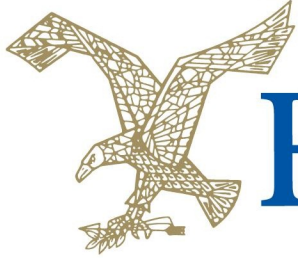


FIRSTBANCSHARES
OF TEXAS, INC.

FIRSTBANCSHARES
OF TEXAS, INC.



FIRSTBANCSHARES
OF TEXAS, INC.

Second Quarter 2012 Shareholders' Report

FIRSTBANCSHARES
OF TEXAS, INC.

FIRSTBANCSHARES
OF TEXAS, INC.

FIRSTBANCSHARES
OF TEXAS, INC.

FIRSTBANCSHARES
OF TEXAS, INC.

FIRSTBANCSHARES
OF TEXAS, INC.

FIRSTBANCSHARES
OF TEXAS, INC.

Dear Shareholders

We are pleased to report another quarter of excellent growth and increased profitability. The 2nd quarter of 2012 was the best in the bank's history with net income of \$1,782,780 vs. \$1,389,724 in the 1st quarter or an increase of 28.3%. Additional financial highlights are as follows:

- Net income for the first six months of 2012 increased by 66.8% or \$1,270,338. Total earnings for the first six months of 2012 were \$3,172,504.
- Total assets increased by 12.3% as of June 30, 2012 vs. June 30, 2011. Total assets as of June 30, 2012 were \$636.1 million.
- Total loans increased 21.1% from June 30, 2011 to June 30, 2012.
- Total deposits were up 8.9% from June 30, 2011 to June 30, 2012.

The three markets in which we are located continue to be the strongest in the State of Texas and some of the strongest in the country. We are fortunate to be located in areas where the economy is doing well.

IST Shareholder Services


During the 2nd quarter, the Company transferred its stock transfer agent services to IST Shareholder Services in Chicago, Illinois. With the growth we have experienced and the large number of shareholders we now have, we felt it was time to move this very important function to a company who specializes in this area. As a shareholder, you will now have your stock information available to you at all times through the IST website. You will also have information available to you that you will need at tax time. If at any time you have any questions about your information, you may call IST or Robin Richey with the Company and they will be available to help you.

Second Market

As I am writing this letter, we are preparing to start our first liquidity event with Second Market out of New York City. Second Market provides an on-line trading platform for our stock much like you would see with a publicly traded company. This platform will give our shareholders a place they can sell shares of the Company stock as well as purchase additional shares. The site will have a significant amount of information about the Company and will be updated on a quarterly basis. We plan to hold four liquidity events each year. Each event will start approximately 45 days after each quarter end. This gives us ample time to prepare updated financial information so persons wishing to buy or sell will have the information they need to make an informed decision.

As you will see from the financial analysis which follows, we continue to experience very good growth and our earnings are improving significantly.

Sincerely,



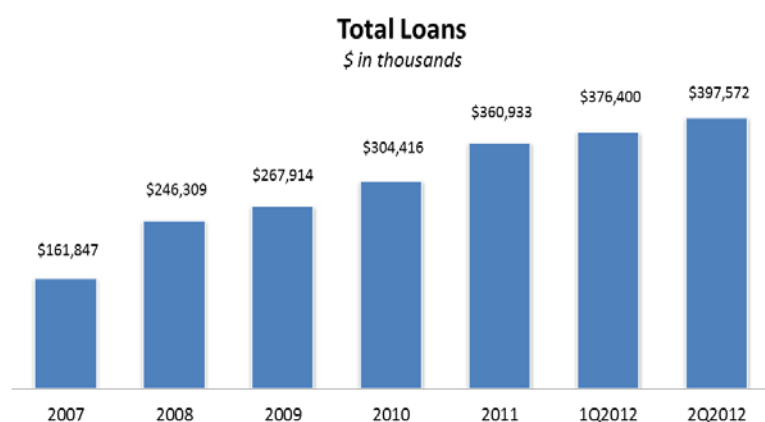
Ken L. Burgess, Jr.
CEO & President

FIRSTCAPITAL BANK OF TEXAS, N.A.

SECOND QUARTER 2012 DETAILED FINANCIALS

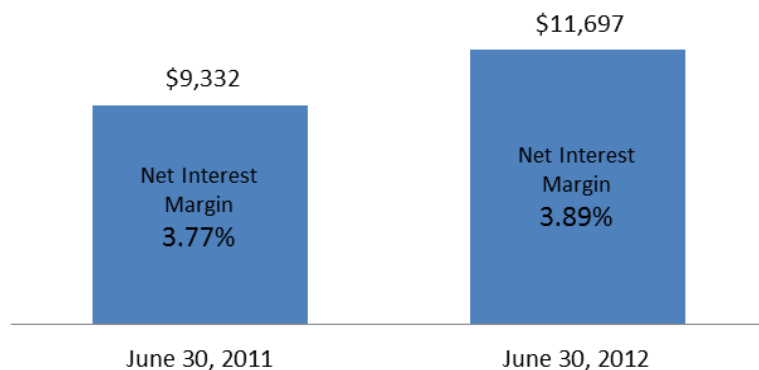
Our earnings through the second quarter remain strong, with year-to-date earnings of \$3.2 million as compared to \$1.9 million through the same period last year, and we are \$325 thousand ahead of our budgeted year-to-date earnings. Our year-to-date return on average assets was 1.06 percent through second quarter 2012 as compared to .80 percent for the same period in 2011.

Growth



- Our loan portfolio has grown \$36 million since December, primarily in the commercial loan category but also in the loans to government entities category. Loans to government entities increased \$9 million due to one large loan to a tax-paying entity for short term purposes that is expected to be paid off in early 2013.
- Our loans have grown approximately 15-20 percent each year over the last several years, so our current growth in loans is on pace with our normal run rate of growth.

Net Interest Income (incl. loan fees) & Net Interest Margin \$ in thousands



- Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits.
- Net interest income was \$11.6 million for the first six months of 2012 as compared to \$9.3 million for the same period in 2011. The increase was largely attributable to an increase in the volume of earning assets, but was also attributable to an improvement in the net interest margin from 3.77 percent for the six-month period ended June 30, 2011 to 3.89 percent for the six-month period ended June 30, 2012.

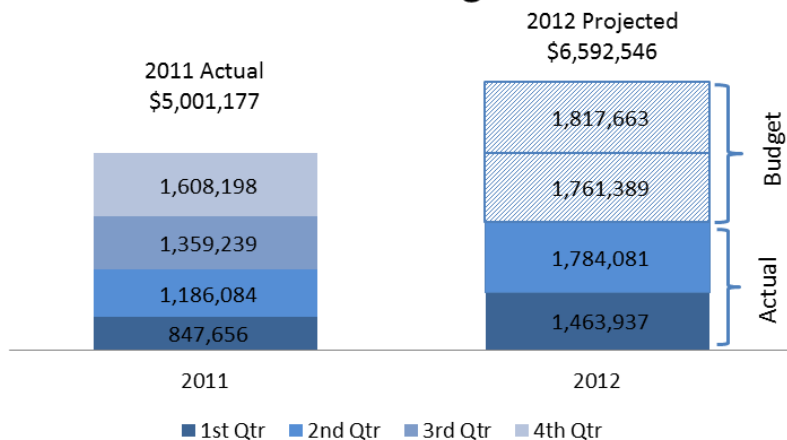
Non-Interest Income

For the periods ended		Incr./	% Change
June 30			
2012	2011	Decr.	

Trust department income	\$223,041	\$213,280	\$9,761	4.58%
Service charges on deposit accounts	296,562	276,352	20,210	7.31%
Other service charges and fees	363,711	302,352	61,359	20.29%
Appreciation in cash surrender value of life insurance	115,030	61,130	53,900	88.17%
Real estate mortgage fees	2,379,156	1,432,986	946,170	66.03%
Gain/(Loss) on sale of foreclosed assets	(199,600)	35,777	(235,377)	-657.90%
Total Non-Interest Income	\$3,177,900	\$2,321,877	\$856,023	36.87%

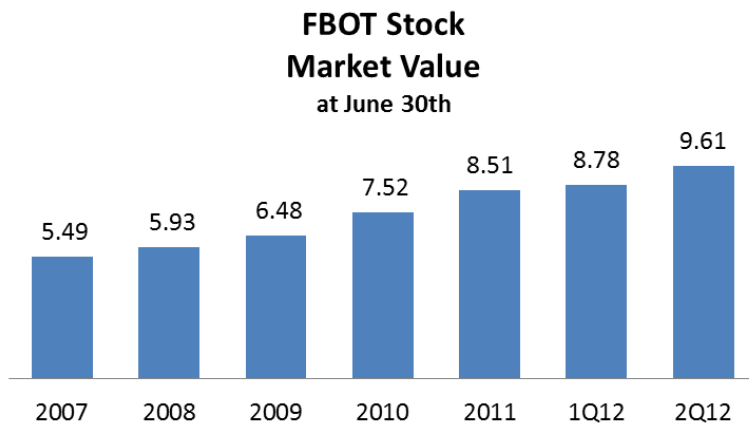
- Non-interest income for the period ended June 30, 2012 was \$3.2 million, an increase of \$856 thousand over the same period in 2011 or 36.9 percent. The majority of the increase was the result of an improvement in fee income from our mortgage division. The strong economy in each of our markets along with continued low interest rates has resulted in strong volume growth in 2012.
- Also contributing to the increase was appreciation in bank owned life insurance policies, which the bank purchased in 2011 to provide protection to the bank if certain key persons were lost.
- Service charges on deposit accounts increased by 7.3 percent from 2011 to 2012 or \$20 thousand. It has become more difficult to increase fee income from deposit-related products due to the regulatory restrictions on overdrafts and debit card products; however at this time, we have not experienced a significant reduction in income from these two income sources.

Net Earnings



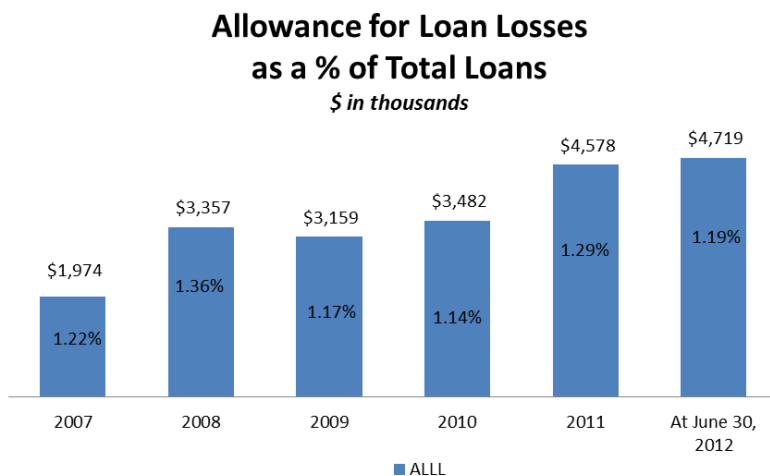
- Net earnings for the first six months of 2012 were \$3.2 million, an increase of \$1.3 million, or 66.8 percent over the same six month period in 2011.
- The growth was primarily driven by increases in net interest income and non-interest income.
- On a basic net earnings per share basis, net earnings were \$0.34 per share for the six-month period ended June 30, 2012 as compared to \$0.24 per share for the six-month period ended June 30, 2011.

Increase in Shareholder Value

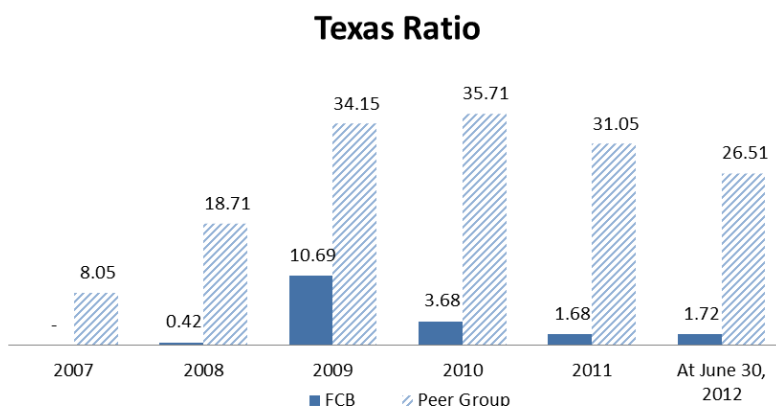


- Our stock has generally traded at 1.5 times book value. Based on those trades, the market value of our stock at the end of June was \$9.61.
- Our private placement offering closed April 2nd and raised \$12 million in new common stock and \$5.6 million in new preferred stock, which boosted our capital levels. The new capital provides additional room for growth and will enable us to be better positioned for new regulatory capital minimums which are expected with the next 12 months.

Asset Quality



- The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probably losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio.
- Our asset quality remains strong and we have continued to build our allowance for loan losses as we have grown our loan portfolio.



- Our non-performing assets as a percent of total equity plus allowance for loan loss, also known as the Texas Ratio, were 1.72 percent at the end of the second quarter. This continues to be an area that we out-perform our peers in.

Operating Efficiency

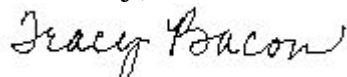
Non-Interest Expense

	For the periods ended June 30		Incr./ Decr.	% Change
	2012	2011		
Salaries & employee benefits	\$5,564,415	\$4,437,398	\$1,127,017	25.40%
Occupancy & equipment expense	1,202,511	1,099,255	103,256	9.39%
Advertising	137,461	207,180	(69,719)	-33.65%
Data processing	204,096	181,209	22,887	12.63%
Legal & professional	438,266	358,684	79,582	22.19%
FDIC assessments	147,000	335,100	(188,100)	-56.13%
Other expense	1,802,965	1,392,248	410,717	29.50%
Total Non-Interest Expense	\$9,496,714	\$8,011,074	\$1,485,640	18.54%

- Non-interest expense for the period ended June 30, 2012 was \$9.5 million as compared to \$8 million for the same six-month period in 2011. This represents an increase in non-interest expense of 18.6 percent. The increases in non-interest expense are primarily the result of our fast growth and the need to provide staffing and systems to support the growth.
- The largest component of expense is salaries and employee benefits. This component increased by \$1.1 million for the period ended June 30, 2012 as compared to the same period in 2011 and represented an increase of 25.4 percent. Some of this expense relates to increased staffing and some relates to higher production volume in our mortgage division as our mortgage originators are compensated on a 100 percent commission basis and their salaries float with their production volume.

We are pleased with our financial results this quarter, with our continued strong growth and record-setting earnings. We are here to answer any questions that you may have regarding our financials. Please don't hesitate to call if we may be of service.

Sincerely,



Tracy Bacon
Chief Financial Officer

FIRST BANCSHARES OF TEXAS, INC.

SECOND QUARTER 2012 CONSOLIDATED FINANCIAL HIGHLIGHTS

(Unaudited)

(Dollar amounts in thousands)

Earnings Summary

For the Six Months Ended June 30	<u>2012</u>	<u>2011</u>
Interest Income	\$ 12,791	\$ 10,732
Interest Expense	1,145	1,441
Provision for loan losses	700	850
Net Income	3,173	1,902

Performance Ratios (annualized)

For the Six Months Ended June 30	<u>2012</u>	<u>2011</u>
Return on Average Assets	1.01%	0.79%
Return on Shareholders' Equity	9.35%	9.65%
Net Interest Margin	3.91%	3.75%

Period-End Data

As of June 30	<u>2012</u>	<u>2011</u>
Total Assets	\$ 636,126	\$ 566,543
Average Assets	629,020	557,496
Investments*	207,544	211,868
Loans, net	392,853	324,510
Deposits	559,291	514,041
Shareholders' Equity	69,818	45,820

Per Share Data**

As of and For the Six Months Ended June 30	<u>2012</u>	<u>2011</u>
Net Income	\$ 0.34	\$ 0.24
Book Value	\$ 6.41	\$ 5.30
Number of Shareholders	546	400

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

**Data shown at holding company level

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED BALANCE SHEET

(Unaudited)

(Dollar amounts in thousands)

	As of		
	June 30	2011	December 31
	<u>2012</u>	<u>2011</u>	<u>2011</u>
ASSETS			
CASH AND DUE FROM BANKS	\$ 11,522	\$ 9,160	\$ 12,452
INVESTMENTS:			
Municipal securities	22,102	17,085	19,490
U.S. gov't agencies	2,038	2,067	2,053
Mortgage backed securities	43,986	37,851	42,533
Due from bank CD's and MMA's	134,900	144,948	123,895
Federal Reserve Bank stock	1,174	859	964
Federal Home Loan Bank stock	244	241	446
Independent Bank Capital Fund	150	73	85
Texas Independent Bankers Bank Stock	200	200	200
Valesco Capital Fund	65	-	59
Total Investments	<u>204,859</u>	<u>203,324</u>	<u>189,725</u>
FEDERAL FUNDS SOLD	2,685	8,544	14,631
LOANS:			
Real estate	253,287	214,395	239,159
Held for sale	13,922	11,023	14,349
Commercial and industrial	110,827	86,667	91,646
Agricultural	240	295	108
Government entities	9,000	2,118	1,715
Consumer	9,670	12,348	11,050
Other	626	1,913	2,906
Total Loans	<u>397,572</u>	<u>328,759</u>	<u>360,933</u>
Less - Allowance for possible loan losses	<u>(4,719)</u>	<u>(4,249)</u>	<u>(4,612)</u>
Loans, net	<u>392,853</u>	<u>324,510</u>	<u>356,321</u>
BANK PREMISES AND EQUIPMENT, NET	10,840	9,460	9,318
OTHER ASSETS	<u>13,367</u>	<u>11,545</u>	<u>12,849</u>
TOTAL ASSETS	<u>\$ 636,126</u>	<u>\$ 566,543</u>	<u>\$ 595,296</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS:			
Demand	\$ 193,604	\$ 140,829	\$ 165,769
Interest Bearing Demand Accounts	40,276	39,026	47,442
Savings	18,458	11,874	15,257
Money Market	106,291	109,547	107,331
Certificates of Deposit	103,539	112,673	111,000
CDARS	97,123	100,092	92,388
Total Deposits	<u>559,291</u>	<u>514,041</u>	<u>539,187</u>
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	2,599	2,543	2,684
Federal Home Loan Bank borrowings	-	-	-
Total Short-term borrowings	<u>2,599</u>	<u>2,543</u>	<u>2,684</u>
SUBORDINATED DEBENTURES	3,093	3,093	3,093
ACCRUED EXPENSES AND OTHER LIABILITIES	<u>1,325</u>	<u>1,046</u>	<u>1,113</u>
Total Liabilities	<u>566,308</u>	<u>520,723</u>	<u>546,077</u>
SHAREHOLDERS' EQUITY			
Common Stock	9,429	7,939	8,010
Preferred Stock	937	377	377
Treasury Stock	-	-	(121)
Surplus	39,784	23,578	24,066
Retained earnings	18,955	13,155	15,980
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	713	773	908
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	(2)	(1)
Total shareholders' equity	<u>69,818</u>	<u>45,820</u>	<u>49,219</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 636,126</u>	<u>\$ 566,543</u>	<u>\$ 595,296</u>

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ended June

(Unaudited)

(Dollar amounts in thousands)

	<u>2012</u>	<u>2011</u>
Interest Income:		
Interest and fees on loans	\$ 11,482	\$ 9,471
Interest on investment securities	894	914
Interest on federal funds sold	13	17
Interest on due from bank CD's and MMA's	360	301
Other interest	42	29
TOTAL INTEREST INCOME	<u>12,791</u>	<u>10,732</u>
Interest Expense:		
Deposits	1,087	1,385
Short-term borrowings	5	7
Other interest	53	49
TOTAL INTEREST EXPENSE	<u>1,145</u>	<u>1,441</u>
Net Interest Income	11,646	9,291
Provision for possible loan losses	<u>700</u>	<u>850</u>
Net Interest Income After Provision	<u>10,946</u>	<u>8,441</u>
Other Income:		
Mortgage (net)	1,920	1,181
Trust	223	213
Other income	581	676
TOTAL OTHER INCOME	<u>2,724</u>	<u>2,070</u>
Other Expenses:		
Salary and employee benefits	5,564	4,420
Building occupancy expense	1,200	1,130
Marketing expense	137	207
Data processing expense	204	181
Other employee expense	1,377	235
Regulatory expense	228	400
Other expenses	327	1,198
TOTAL OTHER EXPENSES	<u>9,037</u>	<u>7,771</u>
Income Before Income Taxes	4,633	2,740
Income tax expense	<u>1,460</u>	<u>838</u>
NET INCOME	<u>\$ 3,173</u>	<u>\$ 1,902</u>

OFFICERS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

[KENNETH L. BURGESS, JR.](#)

Chairman

[BRAD D. BURGESS](#)

Chief Executive Officer

MIDLAND MARKET -

[BRAD D. BULLOCK](#)

President, Midland Market

[TRACY BACON](#)

Executive Vice President & Chief Financial Officer

[MARK ODLE](#)

Executive Vice President & Chief Credit Officer

[TRACY A. TIMLIN](#)

Executive Vice President & Chief Mortgage Officer

[TOM BECKHAM](#)

Senior Vice President, Midland Lending Manager
& Senior Relationship Manager

[JANENE D. BINNION, PHR](#)

Senior Vice President & Team Resources Manager

[BILL J. HILL](#)

Senior Vice President & Trust Officer

[CHRIS L. MCGINNIS](#)

Senior Vice President & IT Manager

[TOBY D. PAYNE](#)

Senior Vice President & Senior Relationship Manager

[ROBIN RICHEY](#)

Senior Vice President & Trust Administration

[LYNNE M. SAWYER](#)

Senior Vice President & Loan Servicing Specialist

[SHANNON L. SMITH](#)

Senior Vice President & Senior Relationship Manager

[JEREMY M. BISHOP](#)

Vice President & Relationship Manager

[JON D. BLACK](#)

Vice President & Odessa Mortgage Manager

[KATIE J. BOYD](#)

Vice President, Training & Marketing Manager

[MELANIE J. HORTON](#)

Vice President & Controller

[MARTIN F. RUEHL](#)

Vice President, Midland Retail Banking Manager & Relationship
Manager

[GINA BROWN](#)

Assistant Vice President & Compliance Officer

[JAY W. ISAACS](#)

President

[TED AWERKAMP](#)

Chief Operating Officer

[GRISELDA J. BUJANDA](#)

Assistant Vice President & Loan Operations Manager

[MICHAEL J. CANON, JR.](#)

Assistant Vice President & IT Specialist

[RODGER L. HORTON](#)

Assistant Vice President & Relationship Manager

[CHRIS A. WHITNEY](#)

Assistant Vice President, Branch Manager & Personal Banker

[NATHAN BILLINGSLEY](#)

Banking Officer, Information Security Officer & Tech
Support Specialist

[SHEA FERLAND, PHR](#)

Banking Officer & Team Resources Representative

[LISA INGRAM](#)

Banking Officer & BSA Officer

[EDGAR PAZ](#)

Banking Officer & Loan Servicing Assistant

[JAMIE WRIGHT](#)

Banking Officer, Branch Manager & Personal Banker

AMARILLO MARKET -

[J. GREG BURGESS](#)

President, Amarillo Market

[CHRIS KOOP](#)

Executive Vice President & Senior Relationship Manager

[GEORGE H. REEVES](#)

Executive Vice President & Chief Operations Officer

[MURIELLE BARNES](#)

Vice President & Mortgage Underwriter

[ANITA K. FINK](#)

Vice President & Assistant Operations Manager

[M. KAY KUHN](#)

Vice President & Amarillo Mortgage Manager

[KENNETH L. BURGESS, III](#)

Assistant Vice President & Relationship Manager

[BRAD STUTEVILLE](#)

Assistant Vice President & Relationship Manager

OFFICERS, CONT.

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

LUBBOCK MARKET -

[DAVID R. QUINTANILLA](#)

President, Lubbock Market

[DARRELL HILL](#)

Senior Vice President & Senior Relationship Manager

[TONY PENA](#)

Senior Vice President & Senior Relationship Manager

[RAINA KENEDA](#)

Vice President, Personal Banking & Loan Services Manager

[LISHA F. KING](#)

Vice President & Operations Manager

[CINDI LEA](#)

Vice President & Lubbock Mortgage Manager

[CATHY COPPLE](#)

Banking Officer & Documentation Preparation Department Manager

THE BOARD OF DIRECTORS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

TED AWERKAMP
Chief Operating Officer

H. TEVIS HERD
Attorney at Law

JOHN D. BERGMAN
Oil & Gas Independent

JAY W. ISAACS
President

CARY BILLINGSLEY
Independent Petroleum Engineer

ROBERT C. LEIBROCK
Oil & Gas Independent

BRAD D. BURGESS
Chief Executive Officer

CHRIS MATTHEWS
Investments

J. GREG BURGESS
President - Amarillo Market

SUBODH I. PATEL
Hospitality Industry

KENNETH L. BURGESS, JR.
Chairman

DAVID R. QUINTANILLA
President - Lubbock Market

MICHAEL J. CANON
Attorney at Law

GEORGE H. REEVES
Executive Vice President
Chief Operations Officer

STEPHEN N. CASTLE
Oil & Gas Independent

C. TODD SPARKS
Vice President & Chief Financial Officer
Discovery Operating, Inc.

BRECK COLQUETT
Owner, B.C. Supply

DR. JAMES WELSH
Physician

A. SCOTT DUFFORD
Oil & Gas Independent

TERRY D. WILKINSON
Investments

J. GAUT
Commercial Real Estate Broker
