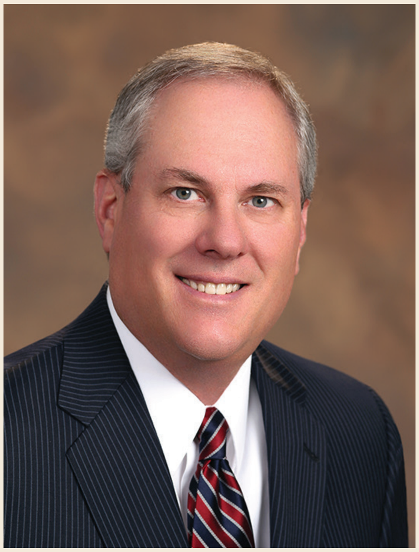
Second Quarter 2021 Shareholders' Report

FIRST BANCSHARES
OF TEXAS, INC.

SHAREHOLDER LETTER

A Message from Ken Burgess



Dear Shareholder,

I am very happy to report that the Company has finished the strongest quarter in terms of earnings in its history. Earnings were $7.4 million in the 2nd quarter as compared to $3.1 million for the same period in 2020. Of course, the 2nd quarter of 2020 was in the middle of the pandemic outbreak which had some negative impact, but we, as a nation and a Company, have come back strong from that time. For the six months ended June 30, 2021, the Company earned $13.9 million as compared to $8.0 million for the same period last year, representing an increase of 73%.

Earnings per share for the first six months of 2021 were $.83 vs. $.48 for the same period in 2020, an increase of 73%. The Company paid dividends of $.10 per share during the period.

Total assets of the Company increased from $1.845 billion at December 31, 2020 to $1.966 billion as of June 30, 2021. This represents growth of 6.5% or an annualized rate of almost 13%.

We are seeing improvement in many of our small business loans as they have been able to gear back up and improve sales. The energy, hospitality and retail sectors, which were particularly adversely impacted by the pandemic, have all seen marked improvement since the beginning of 2021. Customers in these sectors are experiencing improvements in operating performance, which translates to improved ability to perform on their credits. The Company worked with businesses during the pandemic to reduce or defer payments on loans until conditions improved and this has allowed many businesses to navigate through the storm. Early in 2021, we also participated in Round 2 of the Payroll Protection Program by making a significant number of loans to our customers under the Federal SBA loan program. As in Round 1, the Company opened the funding of these loans to customers and non-customers alike, and gained a significant number of new customers through the effort.

We are very optimistic about our performance for the remainder of the year as the economy continues to move out of the pandemic.

You will find attached a detailed analysis of the Company's performance for this quarter and for the first half of the year. If you have any questions, please reach out to us and we will be glad to discuss.

I hope each of you and your families are doing well.

Sincerely,

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)

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Assets		
Cash and due from banks	$ 21,007	$ 19,227
Federal funds sold	—	—
Interest-bearing deposits in banks	196,773	160,719
Cash and cash equivalents	217,780	179,946
Securities available for sale	48,676	36,144
Securities held to maturity (fair value is $35,433 and $42,207 at June 30, 2021 and December 31, 2020, respectively)	34,455	41,129
Equity securities (at fair value)	366	220
Restricted investments carried at cost	6,112	6,106
Loans held for sale	317	1,959
Loans, net of allowance for loan losses of $21,924 and $20,799 at June 30, 2021 and December 31, 2020, respectively	1,505,930	1,426,732
Premises and equipment, net	22,536	23,750
Right of use asset, net	7,483	8,317
Deferred tax asset, net	5,970	5,860
Cash surrender value of life insurance	40,104	37,202
Goodwill	54,913	54,913
Core deposit intangible	5,771	6,239
Other assets	15,855	16,651
Total assets	$ 1,966,268	$ 1,845,168
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing	$ 622,219	$ 533,720
Interest-bearing	1,020,886	1,002,790
Total deposits	1,643,105	1,536,510
Securities sold under agreements to repurchase	36,866	33,624
Advances from Federal Home Loan Bank	592	620
Subordinated debentures	3,093	3,093
Lease liability	7,870	8,713
Accrued expenses and other liabilities	10,324	10,637
Total liabilities	1,701,850	1,593,197
Shareholders' Equity		
Preferred stock, $1 par value; 5,000,000 shares authorized; 0 shares issued and outstanding at June 30, 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 June 30, 2021 and December 31, 2020, respectively	16,819	16,819
Capital surplus	150,707	150,415
Treasury stock, at cost, 41,468 and 58,042 shares at June 30, 2021 and December 31, 2020, respectively	(777)	(1,103)
Retained earnings	97,451	85,208
Accumulated other comprehensive income, net of tax	218	632
Total shareholders' equity	264,418	251,971
Total liabilities and shareholders' equity	$ 1,966,268	$ 1,845,168

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Loans, including fees	$ 21,592	$ 19,640	$ 41,978	$ 39,471
Debt securities:				
Taxable	328	453	657	940
Tax-exempt	132	153	269	330
Deposits in other banks	111	225	222	874
Federal funds sold	—	—	—	30
Other	83	83	192	158
Total interest income	22,246	20,554	43,318	41,803
Interest Expense				
Deposits	903	2,441	1,950	5,816
Subordinated debentures	23	28	47	64
Securities sold under agreements to repurchase	54	44	106	146
Advances from Federal Home Loan Bank	4	41	7	45
Total interest expense	984	2,554	2,110	6,071
Net Interest Income	21,262	18,000	41,208	35,732
Provision for Loan Losses	568	3,532	1,429	4,976
Net Interest Income After Provision for Loan Losses	20,694	14,468	39,779	30,756
Noninterest Income				
Service charges on deposit accounts	298	289	581	742
Other service charges and fees	704	490	1,285	992
Gain on sales of loans	164	86	260	139
Trust department income	157	146	297	307
Net gain (loss) on securities transactions	40	—	146	—
Other income	245	341	506	1,050
Total noninterest income	1,608	1,352	3,075	3,230
Noninterest Expense				
Salaries and employee benefits	6,919	7,054	14,108	14,314
Occupancy and equipment	1,719	1,761	3,377	3,508
Professional fees	779	721	1,717	1,263
IT and data processing	566	507	1,118	999
Advertising	347	233	647	601
FDIC assessment	152	186	347	227
Other expenses	2,478	1,471	4,025	3,290
Total noninterest expense	12,960	11,933	25,339	24,202
Income Before Income Taxes	9,342	3,887	17,515	9,784
Provision for Income Taxes	1,927	758	3,595	1,742
Net Income	$ 7,415	$ 3,129	$ 13,920	$ 8,042

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Per Share Data:				
Basic earnings per common share	0.44	0.19	0.83	0.48
Diluted earnings per common share	0.44	0.19	0.83	0.48
Dividends per share	0.05	0.05	0.10	0.10

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Income	$ 7,415	$ 3,129	$ 13,920	$ 8,042
Other Comprehensive Income (Loss)				
Change in unrealized gains on investment securities available for sale, before tax	(214)	(732)	(524)	274
Tax effect	45	154	110	(57)
Other comprehensive income (loss)	(169)	(578)	(414)	217
Comprehensive Income	$ 7,246	$ 2,551	$ 13,506	$ 8,259

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
Net income	—	—	—	—	—	3,129	—	3,129
Net change in other comprehensive loss	—	—	—	—	—	—	(578)	(578)
Dividends declared and paid	—	—	—	—	—	(838)	—	(838)
Exercise of stock options	—	—	—	—	—	—	—	—
Purchases of treasury stock	—	—	—	—	—	—	—	—
Shares issued in employee stock purchase plan	5,279	—	(9)	(5,279)	100	—	—	91
Stock-based compensation	—	—	298	—	—	—	—	298
Balance, June 30, 2020	16,753,721	$ 16,819	$ 150,005	65,298	$ (1,241)	$ 89,793	$ 690	$ 256,066

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, 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
Net income	—	$ —	$ —	—	$ —	$ 7,415	$ —	$ 7,415
Net change in other comprehensive loss	—	—	—	—	—	—	(169)	(169)
Dividends declared and paid	—	—	—	—	—	(838)	—	(838)
Exercise of stock options	6,000	—	(30)	(6,000)	114	—	—	84
Purchases of treasury stock	(7,167)	—	—	7,167	(125)	—	—	(125)
Shares issued in employee stock purchase plan	4,472	—	(7)	(4,472)	85	—	—	78
Stock-based compensation	—	—	191	—	—	—	—	191
Balance, June 30, 2021	16,777,551	$ 16,819	$ 150,707	41,468	$ (777)	$ 97,451	$ 218	$ 264,418

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

	Six Months Ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income	$ 13,920	$ 8,042
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,319	1,386
Net accretion on loans	(793)	(1,291)
Provision for loan losses	1,429	4,976
Net amortization of securities	94	38
Gain on sales of loans	(260)	(139)
Appreciation in cash surrender value life insurance	(500)	(488)
Net OREO (gains) losses on sales and valuation adjustments	69	(5)
Loss (gain) on disposition of fixed assets	3	(362)
Stock-based compensation	402	501
Amortization of intangible assets	468	539
Origination of loans held for sale	(12,406)	(8,120)
Proceeds from sale of loans originated for sale	13,329	7,861
Net (gain) loss on securities transactions	(146)	—
Net change in operating leases	(10)	(2)
(Increase) decrease in other assets	972	290
Increase (decrease) in accrued expenses and other liabilities	(315)	6,995
Net cash provided by operating activities	17,575	20,221
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	1,002,943	5,638
Purchases and acquisition of securities available for sale	(1,016,061)	—
Proceeds from maturities, calls and pay downs of securities held-to-maturity	6,644	7,309
Net change in loans	(78,856)	(181,510)
Net change in restricted investments carried at cost	(5)	(4,348)
Purchases and additions to premises and equipment, net	(116)	(401)
Proceeds from sales of fixed assets	7	1,079
Proceeds from sales of foreclosed assets	(245)	(1,118)
Purchases of life insurance	(2,401)	—
Net cash used in investing activities	(88,090)	(173,351)
Cash flows from financing activities:		
Net increase (decrease) in deposits	106,596	98,673
Increase (decrease) in securities sold under agreements to repurchase	3,242	6,518
Proceeds from Federal Home Loan Bank advances	—	50,000
Repayment of Federal Home Loan Bank advances	(28)	(28)
Exercise of stock options	199	30
Purchases of treasury stock	(125)	(404)
Proceeds from employee stock purchase plan	142	151
Dividends on common stock	(1,677)	(5,028)
Net cash provided by financing activities	108,349	149,912
Increase (decrease) in Cash and Cash Equivalents	37,834	(3,218)
Cash and Cash Equivalents, Beginning of Period	179,946	202,075
Cash and Cash Equivalents, End of Period	$ 217,780	$ 198,857

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

	Six Months Ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Supplemental Information		
Interest paid	$ 2,374	$ 6,550
Income taxes paid	4,200	—

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, 2020. 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.

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 during 2020 operated on a modified basis to comply with governmental restrictions and public health guidelines. Normal operations have resumed for the majority of 2021, however our pandemic committee continues to meet periodically to assess changing conditions, and determine the most appropriate protocols for each branch location.

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 $126.0 million in loans under the program were outstanding at June 30, 2021 . These loans bear interest at 1% and have two and five year terms ($38.5 million and $87.5 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.

Second Quarter 2021 Overview

Net income available to common shareholders for the three months ended June 30, 2021 was $7.4 million, or $0.44 per share, compared to net income available to common shareholders for the three months ended June 30, 2020 was $3.1 million, or $0.19 per share. For the three months ended June 30, 2021, our return on average common equity was 11.36% and our return on average assets was 1.51%.

Net income available to common shareholders for the six months ended June 30, 2021 was $13.9 million, or $0.83 per share, compared to net income available to common shareholders for the three months ended June 30, 2020 was $8.0 million, or $0.48 per share. For the six months ended June 30, 2021, our return on average common equity was 10.84% and our return on average assets was 1.46%.

At June 30, 2021, the Company had consolidated total assets of $1.97 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 June 30, 2021, the Company had total liabilities of $1.70 billion, including total deposits of $1.64 billion, compared to total liabilities of $1.59 billion, including total deposits of $1.54 billion at December 31, 2020.

At June 30, 2021, total stockholders' equity was $264.4 million, compared to total stockholders' equity of $252.0 million, at December 31, 2020. Community bank leverage ratio ("CBLR") remained strong at 10.33% as of June 30, 2021.

2021 Items of Note

Share Repurchase

At June 30, 2021, the Company had 41,468 shares of treasury stock totaling approximately $777 thousand. These shares were purchased through privately negotiated transactions. Of the shares outstanding at June 30, 2021, 34,301 shares were purchased in the fourth quarter of 2019 and the first quarter of 2020 at $19 per share, and the remaining 7,167 shares were purchased in the second quarter of 2021 at $17.50 per share.

Dividends

In both the first and second quarters 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 June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Income Statement Data:				
Interest income	$ 22,246	$ 20,554	$ 43,318	$ 41,803
Interest expense	984	2,554	2,110	6,071
Net interest income	21,262	18,000	41,208	35,732
Provision for loan losses	568	3,532	1,429	4,976
Net interest income after provision for loan losses	20,694	14,468	39,779	30,756
Noninterest income	1,608	1,352	3,075	3,230
Noninterest expense	12,960	11,933	25,339	24,202
Net income before income taxes	9,342	3,887	17,515	9,784
Income tax expense	1,927	758	3,595	1,742
Net income	$ 7,415	$ 3,129	13,920	8,042
Per Share Data:				
Basic earnings per common share	$ 0.44	$ 0.19	$ 0.83	$ 0.48
Diluted earnings per common share	$ 0.44	$ 0.19	$ 0.83	$ 0.48
Weighted average shares outstanding - basic	16,778,371	16,752,909	16,773,824	16,751,215
Weighted average shares outstanding - diluted	16,837,542	16,793,315	16,830,965	16,794,340
Performance ratios - annualized:				
Return on average assets	1.51 %	0.67 %	1.46 %	0.90 %
Return on average total equity	11.36 %	4.91 %	10.84 %	6.36 %
Return on average common equity	11.36 %	4.91 %	10.84 %	6.36 %
Return on average tangible common equity(1)	14.73 %	6.46 %	14.12 %	8.38 %
Yield on loans(2)	5.66 %	5.52 %	5.62 %	5.83 %
Cost of interest bearing deposits	0.35 %	1.04 %	0.39 %	1.23 %
Cost of total deposits	0.23 %	0.64 %	0.26 %	0.80 %
Cost of total funds	0.23 %	0.63 %	0.25 %	0.79 %
Net interest margin(2)	4.73 %	4.22 %	4.71 %	4.37 %
Efficiency ratio	56.77 %	61.66 %	57.41 %	62.12 %
Net noninterest expense to average assets	2.31 %	2.27 %	2.34 %	2.34 %

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

(dollars in thousands, except for per share data)	June 30, 2021	December 31, 2020
Balance Sheet Data:		
Total assets	$ 1,966,268	$ 1,845,168
Cash and cash equivalents	217,780	179,946
Investment securities	83,131	77,273
Loans, held for investment, net	1,505,930	1,426,732
Total liabilities	1,701,850	1,593,197
Noninterest-bearing deposits	622,219	533,720
Interest-bearing deposits	1,020,886	1,002,790
FHLB advances	592	620
Subordinated debentures	3,093	3,093
Total stockholders' equity	264,418	251,971
Per share data:		
Book value per common share	$ 15.76	$ 15.03
Tangible book value per common share(1)	$ 12.21	$ 11.46
Shares outstanding end of period	16,777,551	16,764,075
Asset quality ratios:		
30-89 days past due to total loans	0.22 %	0.29 %
Nonperforming assets to total loans	1.27 %	2.01 %
Nonperforming assets to total assets	0.99 %	1.58 %
Allowance for loan losses to nonperforming loans	112.53 %	71.33 %
Allowance for loan losses to total loans	1.43 %	1.43 %
Net charge-offs to average loans(3)	0.02 %	0.29 %
Capital ratios:		
Community bank leverage ratio	10.33 %	10.08 %
Total stockholders' equity to total assets	13.45 %	13.66 %
Tangible common stockholders' equity ratio(1)	10.69 %	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 interest and fees on SBA PPP loans and discount accretion on purchased loans for the periods presented as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2021**	**2020**	**2021**	**2020**
Loan discount accretion	545	410	793	1,291
SBA PPP Loan Interest	375	369	709	369
SBA PPP Loan Fees	1,934	566	4,115	566

(3) Net charge-offs to average loans ratios are for the six months ended June 30, 2021 and the year ended December 31, 2020.

Results of Operations

Three months ended June 30, 2021 compared with three months ended June 30, 2020

Net Income

The Company earned net income of $7.4 million for the three months ended June 30, 2021 compared to $3.1 million for the three months ended June 30, 2020, an increase of $4.3 million.

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."

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

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 June 30, 2021 and June 30, 2020.

	Three Months Ended June 30,					
	2021			2020		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Interest bearing deposits in banks	$ 169,230	$ 111	0.26 %	$ 178,280	$ 225	0.50 %
Federal Funds Sold	—	—	— %	158	—	0.31 %
Taxable securities	75,140	328	1.75 %	76,139	453	2.40 %
Tax-exempt securities	21,939	132	2.42 %	21,282	153	2.89 %
Restricted investments carried at cost	6,111	77	5.01 %	7,799	83	4.24 %
Investments in Partnerships	3,875	6	0.67 %	3,718	—	— %
Loans	1,529,822	21,592	5.66 %	1,432,069	19,640	5.52 %
Total interest earning assets	1,806,117	22,246	4.94 %	1,719,445	20,554	4.81 %
Noninterest earning assets:						
Cash and due from banks	42,691			23,003		
Allowance for loan losses	(22,124)			(16,970)		
Premises and equipment, net	22,910			25,069		
Accrued interest receivable and other assets	126,049			126,108		
Total assets	$ 1,975,643			$ 1,876,655		
Interest bearing liabilities:						
Deposits:						
Interest Bearing DDA & MMA	$ 412,611	$ 305	0.30 %	$ 331,702	$ 272	0.33 %
Savings	138,148	$ 73	0.21 %	106,323	$ 57	0.22 %
Certificates of Deposit	469,822	$ 525	0.45 %	507,458	$ 2,112	1.67 %
Total interest bearing deposits	1,020,581	903	0.35 %	945,483	2,441	1.04 %
Repurchase Agreements	38,096	54	0.57 %	30,602	44	0.58 %
Federal Funds Purchased	1	—	— %	—	—	— %
Advances from FHLB	597	4	2.28 %	42,962	41	0.38 %
Subordinated debentures	3,093	23	3.07 %	3,093	28	3.67 %
Total interest bearing liabilities	1,062,368	984	0.37 %	1,022,140	2,554	1.01 %
Noninterest bearing deposits	631,555			576,333		
Total deposits	1,693,923			1,598,473		
Accrued expenses and other liabilities	19,850			22,003		
Total liabilities	1,713,773			1,620,476		
Total shareholders' equity	261,870			256,179		
Total liabilities and shareholders' equity	$ 1,975,643			$ 1,876,655		
Net interest income		$ 21,262			$ 18,000	
Net interest spread			4.57 %			3.80 %
Net interest margin			4.73 %			4.22 %

The Company earned net interest income of $21.3 million for the three months ended June 30, 2021, compared to $18.0 million in the three months ended June 30, 2020, an increase of $3.3 million or 18.1%.

Interest income increased $1.7 million or 8.2%, in the three months ended June 30, 2021, compared to the three months ended June 30, 2020. As of June 30, 2021, the Company has processed $271 million in SBA PPP loans with $175 million booked in 2020 and $96 million booked in the first and second quarters of 2021. $145 million has been forgiven as of June 30, 2021, leaving $126 million on the balance sheet. These loans bear interest at 1%. For the three months ended June 30, 2021, the Company earned $1.9 million in fees on PPP loans, compared to $566 thousand for the three months ended June 30, 2020. Interest income also includes discount accretion on acquired loan portfolios. The Company recognized discount accretion of $545 thousand for the three months ended June 30, 2021, compared to $410 thousand in the three months ended June 30, 2020.

Interest expense decreased $1.6 million or 61.5%, in the three months ended June 30, 2021, compared to the three months ended June 30, 2020. This decrease is attributable to time deposits renewing at new, lower rates.

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 June 30, 2021 and June 30, 2020.

	Three Months Ended June 30,		
	2021 vs. 2020		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Interest bearing deposits in banks	$ (108)	$ (6)	$ (114)
Federal Funds Sold	—	—	—
Taxable securities	(121)	(4)	(125)
Tax-exempt securities	(25)	4	(21)
Restricted investments carried at cost	15	(21)	(6)
Investments in Partnerships	6	—	6
Loans	572	1,380	1,952
Total interest income	339	1,353	1,692
Interest bearing liabilities:			
Deposits:			
Interest Bearing DDA & MMA	(27)	60	33
Savings	(1)	17	16
Certificates of Deposit	(1,545)	(42)	(1,587)
Total interest bearing deposits	(1,573)	35	(1,538)
Repurchase Agreements	(1)	11	10
Advances from FHLB	205	(242)	(37)
Subordinated debentures	(5)	—	(5)
Total interest expense	(1,374)	(196)	(1,570)
Change in net interest income	$ 1,713	$ 1,549	$ 3,262

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 $21.9 million as of June 30, 2021 compared to $20.8 million as of December 31, 2020 and $17.5 million as of June 30, 2020, representing an ALLL to total loans ratio of 1.43%, 1.43%, and 1.19%, respectively.

Our provision for loan losses was $568 thousand for the three months ended June 30, 2021, compared to $3.5 million for the three months ended June 30, 2020, a decrease of $3.0 million, or 83.9%.

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. Conversely, stabilization of the economy due to vaccine release, removal of mandatory business shutdowns and the rise of oil prices along with a healthy allowance for loan losses upon entering 2021 have allowed for more normal provision charges during the first six months of 2021.

During the three months ended June 30, 2021, loans held for sale decreased by $1.6 million and loans held for investment increased by $80.3 million. This is attributable both an increase in PPP loans as well as organic loan growth. Net charge offs for the three months ended June 30, 2021 were $405 thousand, compared to net charge offs of $2.6 million for the three months ended June 30, 2020.

Noninterest Income

The following table presents our major categories of noninterest income:

	Three Months Ended June 30,			
(Dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**
Service charges on deposit accounts	$ 298	$ 289	$ 9	3.1 %
Other service charges and fees	704	490	214	43.7 %
Gain on sales of loans	164	86	78	90.7 %
Trust department income	157	146	11	7.5 %
Net gain (loss) on securities transactions	40	—	40	100.0 %
Other income	245	341	(96)	(28.2)%
Total noninterest income	$ 1,608	$ 1,352	$ 256	18.9 %

Noninterest income increased $256 thousand or 18.9%. 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, increased $9 thousand or 3.1%.
- *Other service charges and fees* - Other service charges and fees increased $214 thousand, or 43.7%. Included in this category are debit card transaction fees, which have seen a significant increase as the economy has opened back up in 2021.
- *Net gain (loss) on securities transactions* - Net gain (loss) on securities transactions increased $40 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 $96 thousand, or 28.2%.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Three Months Ended June 30,			
(Dollars in thousands)	2021	2020	$ Change	% Change
Salaries and employee benefits	$ 6,919	$ 7,054	$ (135)	(1.9)%
Occupancy and equipment	1,719	1,761	(42)	(2.4)%
Professional fees	779	721	58	8.0 %
IT and data processing	566	507	59	11.6 %
Advertising	347	233	114	48.9 %
FDIC assessment	152	186	(34)	(18.3)%
Other expenses	2,478	1,471	1,007	68.5 %
Total noninterest expense	$ 12,960	$ 11,933	$ 1,027	8.6 %

Noninterest expense increased $1.0 million, or 8.6%. Changes in selected components of noninterest income in the above table are discussed below.

- *Salaries and employee benefits* - Salaries and employee benefits decreased $135 thousand, or 1.9%.
- *Professional fees* - Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $58 thousand, or 8.0%.
- *IT and data processing* - IT and data processing expenses increased $59 thousand, or 11.6%.
- *Advertising* - Advertising expenses increased $114 thousand, or 48.9%, primarily due to 2020 including 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 increased $1.0 million or 68.5%.

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 $1.2 million, or 154.2%, for the three months ended June 30, 2021 when compared to the three months ended June 30, 2020 and is directly related to increased earnings.

Results of Operations

Six months ended June 30, 2021 compared with six months ended June 30, 2020.

Net Income

The Company earned net income of $13.9 million for the six months ended June 30, 2021 compared to $8.0 million for the six months ended June 30, 2020, an increase of $5.9 million.

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

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 six months ended June 30, 2021 and June 30, 2020.

	Six Months Ended June 30,					
	2021			2020		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:						
Interest bearing deposits in banks	$ 158,847	$ 222	0.28 %	$ 172,735	$ 874	1.02 %
Federal Funds Sold	—	—	— %	4,045	30	1.48 %
Taxable securities	68,902	657	1.92 %	78,422	940	2.41 %
Tax-exempt securities	21,603	269	2.51 %	22,162	330	2.99 %
Restricted investments carried at cost	6,109	152	5.03 %	6,187	130	4.18 %
Investments in Partnerships	3,856	40	2.08 %	3,709	28	1.54 %
Loans	1,507,347	41,978	5.62 %	1,360,610	39,471	5.83 %
Total interest earning assets	1,766,664	43,318	4.94 %	1,647,870	41,803	5.10 %
Noninterest earning assets:						
Cash and due from banks	34,084			20,522		
Allowance for loan losses	(21,635)			(16,195)		
Premises and equipment, net	23,198			25,532		
Accrued interest receivable and other assets	125,736			123,039		
Total assets	$ 1,928,047			$ 1,800,768		
Interest bearing liabilities:						
Deposits:						
Interest Bearing DDA & MMA	414,546	586	0.29 %	334,943	830	0.50 %
Savings	132,453	139	0.21 %	103,547	181	0.35 %
Certificates of Deposit, IRA's & CDARS	468,696	1,225	0.53 %	509,577	4,805	1.90 %
Total interest bearing deposits	1,015,695	1,950	0.39 %	948,067	5,816	1.23 %
Repurchase Agreements	37,472	106	0.57 %	31,638	146	0.93 %
Federal Funds Purchased	—	—	— %	—	—	— %
FHLB advances & other borrowings	604	7	2.29 %	21,815	45	0.41 %
Subordinated debentures	3,093	47	3.09 %	3,093	64	4.16 %
Total interest bearing liabilities	1,056,864	2,110	0.40 %	1,004,613	6,071	1.22 %
Noninterest bearing deposits	593,023			522,754		
Total deposits	1,649,887			1,527,367		
Accrued expenses and other liabilities	19,228			19,206		
Total liabilities	1,669,115			1,546,573		
Total shareholders' equity	258,932			254,195		
Total liabilities and shareholders' equity	$ 1,928,047			$ 1,800,768		
Net interest income		$ 41,208			$ 35,732	
Net interest spread			4.54 %			3.89 %
Net interest margin			4.71 %			4.37 %

The Company earned net interest income of $41.2 million for the six months ended June 30, 2021, compared to $35.7 million in the six months ended June 30, 2020, an increase of $5.5 million or 15.3%.

The target range for the Federal Funds rate has significantly decreased in the past year and a half, which impacts the interest income and interest expense of the Company. In March of 2020 the FOMC lowered the range by 50 basis points on March 3, 2020, and lowered it again by 100 basis points on March 15, 2020. The current target Federal Funds rate is 0% to 0.25%.

Interest income increased $1.5 million or 3.6% for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, despite declines in loan rates. As mentioned previously, this increase is fueled partially by interest and fees on SBA PPP loans as well as increased loan opportunities as the economy reopened in 2021.

The Company has recognized $709 thousand in interest income and accreted $4 million in net origination fees related to PPP loans for the six months ended June 30, 2021. For the same six month period as of June 30, 2020 the Company recognized $369 thousand and $566 thousand, respectively. A component of interest income consists of discount accretion on acquired loan portfolios. We recognized discount accretion of $793 thousand for the six months ended June 30, 2021, compared to $1.3 million for the six months ended June 30, 2020. Average interest earning assets increased $118.8 million, or 7.2%. This is largely attributable Paycheck Protection Program loans and organic loan growth as well as year over year deposit growth reflected in our interest bearing deposit with bank balances.

Interest expense decreased $4.0 million or 65.2% for the six months ended June 30, 2021, compared to the six months ended June 30, 2020, as deposit interest rates were curtailed in the face of the drop in the target fed funds rate in March of 2020.

Net interest margin increased to 4.71% for the six months ended June 30, 2021, from 4.37% for the six months ended June 30, 2020, an increase of 34 basis points, or 7.8%. The increase in our net interest margin primarily resulted from recognition of SBA PPP fees mentioned previously. In addition to fees, PPP loans carry an interest rate of 1%, which in addition to the lower rate environment caused loan yields to decrease from 5.83% to 5.62%, however, the increased loan volume offset the loan rate decrease, when comparing June 30, 2021 to June 30, 2020.

The reduction on interest expense was driven by management's actions to lower rates on interest bearing deposits, which aided the overall increase in net interest income. The rates on interest bearing deposits decreased from 1.2% to 0.4%.

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 six months ended June 30, 2021 and June 30, 2020.

	Six Months Ended June 30,		
	2021 vs. 2020		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Interest bearing deposits in banks	$ (632)	$ (20)	$ (652)
Federal Funds Sold	(30)	—	(30)
Taxable securities	(192)	(91)	(283)
Tax-exempt securities	(54)	(7)	(61)
Restricted investments carried at cost	24	(2)	22
Investments in Partnerships	10	2	12
Loans	(1,579)	4,086	2,507
Total interest income	(2,453)	3,968	1,515
Interest bearing liabilities:			
Deposits:			
Interest Bearing DDA & MMA	(356)	112	(244)
Savings	(72)	30	(42)
Certificates of Deposit, IRA's & CDARS	(3,474)	(106)	(3,580)
Total interest bearing deposits	(3,902)	36	(3,866)
Repurchase Agreements	(57)	17	(40)
Advances from FHLB	203	(241)	(38)
Subordinated debentures	(17)	—	(17)
Total interest expense	(3,773)	(188)	(3,961)
Change in net interest income	$ 1,320	$ 4,156	$ 5,476

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 $21.9 million as of June 30, 2021 compared to $20.8 million as of December 31, 2020, representing an ALLL to total loans ratio of 1.43% for both periods.

Our provision for loan losses was $1.4 million for the six months ended June 30, 2021, compared to $5.0 million for the six months ended June 30, 2020, a decrease of $3.5 million, or 71.3%.

Economic uncertainty produced by the COVID-19 pandemic, as well as the recent developments on crude oil prices, are the primary external factors that influenced the increased provision expense in 2020. Conversely, stabilization of the economy due to vaccine release, removal of mandatory business shutdowns and the rise of oil prices along with a healthy allowance for loan losses upon entering 2021 have allowed for more normal provision charges during the first six months of 2021.

During the six months ended months ended June 30, 2021, loans held for sale decreased by $1.6 million and loans held for investment increased by $80.3 million. This is attributable both an increase in PPP loans as well as organic loan growth. Net charge offs for the six months ended June 30, 2021 were $304 thousand, compared to $2.7 million for the six months ended June 30, 2020.

Noninterest Income

The following table presents our major categories of noninterest income:

	Six Months Ended June 30,			
(Dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**
Service charges on deposit accounts	$ 581	$ 742	$ (161)	(21.7)%
Other service charges and fees	1,285	992	293	29.5 %
Gain on sales of loans	260	139	121	87.1 %
Trust department income	297	307	(10)	(3.3)%
Net gain (loss) on securities transactions	146	—	146	100.0 %
Other income	506	1,050	(544)	(51.8)%
Total noninterest income	$ 3,075	$ 3,230	$ (155)	(4.8)%

Noninterest income decreased $155 thousand, or 4.8%. 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 (NSF) fees, decreased $161 thousand or 21.7%. This decrease is primarily attributable to a decrease in the assessment of NSF fees.
- *Other service charges and fees* - Other service charges and fees increased $293 thousand, or 29.5%. Included in this category are debit card transaction fees, which have seen a significant increase as the economy has opened back up in 2021.
- *Gain on sales of loans* - Gain on sale of loans increased $121 thousand, or 87.1%.
- *Net gain (loss) on sales of securities* - Net gain (loss) on sales of securities increased $146 thousand, or 100.0% and is attributable to a gain recorded in marking equity securities to market value. This is tied to the stock market, which has recovered since March 2020.
- *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 $544 thousand, or 51.8%. In the first quarter of 2020, the bank recognized a $336 thousand gain on sale of bank property and recorded $126 thousand in post acquisition loan recoveries.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Six Months Ended June 30,			
(Dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**
Salaries and employee benefits	$ 14,108	$ 14,314	$ (206)	(1.4)%
Occupancy and equipment	3,377	3,508	(131)	(3.7)%
Professional fees	1,717	1,263	454	35.9 %
IT and data processing	1,118	999	119	11.9 %
Advertising	647	601	46	7.6 %
FDIC assessment	347	227	120	52.9 %
Other expenses	4,025	3,290	735	22.3 %
Total noninterest expense	$ 25,339	$ 24,202	$ 1,137	4.7 %

Noninterest expense increased $1.1 million, or 4.7%. Changes in selected components of noninterest income in the above table are discussed below.

- *Salaries and employee benefits* - Salaries and employee benefits decreased $(206) thousand, or (1.4)%.
- *Occupancy and equipment* - Occupancy and equipment decreased $(131) thousand, or (3.7)%. The Company closed it's downtown branch in Wichita Falls on December 31, 2020.
- *Professional fees* - Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $454 thousand, or 35.9%.
- *IT and data processing* - IT and data processing expenses increased $119 thousand, or 11.9%.
- *Advertising* - Advertising expenses increased $46 thousand, or 7.6%.
- *FDIC Assessment* - Our FDIC assessment expense increased $120 thousand or 52.9% and is attributable to the bank benefiting from the small bank assessment credit in the first quarter of 2020 as well as asset growth (less PPP loans) year over year.
- *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 increased $735 thousand, or 22.3%.

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 $1.9 million, or 106.4% and is directly related to increased earnings.

Historical Trades and Valuations

The Company is not obligated to register its common or preferred stock with the SEC or, upon any registration, create a market for its shares. Thus, a holder of the Company's stock may be unable to liquidate their investment and must be able to bear the economic risk of such investment indefinitely.

Trades of the Company's stock, distributions of dividend payments, and recordkeeping of shareholders are all handled by Manhattan Transfer Registrar Company, a third party registrar.

The following table presents trades in the Company's common stock for the last twelve quarters, the number of trades per quarter, the number of shares traded, and the low and high per share prices of such trades. The prices presented are the result of limited trading and may not be representative of the actual value of our common stock. Trades between related parties are not included. As is evidenced in the table below, the Company's common stock has traded at an average multiple of 1.57 times tangible book value ("TBV") over the past twelve quarters.

Quarter	Number of Trades	Number of Shares Traded	Trade Price per Share		TBV as of Prior Quarter End	Multiple of TBV	
			Low	High		Low	High
3rd Quarter 2018	11	106,848	$17.65	$17.65	$11.67	1.51	1.51
4th Quarter 2018	5	10,026	$17.65	$18.06	$11.89	1.48	1.52
1st Quarter 2019	6	4,232,837	$18.25	$19.00	$12.17	1.50	1.56
2nd Quarter 2019	17	147,538	$17.11	$19.00	$10.57	1.62	1.80
3rd Quarter 2019	15	153,747	$19.00	$19.00	$10.94	1.74	1.74
4th Quarter 2019	6	141,896	$19.00	$19.00	$11.27	1.69	1.69
1st Quarter 2020	5	30,088	$19.00	$19.00	$11.24	1.69	1.69
2nd Quarter 2020	4	17,158	$19.00	$19.00	$11.55	1.65	1.65
3rd Quarter 2020	6	49,203	$16.10	$17.70	$11.69	1.38	1.51
4th Quarter 2020	4	8,185	$16.00	$17.50	$11.88	1.35	1.47
1st Quarter 2021	7	33,759	$16.00	$17.50	$11.46	1.40	1.53
2nd Quarter 2021	4	11,926	$17.50	$17.81	$11.81	1.48	1.51