

FIRSTBANCSHARES
OF TEXAS, INC.

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Third Quarter 2010 Shareholders' Report

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Dear Shareholders

Considering the weakness experienced by banks around the country as well as in Texas over the last two years, we are extremely pleased with the financial strength and performance of our organization during this time. We have been fortunate to increase our earnings in 2009 over 2008 and we are on track to significantly increase earnings in 2010 over 2009. We anticipate earnings in 2010 of approximately \$3 million which compares to \$2.29 million in 2009.

As we mentioned in the last shareholder letter, we were given a 5 – Star rating by Bauer Financial based on our first quarter performance and we retained that rating after the second quarter numbers were released. This recognition is a reflection of our strong Board of Directors, our excellent team of staff members and our strong and loyal customer base.

While the national economy continues to exhibit weakness, the three markets we serve are some of the strongest in Texas. We have benefited from solid oil prices in our Permian Basin region for over a year now and cotton prices are very strong this year, which is beneficial to our Lubbock and Amarillo markets. As a result, we have experienced another year of strong deposit and asset growth.

Branding

During the first half of the year, bank staff has been working on the re-branding of the Bank to better position the Bank in each of the markets we serve. This process has gone very smoothly and we are seeing the benefits through lower operating costs and better name identity in each of our markets. We will continue to build the new brand and name in the next few years and highlight the fact that we are the only independently owned financial institution serving the Midland, Lubbock and Amarillo markets in West Texas and the Panhandle.

Looking to the Future

We are very encouraged by the strong growth we have experienced in the last three years and we do not see any change in growth prospects in the near term. We do expect challenges with the rapidly changing regulatory environment that our industry is currently experiencing, but we feel we have the staff strength to deal with the challenges as they present themselves. We are very pleased with the quality of the new customer relationships we are developing, especially in light of these difficult times. We will continue our commitment of providing high quality personal service to our customers in each of the markets we serve.

Personnel Additions

We continue to work toward strengthening our management team. We recently added Tracy Bacon as our new Chief Financial Officer. Tracy comes to us from PlainsCapital Bank in Lubbock and she brings 20 years of banking experience in the areas of finance, branch management and sales. As a result, you will see changes in this and future shareholder communications.

We also recently added Mark Odle in our Amarillo office. Mark brings approximately 26 years banking experience to us. Mark has very strong credit underwriting experience and has served in several Community Bank President roles in the Wells Fargo system. Mark has strong management skills and will help us with the development of our lending team throughout the organization as well as the growth and development of the Amarillo market.

We continue to be committed to building the strongest community-owned financial institution in the Panhandle, the South Plains and the Permian Basin. We appreciate your support as shareholders and customers. If we can be of help, please give us a call.

Sincerely,

A handwritten signature in black ink that reads "Ken L. Burgess, Jr." The signature is written in a cursive style and is positioned above the printed name and title.

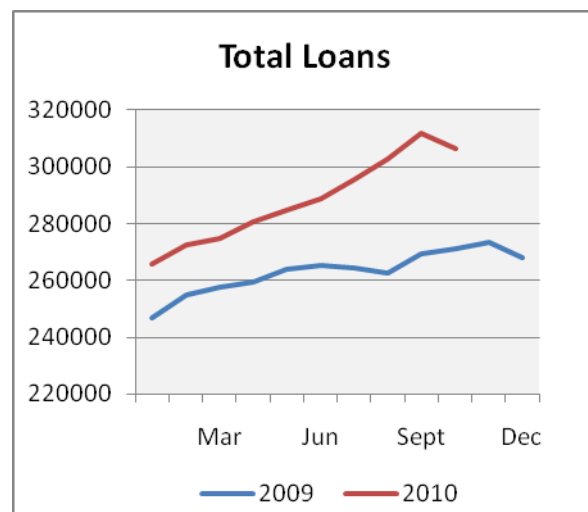
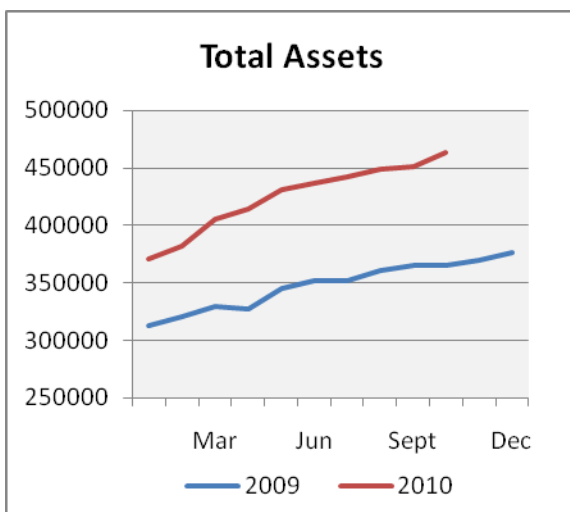
Ken L. Burgess, Jr.
Chief Executive Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

THIRD QUARTER 2010 DETAILED FINANCIALS

FirstCapital Bank experienced continued growth in the third quarter of 2010, with year-to-date net earnings of \$2.2 million, a 15.8 percent increase over the same period last year. Net interest income, the major source of our earnings, rose to \$11.8 million for the first nine months of 2010 compared to \$10 million in the same period of 2009. Although our net interest income rose year over year, our net interest margin compressed 36 basis points due to a significant increase in liquidity being invested in short-term, low yielding assets.

As you can see from the graphs below, we continue to see strong growth in our markets. Our total assets grew significantly from \$365 million at the end of the third quarter 2009 to \$451 million at the end of the third quarter 2010, which equates to a 23 percent increase in assets. The increase is primarily attributed to deposit growth, with large increases in demand deposits, money market accounts and certificates of deposit. Total deposits grew \$79 million from September 2009 to September 2010. Although our volume in deposits increased, our year-to-date interest expense declined from this time last year due to a declining rate environment. Our total loans grew \$42 million from September 2009 to \$312 million at the end of September 2010. While our loans grew rapidly, it was not at the expense of credit quality. Our nonperforming assets were .57 percent of total loans, which is well-below our peer group's 3.25 percent. Our allowance for loan loss remains adequate at 1.09 percent of total loans.



Noninterest income decreased 5.8 percent from the first nine months of 2009, mostly in mortgage income due to a slow-down in mortgage originations through the early part of the year. Originations did increase through the summer months and have shown no signs of a slow-down. Year-to-date noninterest expense was up 4.2 percent over the same time last year, with the largest increase in marketing expense due to our name change this summer. Despite the increase in marketing expense, our efficiency ratio remained relatively unchanged for the nine month period of 2010 at 69.37 percent from 69.34 percent in same time period of 2009.

Our annualized return on average assets was .70 percent as of September 2010, down 7 basis points from the same time last year. The slight decline in return on average assets was due to lower interest margins. We expect to see some improvement in net interest margin over the next few quarters as we are able to more efficiently invest our short-term assets. Our annualized net interest margin remains well above our peer group at 4.08 percent compared to peer group margin of 3.85 percent, but is down 36 basis points from year-to-date September 2009 to same period 2010. This is primarily attributed to an increase in short-term assets as the result of significant deposit growth and the inability to place these assets into higher yielding assets. Our book value continues to be strong at \$4.89 per share as of September 2010 compared to \$4.24 per share as of September 2009.

We are on track to achieve our budgeted earnings target for the year and are anticipating strong earnings in the final quarter of this year.

Sincerely,

A handwritten signature in cursive script that reads "Tracy Bacon".

Tracy Bacon
Chief Financial Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

THIRD QUARTER 2010 FINANCIAL HIGHLIGHTS

(Unaudited)

(Dollar amounts in thousands)

Earnings Summary

For the Nine Months Ended September 30,	<u>2010</u>	<u>2009</u>
Interest Income	\$ 14,163	\$ 12,900
Interest Expense	2,354	2,470
Provision for loan losses	1,750	1,450
Net Income	2,193	1,894

Performance Ratios (annualized)

For the Nine Months Ended September 30,	<u>2010</u>	<u>2009</u>
Return on Average Assets	0.70%	0.77%
Return on Shareholders' Equity	8.26%	9.31%
Net Interest Margin	4.08%	4.44%

Period End Data

For the Nine Months Ended September 30,	<u>2010</u>	<u>2009</u>
Total Assets	\$ 451,012	\$ 365,345
Average Assets	412,365	334,259
Investments*	119,632	78,582
Loans, net	308,368	266,005
Deposits	408,762	329,526
Shareholders' Equity	37,205	28,954

Per Share Data**

For the Nine Months Ended September 30,	<u>2010</u>	<u>2009</u>
Net Income	\$ 0.25	\$ 0.27
Book Value	4.89	4.24
Number of Shareholders	383	258

*Includes investment securities, due from bank money market and CD's, and federal funds sold

**Data shown at holding company level

FIRSTCAPITAL BANK OF TEXAS, N.A.

BALANCE SHEET

(Unaudited)

(Dollar amounts in thousands)

	September 30		December 31
	<u>2010</u>	<u>2009</u>	<u>2009</u>
ASSETS			
CASH AND DUE FROM BANKS	\$ 8,253	\$ 7,478	\$ 10,485
INVESTMENTS:			
Municipal securities	14,689	9,891	10,584
U.S. gov't agencies	-	1,499	499
Mortgage backed securities	37,085	30,512	27,827
Due from bank CD's and MMA's	57,114	30,924	41,413
Federal Reserve Bank stock	769	604	604
Federal Home Loan Bank stock	229	228	228
Independent Bank Capital Fund	200	200	38
Texas Independent Bankers Bank Stock	73	-	200
Total Investments	<u>110,159</u>	<u>73,858</u>	<u>81,393</u>
FEDERAL FUNDS SOLD	9,473	4,724	4,734
LOANS:			
Real estate	177,690	137,453	157,435
Secondary mortgage	14,453	7,052	8,096
Commercial, industrial, and agricultural	101,912	103,056	81,801
Government entities	4,914	6,331	6,152
Consumer	12,684	15,385	14,376
Other	122	55	55
Total Loans	<u>311,775</u>	<u>269,332</u>	<u>267,915</u>
Less - Allowance for possible loan losses	<u>(3,407)</u>	<u>(3,327)</u>	<u>(3,159)</u>
Loans, net	<u>308,368</u>	<u>266,005</u>	<u>264,756</u>
BANK PREMISES AND EQUIPMENT, NET	9,796	10,218	10,019
OTHER ASSETS	4,963	3,062	5,057
TOTAL ASSETS	<u>\$ 451,012</u>	<u>\$ 365,345</u>	<u>\$ 376,443</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS:			
Demand	\$ 104,145	\$ 79,234	\$ 93,289
NOW Accounts	31,090	23,873	26,030
Savings	9,490	6,510	5,860
Money Market	95,213	66,114	74,028
Certificates of Deposit	105,791	88,383	90,153
CDARS	63,033	65,412	50,500
Total Deposits	<u>408,762</u>	<u>329,526</u>	<u>339,860</u>
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	3,657	5,806	5,821
Federal Home Loan Bank borrowings	-	-	-
Total Short-term borrowings	<u>3,657</u>	<u>5,806</u>	<u>5,821</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	1,388	1,059	809
Total Liabilities	<u>413,807</u>	<u>336,391</u>	<u>346,491</u>
SHAREHOLDERS' EQUITY			
Common Stock	3,096	3,096	3,096
Surplus	22,546	17,046	17,546
Retained earnings	11,563	8,812	9,311
Total shareholders' equity	<u>37,205</u>	<u>28,954</u>	<u>29,954</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 451,012</u>	<u>\$ 365,345</u>	<u>\$ 376,443</u>

FIRSTCAPITAL BANK OF TEXAS, N.A.

STATEMENT OF INCOME

(Unaudited)

(Dollar amounts in thousands)

	<u>2010</u>	<u>2009</u>
Interest Income:		
Interest and fees on loans	\$ 12,647	\$ 11,506
Interest on investment securities	1,186	1,280
Interest on federal funds sold	32	18
Interest on due from bank CD's and MMA's	298	96
TOTAL INTEREST INCOME	<u>14,163</u>	<u>12,900</u>
Interest Expense:		
Deposits	2,334	2,422
Short-term borrowings	20	48
TOTAL INTEREST EXPENSE	<u>2,354</u>	<u>2,470</u>
Net Interest Income	11,809	10,430
Provision for possible loan losses	<u>1,750</u>	<u>1,450</u>
Net Interest Income After Provision	10,059	8,980
Other Income:		
Mortgage	2,788	2,983
Trust, net	130	151
Other income	739	748
TOTAL OTHER INCOME	<u>3,657</u>	<u>3,882</u>
Other Expenses:		
Salary and employee benefits	5,969	5,822
Building occupancy expense	1,636	1,610
Marketing expense	257	157
Data processing expense	252	222
Other employee expense	235	168
Regulatory expense	531	512
Other expenses	1,726	1,685
TOTAL OTHER EXPENSES	<u>10,606</u>	<u>10,176</u>
Income Before Income Taxes	3,110	2,686
Income tax expense	<u>917</u>	<u>792</u>
NET INCOME	\$ 2,193	\$ 1,894

OFFICERS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

MIDLAND MARKET -

TRACY BACON

Senior Vice President & Chief Financial Officer

JANENE D. BINNION, PHR

Senior Vice President & Team Resources Manager

JEREMY M. BISHOP

Assistant Vice President & Relationship Manager

JON D. BLACK

Vice President, Odessa Mortgage Manager

KATIE J. BOYD

Banking Officer & BSA Officer

GRISELDA J. BUJANDA

Banking Officer & Loan Operations Manager

BRAD D. BULLOCK, CRMC

Executive Vice President & Senior Compliance Officer

KENNETH L. BURGESS, JR.

Chief Executive Officer

MICHAEL J. CANON, JR.

Banking Officer & IT Specialist

R. KYLE CLIFTON

Vice President, Cashier & Controller

SHEA EDWARDS

Banking Officer & Team Resources Representative

DEBBIE GLENNAN

Vice President & Branch Manager

BILL J. HILL

Senior Vice President & Trust Administration Officer

MELANIE J. HORTON

Assistant Vice President & Assistant Controller

RODGER L. HORTON

Banking Officer & Senior Credit Analyst

JAY W. ISAACS

President – Midland Market & Senior Trust Officer

CHRIS L. McGINNIS

Vice President & IT Manager

KATHY MIRELES

Banking Officer & Teller Supervisor

TOBY D. PAYNE

Senior Vice President & Senior Relationship Manager

VERONICA S. PYLE

Banking Officer & Relationship Services Representative

ROBIN RICHEY

Senior Vice President & Trust Administration Officer

MARTIN F. RUEHL

Assistant Vice President, Branch Manager & Relationship Manager

LYNNE M. SAWYER

Senior Vice President & Relationship Services Manager

SHANNON L. SMITH

Senior Vice President & Senior Relationship Manager

TRACY A. TIMLIN

Senior Vice President & Mortgage Division Manager

CHRIS A. WHITNEY

Banking Officer, Branch Manager & Personal Banker

AMARILLO MARKET -

J. GREG BURGESS

President - Amarillo Market & Chief Lending Officer

KENNETH L. BURGESS, III

Banking Officer & Senior Credit Analyst

DORA M. EVANS

Assistant Vice President & Credit Administration Manager

ANITA K. FINK

Vice President, Operations

LANDON M. GANN

Assistant Vice President & Relationship Manager

MARK ODLE

Executive Vice President & Senior Relationship Manager

GEORGE H. REEVES

Executive Vice President & Chief Operations Officer

STACYE M. WORTHEN

Banking Officer & Branch Manager

OFFICERS, CONT.

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

LUBBOCK MARKET -

[BRAD D. BURGESS](#)

President - Lubbock Market & Senior Relationship Manager

[BRADY CAMPBELL](#)

Banking Officer & Senior Credit Analyst

[BEVERLY R. HOLLAND](#)

Assistant Vice President & Relationship Services Manager

[RAINA KENEDA](#)

Assistant Vice President & Credit Administration Manager

[LISHA F. KING](#)

Vice President & Operations Manager

[CINDI LEA](#)

Vice President & Lubbock Mortgage Manager

[TONY PENA](#)

Senior Vice President & Senior Relationship Manager

[DAVID R. QUINTANILLA](#)

Executive Vice President & Senior Relationship Manager

THE BOARD OF DIRECTORS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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Oil & Gas Independent

H. TEVIS HERD

Attorney at Law

CARY BILLINGSLEY

Independent Petroleum Engineer

JAY W. ISAACS

President - Midland Market
Senior Trust Officer

BRAD D. BURGESS

President - Lubbock Market
Senior Relationship Manager

ROBERT C. LEIBROCK

Oil & Gas Independent

J. GREG BURGESS

President - Amarillo Market
Chief Lending Officer

CHRIS MATTHEWS

Investments

KENNETH L. BURGESS, JR.

Chief Executive Officer

SUBODH I. PATEL

Hospitality Industry

MICHAEL J. CANON

Chairman

DAVID R. QUINTANILLA

Executive Vice President
Senior Relationship Manager

STEPHEN N. CASTLE

Oil & Gas Independent

GEORGE H. REEVES

Executive Vice President
Chief Operations Officer

BRECK COLQUETT

Owner, B.C. Supply

C. TODD SPARKS

Vice President & Chief Financial Officer
Discovery Operating, Inc.

DR. DAVID DANIEL

Retired
Former Midland College President

DR. JAMES WELSH

Physician

A. SCOTT DUFFORD

Oil & Gas Independent

TERRY D. WILKINSON

Investments

J. GAUT

Commercial Real Estate Broker
