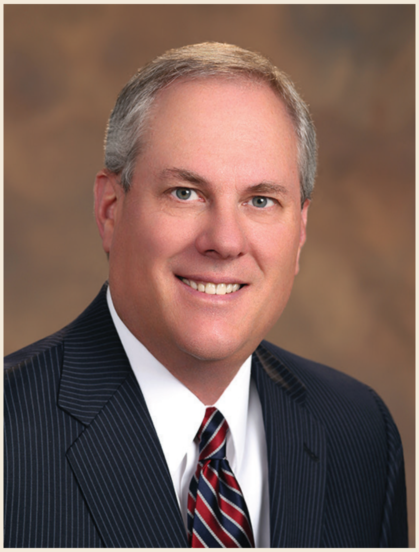
The first quarter of 2021 was successful for the Company. Earnings for the quarter were $6.5 million compared to $4.9 million for the same period in 2020, a 32% increase in earnings period over period. Factors leading to this increase are the $81 million in loan growth since December 31, 2020, centered in both PPP and organic loans, and the recognition of $2.2 million in PPP loan fees. At quarter-end, roughly 61% of the first wave of PPP loans originated in 2020 had received forgiveness from the federal government and $153 million PPP loans remained in our loan portfolio.

The Company ended the quarter with assets of $1.95 billion, a 6% growth from December 31, 2020. Deposits drove this increase, growing 6% or $96 million in the first quarter of 2021.

Other metrics that we continue to monitor are Return on Assets and Earnings Per Share. Return on Assets for the first quarter of 2021 was 1.40% compared to 1.15% in 2020. Earnings were $.39 per share for 2021 vs. $.29 per share for the first quarter of 2020. Both metrics are reflective of the higher income levels experienced thus far in 2021.

The Company continues to implement efficiency measures and we should experience positive improvement to the bottom line from these measures in future quarters of 2021.

Once again, we will be hosting our Annual Shareholder Meeting virtually. Please join us Tuesday, May 18, 2021 if you are able. You have received information in your annual Shareholders' package about registering for this online event. Please refer to your package for the control number specific to you and to the section entitled "Electronic Access to the Virtual Meeting", which will guide you in accessing the meeting.



I hope you and your families are staying well and having the opportunity to get your vaccinations.

Sincerely,

Ken L. Burgess, Jr.

Ken L. Burgess, Jr.
CEO

First Bancshares of Texas, Inc.

Consolidated Statements of Financial Condition

(Dollar amounts in thousands except share and per share data)

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
Assets		
Cash and due from banks	$ 19,165	$ 19,227
Federal funds sold	—	—
Interest-bearing deposits in banks	152,592	160,719
Cash and cash equivalents	171,757	179,946
Securities available for sale	75,067	36,144
Securities held to maturity (fair value is $39,095 and $42,207 at March 31, 2021 and December 31, 2020, respectively)	37,848	41,129
Equity securities (at fair value)	326	220
Restricted investments carried at cost	6,111	6,106
Loans held for sale	1,892	1,959
Loans, net of allowance for loan losses of $21,761 and $20,799 at March 31, 2021 and December 31, 2020, respectively	1,506,475	1,426,732
Premises and equipment, net	23,086	23,750
Right of use asset, net	7,901	8,317
Deferred tax asset, net	5,924	5,860
Cash surrender value of life insurance	37,444	37,202
Goodwill	54,913	54,913
Core deposit intangible	6,001	6,239
Other assets	16,153	16,651
Total assets	$ 1,950,898	$ 1,845,168
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing	596,932	533,720
Interest-bearing	1,035,737	1,002,790
Total deposits	1,632,669	1,536,510
Securities sold under agreements to repurchase	37,069	33,624
Advances from Federal Home Loan Bank	606	620
Subordinated debentures	3,093	3,093
Lease liability	8,293	8,713
Accrued expenses and other liabilities	11,386	10,637
Total liabilities	1,693,116	1,593,197
Shareholders' Equity		
Preferred stock, $1 par value; 5,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	—	—
Common stock, $1 par value; 35,000,000 shares authorized; 16,819,019 and 16,819,019 shares issued at March 31, 2021 and December 31, 2020, respectively	16,819	16,819
Capital surplus	150,553	150,415
Treasury stock, at cost, 44,773 and 58,042 shares at March 31, 2021 and December 31, 2020, respectively	(851)	(1,103)
Retained earnings	90,874	85,208
Accumulated other comprehensive income, net of tax	387	632
Total shareholders' equity	257,782	251,971
Total liabilities and shareholders' equity	$ 1,950,898	$ 1,845,168

First Bancshares of Texas, Inc.
Consolidated Statements of Income
(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	(Unaudited)
Interest Income		
Loans, including fees	$ 20,386	$ 19,831
Debt securities:		
Taxable	329	487
Tax-exempt	137	177
Deposits in other banks	111	649
Federal funds sold	—	30
Other	109	75
Total interest income	21,072	21,249
Interest Expense		
Deposits	1,047	3,374
Subordinated debentures	24	36
Securities sold under agreements to repurchase	52	102
Advances from Federal Home Loan Bank	3	4
Total interest expense	1,126	3,516
Net Interest Income	19,946	17,733
Provision for Loan Losses	861	1,444
Net Interest Income After Provision for Loan Losses	19,085	16,289
Noninterest Income		
Service charges on deposit accounts	283	453
Other service charges and fees	581	502
Gain on sales of loans	96	53
Trust department income	140	161
Net gain (loss) on securities transactions	106	—
Other income	261	708
Total noninterest income	1,467	1,877
Noninterest Expense		
Salaries and employee benefits	7,189	7,260
Occupancy and equipment	1,658	1,747
Professional fees	938	542
IT and data processing	552	492
Advertising	300	368
FDIC assessment	195	41
Other expenses	1,547	1,819
Total noninterest expense	12,379	12,269
Income Before Income Taxes	8,173	5,897
Provision for Income Taxes	1,668	984
Net Income	$ 6,505	4,913

First Bancshares of Texas, Inc.
Consolidated Statements of Income (Continued)
(Dollar amounts in thousands except per share data)

	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	(Unaudited)
Per Share Data:		
Basic earnings per common share	0.39	0.29
Diluted earnings per common share	0.39	0.29
Dividends per share	0.05	0.05

First Bancshares of Texas, Inc.
Consolidated Statements of Comprehensive Income
(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	(Unaudited)
Net Income	$ 6,505	$ 4,913
Other Comprehensive Income (Loss)		
Change in unrealized gains on investment securities available for sale, before tax	(310)	1,007
Tax effect	65	(212)
Other comprehensive income (loss)	(245)	795
Comprehensive Income	$ 6,260	$ 5,708

First Bancshares of Texas, Inc.

Consolidated Statements of Shareholders' Equity

(Dollar amounts in thousands except share and per share data)

(Unaudited)

	Common Stock			Treasury Stock				
	Shares Outstanding	Par Amount	Capital Surplus	Shares Outstanding	Treasury Stock, at Cost	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2020	16,764,075	$ 16,819	$ 149,530	54,944	$ (1,044)	$ 83,426	$ 473	$ 249,204
Net income	—	—	—	—	—	4,913	—	4,913
Net change in other comprehensive income	—	—	—	—	—	—	795	795
Dividends declared and paid	—	—	—	—	—	(837)	—	(837)
Exercise of stock options	2,500	—	(17)	(2,500)	47	—	—	30
Purchases of treasury stock	(21,278)	—	—	21,278	(404)	—	—	(404)
Shares issued in employee stock purchase plan	3,145	—	—	(3,145)	60	—	—	60
Stock-based compensation	—	—	203	—	—	—	—	203
Balance, March 31, 2020	16,748,442	$ 16,819	$ 149,716	70,577	$ (1,341)	$ 87,502	$ 1,268	$ 253,964

	Common Stock			Treasury Stock				
	Shares Outstanding	Par Amount	Capital Surplus	Shares Outstanding	Treasury Stock, at Cost	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2021	16,760,977	$ 16,819	$ 150,415	58,042	$ (1,103)	$ 85,208	$ 632	$ 251,971
Net income	—	—	—	—	—	6,505	—	6,505
Net change in other comprehensive loss	—	—	—	—	—	—	(245)	(245)
Dividends declared and paid	—	—	—	—	—	(839)	—	(839)
Exercise of stock options	9,500	—	(65)	(9,500)	180	—	—	115
Purchases of treasury stock	—	—	—	—	—	—	—	—
Shares issued in employee stock purchase plan	3,769	—	(8)	(3,769)	72	—	—	64
Stock-based compensation	—	—	211	—	—	—	—	211
Balance, March 31, 2021	16,774,246	$ 16,819	$ 150,553	44,773	$ (851)	$ 90,874	$ 387	$ 257,782

First Bancshares of Texas, Inc.
Consolidated Statements of Cash Flows
(Dollar amounts in thousands)

	Three Months Ended March 31, 2021 (Unaudited)	Three Months Ended March 31, 2020 (Unaudited)
Cash flows from operating activities:		
Net income	$ 6,505	$ 4,913
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	675	692
Net accretion on loans	(248)	(881)
Provision for loan losses	861	1,444
Net amortization of securities	40	14
Gain on sales of loans	(96)	(55)
Appreciation in cash surrender value life insurance	(242)	(243)
Net OREO (gains) losses on sales and valuation adjustments	18	(4)
Loss (gain) on disposition of fixed assets	3	(362)
Stock-based compensation	211	203
Amortization of intangible assets	238	274
Origination of loans held for sale	(4,947)	(3,434)
Proceeds from sale of loans originated for sale	5,110	2,961
Net (gain) loss on securities transactions	(106)	—
Net change in operating leases	(5)	(1)
(Increase) decrease in other assets	629	2,675
Increase (decrease) in accrued expenses and other liabilities	748	(241)
Net cash provided by operating activities	9,394	7,955
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	253,777	2,723
Purchases and acquisition of securities available for sale	(293,035)	—
Proceeds from maturities, calls and pay downs of securities held-to-maturity	3,267	4,029
Net change in loans	(80,356)	(12,219)
Net change in restricted investments carried at cost	(5)	(3,322)
Purchases and additions to premises and equipment, net	(20)	(143)
Proceeds from sales of fixed assets	7	1,079
Proceeds from sales of foreclosed assets	(147)	(882)
Acquisitions, net of cash received	—	—
Net cash used in investing activities	(116,512)	(8,735)
Cash flows from financing activities:		
Net increase (decrease) in deposits	96,159	(1,182)
Increase (decrease) in securities sold under agreements to repurchase	3,445	(3,826)
Repayment of Federal Home Loan Bank advances	(14)	(15)
Exercise of stock options	115	30
Purchases of treasury stock	—	(404)
Proceeds from employee stock purchase plan	64	60
Dividends on common stock	(839)	(4,190)
Net cash provided by (used in) financing activities	98,930	(9,529)
Increase (decrease) in Cash and Cash Equivalents	(8,188)	(10,307)
Cash and Cash Equivalents, Beginning of Period	179,946	202,075
Cash and Cash Equivalents, End of Period	$ 171,758	$ 191,768

First Bancshares of Texas, Inc.
Consolidated Statements of Cash Flows
(Dollar amounts in thousands except share data)

	Three Months Ended March 31,	
	2021	2020
	(Unaudited)	(Unaudited)
Supplemental Information		
Interest paid	$ 1,326	$ 3,817
Income taxes paid	—	—

The section presents management's perspective on our financial condition and results of operations. the following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's interim consolidated financial statements and other detailed information appearing in the Company's Annual Report for the year ended December 31, 2019. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes.

Certain of the statements made in this report are “forward-looking statements” within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control and which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “plan,” “point to,” “project,” “predict,” “could,” “intend,” “target,” “potential” and other similar words and expressions of the future. These forward-looking statements may not be realized due to a variety of factors, including, without limitation, the following: general competitive, economic, political and market conditions and fluctuations; movements in interest rates and our expectations regarding net interest margin; expectations on credit quality and performance; competitive pressures on product pricing and services; legislative and regulatory changes; additional competition in our markets; changes in state and federal banking laws and regulations to which we are subject; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; potential business strategies, including acquisitions or dispositions of assets or internal restructuring, that may be pursued by us; the successful integration of acquired businesses on a timely basis; the timely realization of expected cost savings and any revenue synergies from acquisition transactions; our outlook and long-term goals for future growth; weather events, natural disasters, geopolitical events, public health crises and other catastrophic events; and other factors discussed in our filings with the SEC under the Exchange Act.

All written or oral forward-looking statements that are made by or are attributable to us are expressly qualified in their entirety by this cautionary notice. Our forward-looking statements apply only as of the date of this report or the respective date of the document from which they are incorporated herein by reference. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date of this report, or after the respective dates on which such statements otherwise are made, whether as a result of new information, future events or otherwise.

Overview

First Bancshares of Texas, Inc. is a financial holding company for FirstCapital Bank of Texas, N.A, and is headquartered in Midland, Texas. FirstCapital Bank was chartered in November 1998, and First Bancshares was formed in February 2002. The bank has 16 branches, and serves six markets in Amarillo, Dallas, the Hill Country, Lubbock, Midland, and Wichita Falls.

Through our wholly owned bank subsidiary, we offer traditional banking services, mortgage loans, trust services, and private banking services. Our traditional banking offerings include a full suite of lending and deposit products and services focused on our local market areas. Our varied geographical locations across Texas offers diversification within our asset base. We generate most of our revenue from interest on loans and investments, and supplement with income from trust fees, fees from the sale of mortgage loans and service charges on our deposits. Our primary source of funding for our loans and investments are deposits held by our bank subsidiaries. Our largest expenses are interest on these deposits, salaries and related employee benefits. At March 31, 2021, the Company had consolidated total assets of $1.95 billion, total loans of $1.53 billion, total deposits of $1.63 billion, and total stockholders' equity of $257.8 million.

Critical Accounting Policies

The consolidated financial statements are prepared based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

The following discussion addresses (1) our allowance for loan losses and its provision for loan losses and (2) our valuation of securities, which we deem to be our most critical accounting policies. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The allowance is an amount management believes is appropriate to absorb estimated inherent losses on existing loans that are deemed uncollectible based upon management’s review and evaluation of the loan portfolio. The allowance for loan losses is primarily comprised of three elements: (i) specific reserves determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans; (ii) general reserves determined in accordance with current authoritative accounting guidance that consider historical loss rates; and (iii) qualitative reserves determined in accordance with current authoritative accounting guidance based upon general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management’s periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and impaired loans, is multiplied by the Company's historical loss rate. The Company's methodology is constructed so that specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase in risk of loss. In addition, the Company adjusts our allowance for qualitative factors such as current local economic conditions and trends, including unemployment, lending staff, policies and procedures, credit concentrations, trends and severity of problem loans and trends in volume and terms of loans. This additional allocation based on qualitative factors serves to compensate for additional areas of uncertainty inherent in our portfolio that are not reflected in our historic loss factors.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A downturn in the economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan loss provisions and reductions in income. Additionally as an integral part of their examination process, bank regulatory agencies periodically review our allowance for loan losses. The bank regulatory agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

Accrual of interest is discontinued on a loan and payments applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Generally, all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

Loans are considered impaired when, based on current information and events, it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

The Company's policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan's observable market price.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow.

Valuation of Securities

Management classifies debt and equity securities as held-to-maturity or available-for-sale, based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at estimated fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported as a separate component of shareholders' equity. Available-for-sale securities that have unrealized losses that are judged other than temporary are included in gain (loss) on sale of securities and a new cost basis is established.

Fair value of these securities is determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates and yield curves. Fair values for our investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the marketplace as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost and depending on the length of time the condition exists and the extent the fair market value is below amortized cost, additional analysis is performed to determine whether another-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) whether we have the intent to sell our securities before recovery or maturity, (ii) whether it is more likely than not that we will have to sell our securities before recovery or maturity, (iii) the length of time and extent to which the fair value has been less than costs, and (iv) the financial condition of the issuer. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment.

If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing matrices. The Company's investment portfolio consists of traditional investments, substantially all in U.S. Treasury securities, obligations of U.S. government-sponsored enterprises and agencies, mortgage pass-through securities, and general obligation or revenue based municipal bonds. Pricing for such securities is relatively straightforward and generally not difficult to obtain.

Guidance on Non-TDR Loan Modifications due to COVID-19

In April 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System (the "FRB") and the Federal Deposit Insurance Corporation (the "FDIC"), issued a revised interagency statement encouraging financial institutions to work with customers affected by the coronavirus pandemic ("COVID-19") and providing additional information regarding loan modifications. The revised interagency statement clarifies the interaction between the interagency statement issued on March 22, 2020 and the temporary relief provided by Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Section 4013 of the CARES Act allows financial institutions to suspend the requirements to classify certain loan modifications as TDRs. The revised statement also provides supervisory interpretations on past due and nonaccrual regulatory reporting of loan modification programs and regulatory capital.

This interagency guidance is expected to reduce the number of TDRs that will be reported in future periods; however, the amount is indeterminable and will depend on future developments, which are highly uncertain and cannot be accurately predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

Impact and Response to the COVID-19 Pandemic

The Company has locations and personnel in multiple cities across Texas. Many of these cities have intermittently placed significant restrictions on companies and individuals since March 2020 as a result of the COVID-19 pandemic. As a financial institution, the Company is considered an essential business and therefore continue to operate on a modified basis to comply with governmental restrictions and public health guidelines. Our pandemic committee meets frequently to assess changing conditions, and determine the most appropriate protocols for each branch location, in regards to COVID-19.

The Company also enacted its disaster relief program, which allows various extensions for borrowers impacted by the COVID-19 outbreak. Additionally, the Company participated in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") and approximately $152.9 million in loans under the program were outstanding at March 31, 2021 . These loans bear interest at 1% and have two and five year terms ($67.8 million and $85.1 million, respectively), depending on the date of origination. These loans also earn an origination fee, paid by the SBA when the loan is funded. The origination fee is based on loan amount, and accreted over 24 and 15 months for loans generated in 2020 and 2021, respectively, or until the loan is forgiven.

The COVID-19 pandemic materially impacted the allowance for credit losses and related provision for credit losses during 2020. Decreased oil prices, and COVID-19 related business interruptions were the primary drivers of the Company's provision for credit losses. Coming in to 2021, the Company felt it was adequately reserved and has not taken excess provision expense above expected levels during the first quarter.

First Quarter 2021 Overview

Net income available to common shareholders for the three months ended March 31, 2021 was $6.5 million, or $0.39 per diluted share, compared to net income available to common shareholders for the three months ended March 31, 2020 was $4.9 million, or $0.29 per diluted share. For the three months ended March 31, 2021, our return on average common equity was 10.31% and our return on average assets was 1.40%.

At March 31, 2021, the Company had consolidated total assets of $1.95 billion, and total loans of $1.53 billion, compared to total assets of $1.85 billion, and total loans of $1.45 billion at December 31, 2020.

At March 31, 2021, the Company had total liabilities of $1.69 billion, including total deposits of $1.63 billion, compared to total liabilities of $1.59 billion, including total deposits of $1.54 billion at December 31, 2020.

At March 31, 2021, total stockholders' equity was $257.8 million, compared to total stockholders' equity of $252.0 million, at December 31, 2020. Community bank leverage ratio ("CBLR") remained strong at 10.43% as of March 31, 2021.

2021 Items of Note

Share Repurchase

At March 31, 2021, the Company had 44,773 shares of treasury stock totaling approximately $0.9 million. These shares were purchased through privately negotiated transactions in the fourth quarter of 2019 and the first quarter of 2020 at $19 per share. No additional shares were purchased in the first quarter of 2021.

Dividends

In the first quarter of 2021, the Company paid a regular quarterly dividend of $0.05 per share.

2020 Items of Note

Share Repurchase

At December 31, 2020, the Company had 58,042 shares of treasury stock totaling approximately $1.1 million. These shares were purchased through privately negotiated transactions in the fourth quarter of 2019 and the first quarter of 2020 at $19 per share.

Dividends

In 2020, the Company paid regular quarterly dividends of $0.05 per share per quarter plus a special dividend of $0.75 per share in the fourth quarter.

First Bancshares of Texas, Inc.
Management's Discussion and Analysis of Financial Condition
Financial Highlights

(dollars in thousands, except for per share data)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Income Statement Data:		
Interest income	$ 21,072	$ 21,249
Interest expense	1,126	3,516
Net interest income	19,946	17,733
Provision for loan losses	861	1,444
Net interest income after provision for loan losses	19,085	16,289
Noninterest income	1,467	1,877
Noninterest expense	12,379	12,269
Net income before income taxes	8,173	5,897
Income tax expense	1,668	984
Net income	$ 6,505	$ 4,913
Per Share Data:		
Basic earnings per common share	$ 0.39	$ 0.29
Diluted earnings per common share	$ 0.39	$ 0.29
Weighted average shares outstanding - basic	16,769,226	16,749,522
Weighted average shares outstanding - diluted	16,822,972	16,794,535
Performance ratios - annualized:		
Return on average assets	1.40 %	1.15 %
Return on average total equity	10.31 %	7.83 %
Return on average common equity	10.31 %	7.83 %
Return on average tangible common equity(1)	13.49 %	10.35 %
Yield on loans(2)	5.57 %	6.19 %
Cost of interest bearing deposits	0.42 %	1.43 %
Cost of total deposits	0.28 %	0.97 %
Cost of total funds	0.28 %	0.96 %
Net interest margin(2)	4.69 %	4.54 %
Efficiency ratio	58.10 %	62.56 %
Net noninterest expense to average assets	2.38 %	2.42 %

(dollars in thousands, except for per share data)	March 31, 2021	December 31, 2020
Balance Sheet Data:		
Total assets	$ 1,950,898	$ 1,845,168
Cash and cash equivalents	171,757	179,946
Investment securities	112,915	77,273
Loans, held for investment, net	1,506,475	1,426,732
Total liabilities	1,693,116	1,593,197
Noninterest-bearing deposits	596,932	533,720
Interest-bearing deposits	1,035,737	1,002,790
FHLB advances	606	620
Subordinated debentures	3,093	3,093
Total stockholders' equity	257,782	251,971
Per share data:		
Book value per common share	$ 15.37	$ 15.03
Tangible book value per common share[1]	$ 11.81	$ 11.46
Shares outstanding end of period	16,774,246	16,764,075
Asset quality ratios:		
30-89 days past due to total loans	0.41 %	0.29 %
Nonperforming assets to total loans	1.87 %	2.01 %
Nonperforming assets to total assets	1.46 %	1.58 %
Allowance for loan losses to nonperforming loans	76.20 %	71.33 %
Allowance for loan losses to total loans	1.42 %	1.43 %
Net charge-offs to average loans[3]	(0.01)%	0.29 %
Capital ratios:		
Community bank leverage ratio	10.43 %	10.08 %
Total stockholders' equity to total assets	13.21 %	13.66 %
Tangible common stockholders' equity ratio[1]	10.42 %	10.70 %

(1) The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The non-GAAP measures used by the Company include the following:
- "*Tangible common equity*" is defined as common stockholders' equity less goodwill and other intangible assets.
- "*Total tangible assets*" is defined as total assets less goodwill and other intangible assets.
- "*Tangible book value per common share*" is defined as tangible common stockholders' equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.
- "*Tangible common stockholders' equity ratio*" is defined as the ratio of tangible common stockholders' equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to-period in common equity and total assets, each exclusive of changes in intangible assets.
- "*Return on average tangible common equity*" is defined as net income available to common stockholders divided by average tangible common stockholders' equity.

(2) Performance ratios include discount accretion on purchased loans for the periods presented as follows:

	Three Months Ended March 31,	
(dollars in thousands)	**2021**	**2020**
Loan discount accretion	(248)	(881)

(3) Net charge-offs to average loans ratios are for the year ended March 31, 2021 and December 31, 2020.

Results of Operations

Three months ended March 31, 2021 compared with three months ended March 31, 2020

Net Income

The Company earned net income of $6.5 million for the three months ended March 31, 2021 compared to $4.9 million for the three months ended March 31, 2020, an increase of $1,592 thousand.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest earning assets, including loans and securities, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest earning assets and interest bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a "volume change." It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing liabilities, referred to as a "rate change."

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The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense on average interest bearing liabilities three months ended March 31, 2021 and March 31, 2020.

	Three Months Ended March 31,					
	2021			2020		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Interest bearing deposits in banks	$ 148,348	$ 111	0.30 %	$ 167,254	$ 649	1.56 %
Federal Funds Sold	—	—	— %	7,932	30	1.50 %
Taxable securities	62,595	329	2.13 %	80,702	487	2.43 %
Tax-exempt securities	21,263	137	2.62 %	23,043	177	3.09 %
Restricted investments carried at cost	6,106	76	5.05 %	4,576	47	4.09 %
Investments in Partnerships	3,836	33	3.52 %	3,701	28	3.08 %
Loans	1,484,622	20,386	5.57 %	1,289,152	19,831	6.19 %
Total interest earning assets	1,726,770	21,072	4.95 %	1,576,360	21,249	5.42 %
Noninterest earning assets:						
Cash and due from banks	25,382			17,977		
Allowance for loan losses	(21,141)			(15,420)		
Premises and equipment, net	23,490			25,996		
Accrued interest receivable and other assets	125,421			119,972		
Total assets	$ 1,879,922			$ 1,724,885		
Interest bearing liabilities:						
Deposits:						
Interest Bearing DDA & MMA	$ 416,502	$ 282,215	0.27 %	$ 338,186	$ 557,369	0.66 %
Savings	126,695	66,398	0.21 %	100,771	123,812	0.49 %
Certificates of Deposit	467,557	698,830	0.61 %	511,697	2,693,599	2.12 %
Total interest bearing deposits	1,010,754	1,047	0.42 %	950,654	3,374	1.43 %
Repurchase Agreements	36,840	52	0.57 %	32,673	102	1.25 %
Advances from FHLB	611	3	2.30 %	668	4	2.25 %
Subordinated debentures	3,093	24	3.11 %	3,093	36	4.65 %
Total interest bearing liabilities	1,051,298	1,126	0.43 %	987,088	3,516	1.43 %
Noninterest bearing deposits	554,064			469,176		
Total deposits	1,605,362			1,456,263		
Accrued expenses and other liabilities	18,600			16,411		
Total liabilities	1,623,962			1,472,674		
Total shareholders' equity	255,960			252,211		
Total liabilities and shareholders' equity	$ 1,879,922			$ 1,724,885		
Net interest income		$ 19,946			$ 17,733	
Net interest spread			4.51 %			3.99 %
Net interest margin			4.69 %			4.54 %

The Company earned net interest income of $19.9 million for the three months ended March 31, 2021, compared to $17.7 million in the three months ended March 31, 2020, an increase of $2.2 million or 12.5%.

Interest income decreased $178 thousand or 0.8%, in the three months ended March 31, 2021, compared to the three months ended March 31, 2020. As of March 31, 2021, the Company has processed $260 million in SBA PPP loans with $175 million booked throughout second, third, and fourth quarters of 2020 and $85 million booked in the first quarter of 2021. $107 million has been forgiven as of March 31, 2021, leaving $153 million on the balance sheet. These loans bear interest at 1%. As of March 31, 2021, the Company earned $2.2 million in fees on PPP loans, compared to $0 for the three months ended March 31, 2020. Interest income also includes discount accretion on acquired loan portfolios. The Company recognized discount accretion of $248 thousand for the three months ended March 31, 2021, compared to $881 thousand in the three months ended March 31, 2020.

Interest expense decreased $2.4 million or 68.0%, in the three months ended March 31, 2021, compared to the three months ended March 31, 2020. This decrease is attributable to management's swift action on deposit pricing as rates fell in early 2020.

The following table shows the effects that changes in average balances (volume) and average interest rates (rate) had on the interest earned on our interest earning assets and the interest incurred on our interest bearing liabilities for the three months ended March 31, 2021 and March 31, 2020.

	Three Months Ended March 31,		
	2021 vs. 2020		
(Dollars in thousands)	**Rate**	**Volume**	**Net Increase**
Interest earning assets:			
Interest bearing deposits in banks	$ (524)	$ (14)	$ (538)
Federal Funds Sold	(30)	—	(30)
Taxable securities	(63)	(95)	(158)
Tax-exempt securities	(29)	(11)	(40)
Restricted investments carried at cost	10	19	29
Investments in Partnerships	4	1	5
Loans	(2,129)	2,684	555
Total interest income	(2,761)	2,584	(177)
Interest bearing liabilities:			
Deposits:			
Interest Bearing DDA & MMA	(328)	53	(275)
Savings	(72)	14	(58)
Certificates of Deposit	(1,928)	(66)	(1,994)
Total interest bearing deposits	(2,328)	1	(2,327)
Repurchase Agreements	(56)	6	(50)
Advances from FHLB	—	(1)	(1)
Subordinated debentures	(12)	—	(12)
Total interest expense	(2,396)	6	(2,390)
Change in net interest income	$ (365)	$ 2,578	$ 2,213

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgement, is required to maintain the allowance for loan and lease losses ("ALLL") at an appropriate level to absorb estimated incurred losses in the loan portfolio at the balance sheet date. The determination of the amount of the allowance is complex and involves a high degree of judgement and subjectivity.

Our ALLL was $21.8 million as of March 31, 2021 compared to $20.8 million as of December 31, 2020 and $16.6 million as of March 31, 2020, representing an ALLL to total loans ratio of 1.42%, 1.43%, and 1.28%, respectively.

Our provision for loan losses was $861 thousand for the three months ended March 31, 2021, compared to $1.4 million for the three months ended March 31, 2020, a decrease of $583 thousand, or 40.4%.

Economic uncertainty produced by the COVID-19 pandemic, as well as the impact on crude oil prices, are the primary external factors that influenced the increased provision expense in 2020.

During the three months ended March 31, 2021, loans held for sale decreased by $67 thousand and loans increased by $80.7 million. Net recoveries for the three months ended March 31, 2021 were $102 thousand, compared to net charge offs of $67 thousand for the three months ended March 31, 2020.

Noninterest Income

The following table presents our major categories of noninterest income:

	Three Months Ended March 31,			
(Dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**
Service charges on deposit accounts	$ 283	$ 453	$ (170)	(37.5)%
Other service charges and fees	581	502	79	15.7 %
Gain on sales of loans	96	53	43	81.1 %
Trust department income	140	161	(21)	(13.0)%
Net gain (loss) on securities transactions	106	—	106	— %
Other income	261	708	(447)	(63.1)%
Total noninterest income	$ 1,467	$ 1,877	$ (410)	(21.8)%

Noninterest income decreased $(410) thousand or (21.8)%. Changes in selected components of noninterest income in the above table are discussed below.

- *Service charges on deposit accounts* - Service charges on deposit accounts, including overdraft and non-sufficient funds fees, decreased $170 thousand or 37.5%. This is largely attributed to the continued reduction in transactional activity of customers due to COVID-19.
- *Other service charges and fees* - Other service charges and fees increased $79 thousand, or 15.7%.
- *Net gain (loss) on securities transactions* - Net gain (loss) on securities transactions increased $106 thousand, due to a gain recorded in marking equity securities to market value.
- *Other income* - Other noninterest income includes income associated with bank-owned life insurance, post acquisition loan recoveries, net gains and losses on special assets and other miscellaneous activities. Other noninterest income decreased $447 thousand, or 63.1%. This decrease is attributable to gains recorded on the sale of bank assets in the first quarter of 2020.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Three Months Ended March 31,			
(Dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**
Salaries and employee benefits	$ 7,189	$ 7,260	$ (71)	(1.0)%
Occupancy and equipment	1,658	1,747	(89)	(5.1)%
Professional fees	938	542	396	73.1 %
IT and data processing	552	492	60	12.2 %
Advertising	300	368	(68)	(18.5)%
FDIC assessment	195	41	154	375.6 %
Other expenses	1,547	1,819	(272)	(15.0)%
Total noninterest expense	$ 12,379	$ 12,269	$ 110	0.9 %

Noninterest expense increased $110 thousand, or 0.9%. Changes in selected components of noninterest income in the above table are discussed below.

- *Salaries and employee benefits* - Salaries and employee benefits decreased $71 thousand, or 1.0%.
- *Professional fees* - Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $396 thousand, or 73.1%.
- *IT and data processing* - IT and data processing expenses increased $60 thousand, or 12.2%.
- *Advertising* - Advertising expenses decreased $68 thousand, or 18.5%, primarily due a decrease in overall external marketing opportunities as a result of the COVID-19 pandemic.
- *Other expenses* - Other expenses include software maintenance, intangible asset amortization, director and committee fees, bank subscriptions and memberships, special asset expenses, postage, insurance, and employee expenses. Other noninterest expenses decreased $272 thousand or 15.0%.

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, and the amount of tax-exempt income maintained against deferred tax benefits. Income tax expense increased $684 thousand, or 69.5%, for the three months ended March 31, 2021 when compared to the three months ended March 31, 2020 and is directly related to increased earnings.