

PUBLIC DISCLOSURE

May 2, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Bank & Trust Company
RSSD #552657

109 North Main Street
Dawson, Texas 76639

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING:

The performance of First Bank & Trust Company (bank) in originating loans to meet the credit needs of all segments of its community is rated Satisfactory for the period covered by the evaluation. The factors supporting this rating include:

- a reasonable loan-to-deposit ratio of 58.6% as of December 31, 2010, with a quarterly average of 62.5% for the 16 quarters since the last assessment;
- a majority of motor vehicle and commercial loans originated inside the bank's assessment area;
- a reasonable penetration of loans among individuals of different income levels and businesses of different sizes; and,
- a reasonable dispersion of loans throughout the assessment area.

SCOPE OF EXAMINATION

The bank's lending performance with respect to the CRA was assessed by analyzing a sample of 41 commercial loans totaling almost \$1.2 million and 47 motor vehicle loans totaling \$612 thousand originated by the bank between January 1, 2010 and December 31, 2010.

The evaluation was conducted using the CRA small bank performance standards. Small bank CRA performance standards evaluate:

- average loan-to-deposit ratio since the last CRA evaluation;
- the overall level of lending within the assessment area;
- the bank's lending to borrowers of different income levels and businesses and farms of different sizes;
- the bank's geographic distribution of loans within its assessment area; and,
- the bank's response to written complaints with respect to CRA performance in the assessment area.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area. The bank's responsiveness to complaints was not evaluated because it has not received any CRA related complaints since the last evaluation.

DESCRIPTION OF INSTITUTION

The bank is a wholly owned subsidiary of Dawson Bancshares, Inc. (DBI). President Conrad Newton III, who also serves as Chairman of the Board and Chief Lending Officer, is the primary shareholder.

The bank is a full-service retail bank offering agricultural, commercial, interim construction, home mortgage and consumer loans. The bank does not offer any type of open-end loan products, adjustable rate mortgages, or private education loans. Deposit products offered include certificates of deposit, checking, NOW accounts, debit cards, IRAs, and Money Market Deposit Accounts (MMDA). Electronic fund transfer (EFT) services are available and include direct deposit, preauthorized withdrawal of funds, ATM transfers, debit card/VISA for point of sale purchases, incoming and outgoing wire transfers, and transfers initiated by telephone, fax, or email with proper verification.

The bank operates two branch offices: the main office in Dawson, Navarro County, and a branch in Hubbard, Hill County.

RETAIL BRANCHES			
BRANCH ADDRESS	CENSUS TRACT/ INCOME LEVEL	LOBBY HOURS	MOTOR BANK HOURS
Home Office Main Branch 109 North Main Street Dawson, Texas 76639	9710.00/Middle	9:00 a.m. – 3:00 p.m. Monday – Friday Saturday 9:00 a.m. – Noon	9:00 a.m. – 3:00 p.m.
Hubbard Banking Center 1025 NE 4th Street Hubbard, Texas 76648	9613.00/Middle	9:00 a.m. – 3:00 p.m. Monday – Friday Saturday 9:00 a.m. – Noon	8:00 a.m. – 2:00 p.m.

As of December 31, 2010, the bank reported total assets of \$33.7 million, gross loans of \$18.5 million, total deposits of \$31.2 million, and a net loan-to-deposit ratio of 58.6%. The following table reflects the loan portfolio mix:

PRODUCT	DATE 12/31/2010	% OF LOANS
<u>Real Estate</u>		
1-4 Family Res Construction Loans (03/2008)	172	0.93
Farm Land	1,297	7.03
1-4 Family Res Secured by First Liens	3,286	17.80
1-4 Family Res Secured by Junior Liens	15	0.08
Lns Secured Owner Occupd NonFrm NonRes (03/2008)	528	2.86
Lns Secured by Other NonFrm NonRes (03/2008)	3,160	17.12
Total Real Estate	8,458	45.81
Depository Institutions	24	0.13
Agricultural	3,874	20.98
Commercial and Industrial	3,712	20.11
Consumer	2,351	12.73
Other	43	0.23
Gross Loans	18,462	100.00*

*Percentage may not equal 100 due to rounding.

The bank's ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal impediments or other factors. The bank received a Satisfactory rating on its last CRA performance evaluation dated March 12, 2007 performed by the Federal Reserve Bank of Dallas.

DESCRIPTION OF HILL AND NAVARRO COUNTIES

The bank's assessment area (AA) consists of Navarro and Hill Counties. The counties are rural located south of the Dallas-Fort Worth-Arlington Metropolitan Statistical Area (MSA). The 2010 estimated population for the AA is approximately 83,000 (47,735 in Navarro County and 35,089 in Hill County). The AA population grew approximately 7% between 2000 and 2010.

The city of Corsicana, population 26,253, is the Navarro County seat. Navarro County consists of ten middle-income census tracts. The city of Hillsboro, population 8,943, is the Hill County seat. Hill County consists of nine middle-income census tracts, two moderate-income tracts, and one upper-income census tract. There are no distressed or underserved geographies in either county.

The bank ranks twelfth in deposit market share out of 17 FDIC-insured financial institutions operating in Hill and Navarro Counties. The bank's deposits represent 3.02% of the total deposits in the AA. Community National Bank & Trust of Corsicana, Texas dominates the market, with 16.49% of total deposits; followed by JPMorgan Chase Bank, NA with 12.05%; Citizens National Bank of Hillsboro with 11.16%; and Bank of America, NA with 11.09% of total market deposits.

Demographic and economic information impacting the bank's performance context are further discussed below. Information was obtained from publicly available sources including the U.S.

Department of Commerce’s Bureau of the Census, 2000; the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet; and the Texas Workforce Commission.

The following table details selected characteristics of the AA.

FIRST BANK & TRUST COMPANY ASSESSMENT AREA DEMOGRAPHICS HILL AND NAVARRO COUNTIES – (NON MSA) – 2010									
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	4,217	20.2	
Moderate	2	9.1	1,002	4.8	276	27.5	3,464	16.6	
Middle	19	86.4	19,019	91.1	2,385	12.5	4,274	20.5	
Upper	1	4.5	847	4.1	65	7.7	8,913	42.7	
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	
Total Area	22	100.0	20,868	100.0	2,726	13.1	20,868	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-occupied			Rental		Vacant		
		#	%	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate	1,624	719	3.5	44.3	699	43.0	206	12.7	
Middle	30,099	19,194	92.2	63.8	6,956	23.1	3,949	13.1	
Upper	1,305	897	4.3	66.4	230	17.0	223	16.5	
Unknown	0	0	0.0	0.0	0	0	0.0	0	
Total Area	33,073	20810	100.0	62.9	7,885	23.8	4,378	13.2	
	Total Businesses by Tract	Businesses by Tract & Revenue Size							
				Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
		#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0	
Moderate	243	6.4	220	6.4	8	6.4	15	6.9	
Middle	3396	89.9	3,099	90.3	106	84.8	191	87.6	
Upper	137	3.6	114	3.3	11	8.8	12	5.5	
Unknown	0	0.0	0	0.0	0	0.0	0	0.0	
Total Area	3,776	100.0	3,433	100.0	125	100.0	218	100.0	
	Percentage of Total Businesses:			90.9		3.3		5.8	

Based on 2000 Census information.

Income Characteristics: The AA contains 12 census tracts in Hill County and ten census tracts in Navarro County. There are two moderate-income tracts in the AA or 9.1%, which contain 4.8% of families and 3.5% of owner-occupied housing units. Twenty percent of AA families are low-income, 17% are moderate-income and 13% are living below the poverty level. The state non-metropolitan median family income is \$46,500.

Housing: There are just over 33,000 housing units in the AA with nearly 63% owner-occupied and 13% vacant. Of the vacant homes, 1,526 or 35% are designated as seasonal. The estimated median home value ranges between \$76,749 in Navarro County to \$105,778 for Hill County. This compares favorably to the estimated median home value of \$125,800 for the State of Texas.

Labor, Employment, and Economic Characteristics: The area economy includes educational services, construction, health care, public administration and agriculture as the most common industries. There are 3,776 businesses in the AA, of which 91% are considered small businesses with gross annual revenues of less than \$1 million. As of May 2011, the unemployment rates for Hill and Navarro Counties, at 8.2% and 9.3% respectively, are higher than the statewide unemployment rate of 7.9%.

Community Contacts and Credit Needs: Contact was made with two community leaders. These contacts stated that the credit needs in the community include job creation and government assisted housing to support the many farms and land development opportunities in the area. They both noted that residents are reluctant to sell property for land development which would attract large businesses to the area and create jobs and produce growth in the AA. As the AA is largely made up of senior citizens, the need for senior assisted living is a continuing concern. There are also vacant buildings that require code upgrades. Since the last evaluation, a new senior housing complex was developed that offers several units for low-income tenants. The contacts stated that the bank is recognized as a leader in the financial sector related to meeting the need for loans to residents and local businesses in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit (LTD) ratios are similar to the majority of its peers and reflect favorably upon the bank's efforts to meet the credit needs of its community. The bank's net LTD ratio is considered reasonable given its size and financial condition, the credit needs of the AA, and the competitive local banking environment. As of December 31, 2010, the net LTD ratio was 58.6%, and the quarterly average since the previous evaluation is 62.5%.

To better understand the bank's performance in relation to its AA, a comparison of similarly situated local banks was performed. These banks were chosen for analysis based on their proximity, similar size, and structure. The bank's LTD ratios are in the middle of the range of its peers and reflect favorably upon the bank's efforts to meet the credit needs of its community. No ranking is implied in the order of the peer banks used in this analysis which are listed below.

BANK	COUNTY	TOTAL ASSETS 12/31/2010 (\$000)	LTD RATIO 12/31/10	QUARTERLY AVERAGE LTD RATIO*
First Bank & Trust Company Dawson, Texas	Navarro	\$33,670	58.6%	62.5%
Powell State Bank Powell, Texas	Navarro	\$31,382	54.5%	60.9%
City National Bank Corsicana, Texas	Navarro	\$43,092	64.9%	61.8%
First State Bank Rice, Texas	Navarro	\$115,003	51.7%	59.4%
Community National B&T Corsicana, Texas	Navarro	\$359,660	69.3%	72.4%
First National Bank Whitney, Texas	Hill	\$58,803	19.1%	19.5%
Citizens National Bank Hillsboro, Texas	Hill	\$168,849	21.9%	28.6%

*Based on 16 quarters since the last CRA performance evaluation.

LENDING IN ASSESSMENT AREA

A majority of the bank's loans were originated inside its AA. As shown in the table below, the bank extended 75% of all loans, including 47% of the dollar volume within the AA.

ASSESSMENT AREA CONCENTRATION								
LOAN TYPE	INSIDE ASSESSMENT AREA				OUTSIDE ASSESSMENT AREA			
	#	%	\$000's	% of \$	#	%	\$000's	% of \$
Motor Vehicle	38	80.9	\$453	74.0	9	19.1	\$159	26.0
Commercial	28	68.3	\$381	32.5	13	31.7	\$792	67.5
TOTAL	66	75.0	\$833	46.7	22	25.0	\$951	53.3

*Percentage may not equal 100 due to rounding.

The remaining analyses will be based on loans made inside the bank's AA.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES AND FARMS OF DIFFERENT SIZES

The distribution of lending based on income and revenue levels of the borrowers reflects an excellent penetration among individuals of different income levels and businesses and farms of different sizes. The income level of the borrowers was compared to the state nonmetropolitan median family income (MFI) for 2010. The following table depicts the referenced income level ranges:

INCOME LEVEL	2010 STATE NONMETROPOLITAN MFI
Median Income	\$46,500
Low-income	\$0 < \$23,250
Moderate-income	\$23,250 < \$37,200
Middle-income	\$37,200 < \$55,800
Upper-income	\$55,800 and up

As the chart below illustrates, the bank's lending to low- and moderate-income (LMI) borrowers is significant. The bank's level of lending to LMI borrowers exceeds the percentage of households in those categories in the AA. Of the 38 motor vehicle loans in the AA, ten (26%) were made to low-income borrowers. There were five loans (13%) made to moderate-income borrowers, eight loans (21%) to middle-income borrowers, and ten (26%) made to upper-income borrowers. The distribution of lending to borrowers of different income levels compares favorably to the percent of households by income level in the AA.

DISTRIBUTION OF MOTOR VEHICLE LOANS BY MEDIAN FAMILY INCOME LEVEL										
Loan Type	Low		Moderate		Middle		Upper		Income N/A	
	#	%	#	%	#	%	#	%	#	%
Motor Vehicle	10	26.3	5	13.2	8	21.1	10	26.3	5	13.2
Percent of Households	24.77		14.97		17.15		43.11		N/A	

The following two tables reflect the distribution of the commercial loans in the AA by gross annual revenues of the borrower and loan amount. The bank extended 82% of its loans to small businesses. This compares well with AA demographics which show that 90.1% of businesses in the area have gross annual revenues of \$1 million or less. Further demonstrating the bank's commitment to meeting the credit needs of the community is the volume of loans to very small businesses. Approximately 54% of loans were to entities with gross annual revenues of less than \$50,000 and 14% were to businesses with revenues of \$50,000 to less than \$100,000.

DISTRIBUTION OF COMMERCIAL LOANS BY GROSS ANNUAL REVENUES		
Gross Annual Revenues	Number of Loans	Percent of Loans*
Less than \$50,000	15	53.6%
\$50,000 < \$100,000	4	14.3%
\$100,000 < \$500,000	4	14.3%
\$500,000 < \$ 1 million	0	0%
Total <= \$1 million	23	82.14%
Revenues Not Available	5	17.6%
TOTAL	28	100%

*Percentage may not equal 100 due to rounding.

Another way to gauge the bank's small business lending performance is to review the data by loan amount. Smaller businesses typically require smaller dollar credits. As indicated below, 61% were very small dollar loans of less than \$10,000. In addition, all of the loans reviewed

were in amounts of less than \$200,000. This performance indicates a commitment to making small dollar loans available to businesses and farms in the AA.

DISTRIBUTION OF COMMERCIAL LOANS BY LOAN AMOUNT		
Loan Amount	Number of Loans	Percent of Loans*
Less than \$10,000	17	60.7%
\$10,000 < \$25,000	8	28.6%
\$25,000 < \$50,000	1	3.6%
\$50,000 < \$200,000	2	7.1%
TOTAL	28	100%

*Percentage may not equal 100 due to rounding.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's geographic distribution of loans by income level of geographies is reasonable. Approximately 95% of the sampled motor vehicle loans were made to residents of middle-income census tracts where 91% of AA households are located. Two (5%) of the motor vehicle loans were made in upper-income tracts. Approximately 4% of families reside in upper-income tracts. There are no low-income census tracts in the AA.

The bank made 27 (96%) of the sampled commercial loans in middle-income census tracts. Approximately 90% of the AA's small businesses are located in these tracts. The table below details the commercial lending by geography.

DISTRIBUTION OF COMMERCIAL LOANS BY GEOGRAPHIC INCOME LEVEL						
Tract Level Income	% Total Businesses	% Small Businesses	Total Loans		Dollar Amount	
			#	%	\$('000s)	%
Low	N/A	N/A	N/A	N/A	N/A	N/A
Moderate	6.4%	6.4%	0	0.0%	0	0.0%
Middle	89.9%	90.3%	27	96.4%	377	99.0%
Upper	3.6%	3.3%	1	3.6%	4	1.0%
TOTAL	100.0	100.0	28	100.0	381	100.0

*Percentages may not equal 100 due to rounding.

The bank made no loans in the moderate-income census tracts in the AA. This is reasonable given performance context factors. The AA contains two moderate-income census tracts. These tracts contain less than 5% of the households and 6% of the small businesses. The moderate-income tracts are some distance from the branch locations and the bank's loans were generally located in close proximity to the branches. There were no conspicuous gaps or anomalies in the lending patterns.

RESPONSE TO COMPLAINTS

There were no complaints related to CRA during the review period. Consequently, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

GLOSSARY

Census tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Small loan(s) to business(es): A loan included in ‘loans to small businesses’ as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as “small business loans” if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in ‘loans to small farms’ as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.