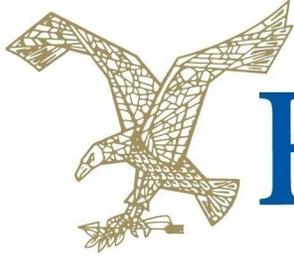


FIRSTBANCSHARES  
OF TEXAS, INC.

FIRSTBANCSHARES  
OF TEXAS, INC.



**FIRSTBANCSHARES**  
OF TEXAS, INC.

Fourth Quarter 2012 Shareholders' Report

FIRSTBANCSHARES  
OF TEXAS, INC.

# Dear Shareholders

2012 turned out to be a very good year for the Company in terms of growth and earnings. The Company ended the year with \$714 million in assets and total earnings of \$6.4 million. We met our budgeted growth and income goals in almost every category.

- Net income for 2012 increased by 32.5%. Total earnings for 2012 were \$6,412,000 vs. \$4,839,000 for 2011 for an increase of \$1.6 million.
- Total assets increased by 20.2%. Total assets at year end 2012 were \$714.8 million vs. \$594.8 million at year end 2011. This was an increase of \$120 million.
- We continued to see strong loan demand as loans increased from \$341.3 million at year end 2011 to \$383.5 at year end 2012 an increase of 12.3%.

All three of our markets continue to have very strong economic results. Midland has the lowest unemployment rate in Texas and one of the lowest in the nation. Amarillo and Lubbock are second and third in the state respectively. A recent article showed Midland to have the strongest job growth in the county in 2012. We are extremely fortunate to be located in such a prolific area of the country.

## **Expansion**

Due to our strong growth over the last several years, we have the need to expand our office space to accommodate our growing staff. Our staffing increased from about 120 people at year end 2011 to about 150 people at the end of 2012. When we moved into our new main office in Midland five years ago, we leased five floors of the building, but we only finished out four of those. We are about to begin the renovation of the 11<sup>th</sup> floor of our downtown office which will give us space for about 45 people.

We have seen significant expansion in our mortgage division as well. In Midland, we added on to our Big Spring branch a few years ago to accommodate growth and we are now preparing to add on to our Wadley branch to provide more space for our mortgage staff and to add other services to that location as well.

We have had a presence in Amarillo for about 10 years now. We have occupied a historic downtown building in Amarillo. We no longer have enough space in the building to house our expanding staff, so we have recently broken ground on a main office which will be located in the rapidly expanding West side of Amarillo. We feel this location will give us a much expanded presence in the market and will provide adequate space for our current staff and some expansion room.

## **Technology**

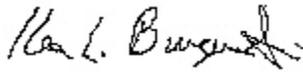
Technology is rapidly changing the way our customers wish to do business with us. Many transactions are now handled electronically rather than by check. We have to be able to provide the services that our customers expect, whenever and wherever they are. We began offering on-line banking by mobile phone this past year and we have expanded the on-line offerings on our website. If you have not had a chance, please view our new website at

[www.fcbtexas.com](http://www.fcbtexas.com). We will be introducing new technology in our branch locations over the next year. We will keep you informed of those changes as we begin to roll them out.

**Second Market**

The Company began working with Second Market out of New York City during 2012 to provide an on-line market place for our stock. We have held two “liquidity events” since the program began and have successfully traded a significant number of shares each time. As more and more people become aware of this opportunity to trade in our stock, we expect this to be an excellent way to provide liquidity for our shareholders and a way for people interested in purchasing our stock to acquire shares. If you have not had a chance to sign onto and review our on-line Second Market site, please give myself or Robin Richey a call and we will be glad to walk through it with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken L. Burgess, Jr.", written in a cursive style.

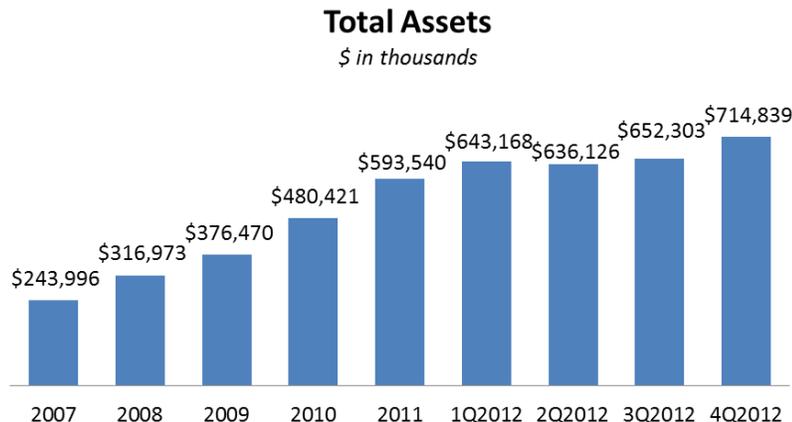
Ken L. Burgess, Jr.  
CEO & President

# FIRSTCAPITAL BANK OF TEXAS, N.A.

## FOURTH QUARTER 2012 DETAILED FINANCIALS

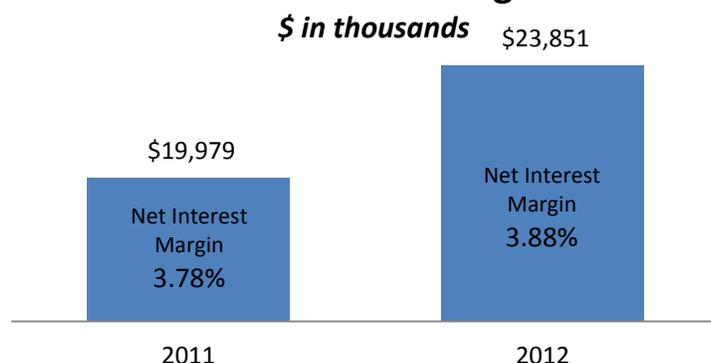
Our consolidated year-to-date earnings for 2012 were \$6.4 million, an increase of \$1.6 million, or 32.5 percent over year-to-date net earnings for 2011. The increase in earnings in 2012 over 2011 was primarily driven by increases in net interest income and non-interest income. Net interest income was up by 20.25 percent and non-interest income increased by 34.8 percent. Much of the growth in non-interest income was derived through increased revenue from our mortgage division. Mortgage fee income increased from \$3.3 million in 2011 to \$5.3 million for 2012, an increase of \$2.0 million or 59.9 percent. Our year-to-date return on average assets at the bank level was 1.04 percent for 2012 as compared to .90 percent for 2011.

### Growth



- Total assets grew \$120 million in 2012, or approximately 20 percent.
- The largest driver of our asset growth is deposits. Total deposits were \$635.6 million as of December 31, 2012, which was an increase of \$96.8 million from the previous year. The fourth quarter is typically when we see the most growth in our deposits and 2012 was no exception. Our deposits grew \$50.9 million from third quarter to fourth quarter, which was about half of our growth for the year.

### Net Interest Income (incl. loan fees) & Net Interest Margin



- 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 \$23.9 million for 2012 as compared to \$19.8 million for 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 3.78 percent for 2011 to 3.88 percent for 2012.

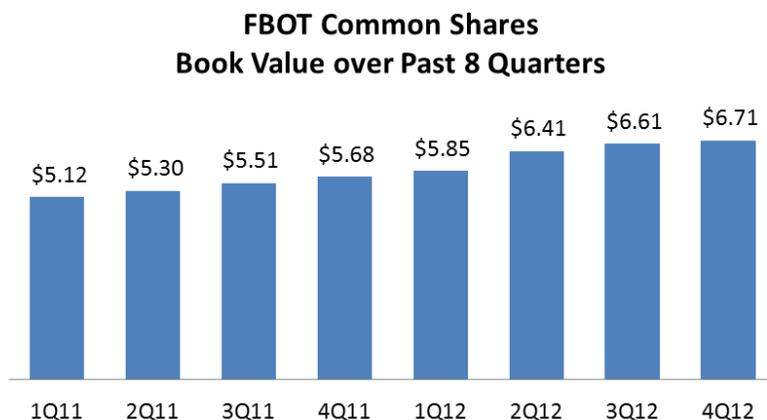
## Non-Interest Income

For the Periods ended		Incr./ Decr.	% Change
December 31			
2012	2011		

Trust department income	\$428,983	\$408,054	\$20,929	5.13%
Service charges on deposit accounts	576,301	536,881	39,420	7.34%
Other service charges and fees	764,121	799,654	(35,533)	-4.44%
Appreciation in cash surrender value of life insurance	233,783	175,909	57,874	32.90%
Real estate mortgage fees	5,317,870	3,325,110	1,992,760	59.93%
Gain/(Loss) on sale of foreclosed assets	(201,882)	37,757	(239,639)	-634.69%
<b>Total Non-Interest Income</b>	<b>\$7,119,176</b>	<b>\$5,283,365</b>	<b>\$1,835,811</b>	<b>34.75%</b>

- Non-interest income for the period ended December 31, 2012 was \$7.1 million, an increase of \$1.8 million over the same period in 2011 or 34.75 percent. The majority of the increase was the result of an improvement in fee income from our mortgage division as mentioned above. The strong economy in each of our markets along with continued low interest rates has resulted in strong volume growth in 2012. The increased volume has come both from re-financing activity as well as home purchasing.
- The next most significant increase was in appreciation in bank owned life insurance policies which the Company purchased in 2011 to provide protection to the Company if certain key persons were lost. Bank owned life insurance serves two purposes for a bank: it provides life insurance on the lives of key personnel within the bank to help offset the cost of replacing them in the event of death; and the incremental revenue from the life insurance helps to offset the future cost of existing employee benefit plans such as health care plan premiums. The income from bank owned life insurance is tax-deferred, which creates a tax advantage as well. The bank owned life insurance policies that the Company has purchased on key personnel is through Northwestern Mutual Life Insurance Co., which has a Standard and Poor's rating of AA+.
- The gain/loss on sale of foreclosed assets relates to a \$200,000 write-down on other real estate owned that we took in the second quarter of 2012.

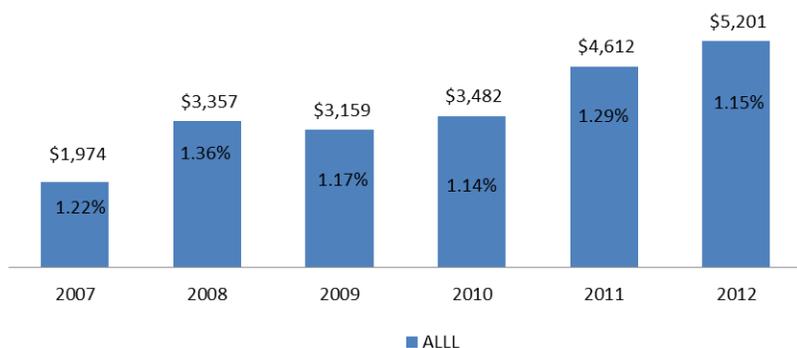
## Increase in Shareholder Value



- Our book value has increased from \$5.68 per common share at December 31, 2011 to \$6.71 per common share at December 31, 2012, which equates to an 18 percent increase in the value of our common shares.
- 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 December 2012 was \$10.07.

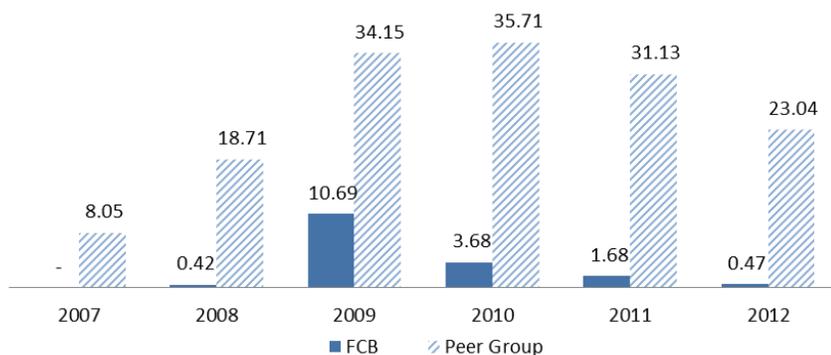
## Asset Quality

### Allowance for Loan Losses as a % of Total Loans \$ in thousands



- The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable 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 maintained our allowance for loan losses at an adequate level.

### Texas Ratio



- Non-performing assets as a percent of total equity plus allowance for loan loss, also known as the Texas Ratio, were .47 percent at December 31, 2012. This continues to be an area that we out-perform our peers.

## Operating Efficiency

### Non-Interest Expense

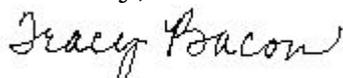
For the Periods ended December 31		Incr./ Decr.	% Change
2012	2011		

Salaries & employee benefits	\$11,751,095	\$9,117,147	\$2,633,948	28.89%
Occupancy & equipment expense	2,545,418	2,271,015	274,403	12.08%
Advertising	357,624	489,093	(131,469)	-26.88%
Data processing	414,745	359,426	55,319	15.39%
Legal & professional	1,012,651	740,108	272,543	36.82%
FDIC assessments	482,329	589,924	(107,595)	-18.24%
Other expense	3,710,224	2,852,026	858,198	30.09%
<b>Total Non-Interest Expense</b>	<b>\$20,274,086</b>	<b>\$16,418,739</b>	<b>\$3,855,347</b>	<b>23.48%</b>

- Non-interest expense for the period ended December 31, 2012 was \$20.3 million as compared to \$16.4 million for the period ended December 31, 2011. This represents an increase in non-interest expense of 23.5 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 item of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by \$2.6 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011 and represented an increase of 28.89 percent. Some of this expense relates to increased staffing and benefits expense 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.
- Legal and professional fees increased by \$272 thousand or 36.82 percent from the period ended December 31, 2011 to December 31, 2012. The increases were the result of legal fees for the Company's stock offering which ended on April 2, 2012 and due to consultant fees expended by the Company for the implementation of new technology, which accounted for \$176 thousand of the increase. An additional component was increases in audit expenses of \$92 thousand to assure compliance with the regulatory environment the Company operates in. The increases in audit expenses are due to growth and increased regulation.
- The Company experienced a decrease in deposit insurance costs, as this cost for 2011 was \$590 thousand and for the same time period in 2012 it declined to \$482 thousand. The decline in cost resulted from a change in the rate and the methodology in which the FDIC assesses premiums on banks for FDIC deposit insurance. The Dodd-Frank Act, which went into effect in 2011, changed the base on which premiums are charged from deposits to assets. With the change came a reduction in assessment rate. Banks like the Company, which primarily fund their balance sheets with domestic deposits, generally saw a decrease in their deposit insurance premiums, while banks that primarily fund their balance sheets with foreign deposits, Federal Home Loan Bank advances or other funding sources generally saw their deposit premiums increase as a result of this change.
- All other expenses increased by \$858 thousand or 30%. Much of this increase is attributable to the growth of the bank and to the higher volume of mortgage loan originations. Mortgage loan originations generate expenses based on volume. As volume increases, these variable mortgage origination expenses increase. Included in this expense is recording and filing fees, which increased \$410 thousand from December 31, 2011 to December 31, 2012. Also contributing to the increase is expenses related to other real estate owned of \$108 thousand and an increase of \$71 thousand related to software maintenance from December 31, 2011 to December 31, 2012.

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.

## FOURTH QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

### Earnings Summary

For the Twelve Months Ended December 31		<u>2012</u>		<u>2011</u>
Interest Income	\$	25,999	\$	22,804
Interest Expense		2,148		2,825
Provision for loan losses		1,500		1,700
Net Income		6,411		4,839

### Performance Ratios (annualized)\*

For the Twelve Months Ended December 31		<u>2012</u>		<u>2011</u>
Return on Average Assets		1.04%		0.90%
Return on Common Shareholders' Average Equity		11.23%		10.88%
Net Interest Margin		3.88%		3.61%

### Period-End Data

As of December 31		<u>2012</u>		<u>2011</u>
Total Assets	\$	714,839	\$	594,831
Average Assets		658,727		579,778
Investments**		225,281		205,494
Loans, net		446,260		356,321
Deposits		625,243		538,596
Shareholders' Equity		72,755		49,219

### Per Share Data\*\*\*

As of and For the Twelve Months Ended December 31		<u>2012</u>		<u>2011</u>
Net Income	\$	0.65	\$	0.58
Book Value	\$	6.71	\$	5.68
Number of Shareholders				
Common		464		379
Preferred		86		39

\*Data shown at bank level

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

\*\*\*Data shown at holding company level

# FIRST BANCSHARES OF TEXAS, INC.

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	December 31,	
	(Unaudited)	(Audited)
	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 19,650	\$ 11,992
Federal funds sold	3,529	14,631
Cash and cash equivalents	<u>23,179</u>	<u>26,623</u>
Interest bearing deposits in banks	157,874	123,894
Securities available for sale, at fair value	35,422	25,024
Securities held to maturity	25,047	39,051
Investment in First Bancshares of Texas Statutory Trust I	93	93
Investment in FirstCapital GP, LLC	1,046	1,046
Restricted investment held at cost	2,270	1,755
Loans held for sale	62,807	14,975
Loans and leases receivable, net of allowance for loan and lease losses	383,453	341,346
Accrued interest receivable	2,205	1,999
Premises and equipment	10,978	9,310
Deferred tax asset, net	1,513	1,100
Foreclosed assets	25	-
Cash surrender value of life insurance	7,447	7,214
Prepaid FDIC assessment	521	773
Other assets	959	628
TOTAL ASSETS	<u>\$ 714,839</u>	<u>\$ 594,831</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Non-interest bearing deposits	\$ 228,922	\$ 164,988
Interest bearing deposits	396,321	373,608
Total deposits	<u>625,243</u>	<u>538,596</u>
Accrued expenses and other liabilities	1,213	1,239
Securities sold under agreement to repurchase	2,535	2,684
Subordinated debentures	3,093	3,093
Other borrowed funds	10,000	-
Total liabilities	<u>642,084</u>	<u>545,612</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	9,440	8,010
Preferred stock	937	377
Treasury stock, at cost	(129)	(121)
Surplus		
Common	31,481	20,691
Preferred	8,400	3,375
Capital Surplus	<u>39,881</u>	<u>24,066</u>
Retained earnings	21,914	15,980
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	712	908
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	(1)
Total shareholders' equity	<u>72,755</u>	<u>49,219</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 714,839</u>	<u>\$ 594,831</u>

# FIRST BANCSHARES OF TEXAS, INC.

## CONSOLIDATED STATEMENT OF INCOME

For the Twelve Months Ended December

(Dollar amounts in thousands)

	(Unaudited)	(Audited)
	<u>2012</u>	<u>2011</u>
<b>Interest Income:</b>		
Loans and leases, including fees	\$ 23,543	\$ 20,290
Debt Securities		
Taxable	948	1,244
Tax exempt	687	572
Federal funds sold	25	30
Deposits with banks	795	668
TOTAL INTEREST INCOME	<u>25,998</u>	<u>22,804</u>
<b>Interest Expense:</b>		
Deposits	2,044	2,726
Other borrowed money	-	-
Subordinated debentures	104	99
TOTAL INTEREST EXPENSE	<u>2,148</u>	<u>2,825</u>
<b>Net Interest Income (Loss)</b>	<b>23,850</b>	19,979
Provision for loan and lease losses	<u>1,500</u>	<u>1,700</u>
<b>Net Interest Income (Loss) After Provision</b>	<u>22,350</u>	<u>18,279</u>
<b>Non-Interest Income:</b>		
Trust department income	429	408
Service charges on deposit accounts	576	662
Other service charges and fees	743	631
Net realized gain (loss) on sales of available for sale securities	22	60
Appreciation in cash surrender value of life insurance	234	176
Real estate mortgage fees	5,318	3,240
Gain/Loss on sale of foreclosed assets	(202)	(1)
Gain/Loss on sale of loans	-	-
TOTAL NON-INTEREST INCOME	<u>7,120</u>	<u>5,176</u>
<b>Non-Interest Expenses:</b>		
Salaries and employee benefits	11,751	9,096
Occupancy and equipment expense	2,545	2,265
Advertising	358	489
Data processing expense	415	359
Legal and professional	2,108	715
FDIC assessment	318	448
Other expenses	2,778	3,093
TOTAL NON-INTEREST EXPENSES	<u>20,273</u>	<u>16,465</u>
<b>Income Before Income Taxes</b>	<b>9,197</b>	6,990
Income tax expense	<u>2,785</u>	<u>2,151</u>
<b>NET INCOME</b>	<u>\$ 6,412</u>	<u>\$ 4,839</u>

# OFFICERS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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

Chairman

[BRAD D. BURGESS](#)

Chief Executive Officer

[TED AWERKAMP](#)

Chief Operating Officer

[JAY W. ISAACS](#)

President

## ***MIDLAND MARKET -***

[BRAD D. BULLOCK](#)

President, Midland Market

[PHYLLIS BECHNER](#)

Executive Vice President & Loan Operations & Credit  
Administration Manager

[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

[JEREMY M. BISHOP](#)

Senior Vice President & Sr. Relationship 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

[SHANNON L. SMITH](#)

Senior Vice President & Senior Relationship Manager

[JON D. BLACK](#)

Vice President & Odessa Mortgage Manager

[KATIE J. BOYD](#)

Vice President, Training & Marketing Manager

[TRACY BACON](#)

Chief Financial Officer

[J. GREG BURGESS](#)

Chief Lending Officer

[GEORGE H. REEVES](#)

Chief Operations Officer

[GINA BROWN](#)

Vice President & Compliance Officer

[MELANIE J. HORTON](#)

Vice President & Controller

[MARTIN F. RUEHL](#)

Vice President, Midland Retail Banking Manager

[GRISELDA J. BUJANDA](#)

Assistant Vice President & Loan Operations Manager

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

Assistant Vice President & IT Specialist

[SHEA FERLAND, PHR](#)

Assistant Vice President & Team Resources Representative II

[LISA INGRAM](#)

Assistant Vice President & BSA Officer

[CHRIS ANN WHITNEY](#)

Assistant Vice President, Branch Manager & Personal Banker

[EDGAR PAZ](#)

Banking Officer & Loan Servicing Assistant

[JANA SALDIVAR](#)

Banking Officer & Credit Administration Manager

[CALIB WILLIAMS](#)

Banking Officer & Information Security Officer

[JAMIE WRIGHT](#)

Banking Officer, Branch Manager & Personal Banker

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# OFFICERS, CONT.

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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## **AMARILLO MARKET -**

[CHRIS KOOP](#)

President, Amarillo Market

[LACIE McDOWELL](#)

Senior Vice President & Treasury Management

[MURIELLE BARNES](#)

Vice President & Mortgage Underwriter

[BRUCE FIELDER](#)

Vice President & Mortgage Operations Manager

[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

[CARMELLA SMITH](#)

Assistant Vice President & Wire Transfer Manager

[ABBY SNYDER](#)

Assistant Vice President & Branch Manager

[BRAD STUTEVILLE](#)

Assistant Vice President & Relationship Manager

## **LUBBOCK MARKET -**

[DAVID R. QUINTANILLA](#)

President, Lubbock Market

[MARILANDA CRISTAN](#)

Senior Vice President & Consumer Credit

Underwriting Manager

[DARRELL HILL](#)

Senior Vice President & Senior Relationship Manager

[TONY PENA](#)

Senior Vice President & Senior Relationship Manager

[TRAVIS HILLMAN](#)

Vice President, 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

[SHIRLEY WIGLEY](#)

Vice President & Compliance Specialist II

[YOLANDA BELGARA](#)

Banking Officer & Consumer Underwriter

[CATHY COPPLE](#)

Banking Officer & Loan Documentation Preparation  
Department Manager

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# THE BOARD OF DIRECTORS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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**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**  
Chief Lending Officer

**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**  
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

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