

FIRSTBANCSHARES  
OF TEXAS, INC.

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**FIRSTBANCSHARES**  
OF TEXAS, INC.

Second Quarter 2015 Shareholders' Report

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# Dear Shareholders

As we enter the second half of 2015, we watch the unfolding presidential election saga. Will we be looking at more of the same for the next five years or can we look forward to new beginnings with less government intervention. The banking industry and the economy have been severely hampered for the last seven years by excessive governmental controls. The pendulum always swings too far to one side or the other after a major event, in this case the financial crisis, but it eventually swings back. Hopefully, we are close to the beginning of the correction. The most important thing we can all do at this point is exercise our right as citizens and involve ourselves heavily in the election process.

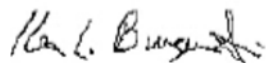
Our industry has adjusted fairly well to the new norm, albeit with lower operating margins as the result of lower net interest margins and higher operating costs due to increased regulation. However, asset quality across the industry has improved dramatically. The Federal Reserve continues to ponder when to begin raising interest rates and that looks to be sometime before the end of the year. A slow rise in interest rates over a multi-year period will likely be good for our bank and for the industry. In our case, we are poised for rising interest rates and look forward to that eventuality.

We have experienced continued strong growth in assets through the first six months of the year. Total assets have grown from \$888.9 million at year end 2014 to \$980.5 million as of June 30. This represents an annualized growth rate of just over 20%. Loans, the primary driver of our profitability, have increased from \$570.7 million at year end to \$619.4 million as of June 30. This represents an annualized growth rate of just over 17%. Both of these growth factors place the Company well ahead of our competitors in the markets we serve.

A spike in bond interest yields during the quarter enabled us to put more of our idle funds to work and these investments have begun to improve our net interest margin. The strong growth in our loan portfolio is also yielding fruit. We have worked hard during the first half of the year to manage expenses without hurting our ability to grow the balance sheet or effect the service we provide to our customers.

You will find a detailed analysis of our financial performance for the first six months of the year. If you have any questions, please give us a call. We look forward to visiting with you.

Sincerely,



Ken L. Burgess, Jr.  
CEO & President

# FIRST BANCSHARES OF TEXAS, INC.

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	June 30,		December 31,
	(Unaudited)	(Unaudited)	(Audited)
	<u>2015</u>	<u>2014</u>	<u>2014</u>
<b>ASSETS</b>			
Cash and due from banks	\$ 13,851	\$ 15,926	\$ 10,993
Federal funds sold	9,438	9,891	4,821
Cash and cash equivalents	<u>23,289</u>	25,817	15,814
Interest bearing deposits in banks	75,380	161,060	150,930
Securities available for sale, at fair value	60,460	35,710	36,716
Securities held to maturity	160,479	76,456	74,620
Investment in First Bancshares of Texas Statutory Trust I	93	93	93
Investment in FirstCapital GP, LLC	846	843	839
Investments in partnerships	1,135	585	1,084
Restricted investment held at cost	1,956	1,794	1,842
Loans held for sale	6,346	7,487	1,570
Loans and leases receivable, net of allowance for loan and lease losses	613,078	503,654	569,199
Accrued interest receivable	3,167	2,776	3,041
Premises and equipment	22,198	20,429	21,366
Deferred tax asset, net	2,811	2,434	2,788
Foreclosed assets	-	-	-
Cash surrender value of life insurance	8,044	7,801	7,923
Prepaid FDIC assessment	-	-	-
Other assets	1,240	1,142	1,074
TOTAL ASSETS	<u>\$ 980,522</u>	<u>\$ 848,081</u>	<u>\$ 888,899</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Non-interest bearing deposits	\$ 239,568	\$ 250,589	\$ 252,770
Interest bearing deposits	593,355	499,605	520,434
Total deposits	<u>832,923</u>	750,194	773,204
Accrued expenses and other liabilities	2,345	1,974	2,182
Securities sold under agreement to repurchase	53,260	11,886	24,776
Subordinated debentures	3,093	3,093	3,093
Other borrowed funds	1,138	-	1,159
Total liabilities	<u>892,759</u>	767,147	804,414
<b>SHAREHOLDERS' EQUITY</b>			
Common stock	9,454	9,450	9,450
Preferred stock	937	937	937
Treasury stock, at cost	-	(71)	(16)
Surplus			
Common	31,886	31,728	31,774
Preferred	8,400	8,400	8,400
Capital Surplus	<u>40,286</u>	40,128	40,174
Retained earnings	36,756	30,395	33,639
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	330	95	301
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	-	-
Total shareholders' equity	<u>87,763</u>	80,934	84,485
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 980,522</u>	<u>\$ 848,081</u>	<u>\$ 888,899</u>

# FIRST BANCSHARES OF TEXAS, INC.

## CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ended June

(Dollar amounts in thousands)

	(Unaudited)	(Unaudited)
	<u>2015</u>	<u>2014</u>
<b>Interest Income:</b>		
Loans and leases, including fees	\$ 16,138	\$ 13,559
Debt Securities		
Taxable	1,376	1,171
Tax exempt	537	598
Federal funds sold	19	12
Deposits with banks	475	459
Other interest	65	47
TOTAL INTEREST INCOME	<u>18,610</u>	<u>15,846</u>
<b>Interest Expense:</b>		
Deposits	1,564	1,423
Other borrowed money	198	18
Subordinated debentures	48	48
TOTAL INTEREST EXPENSE	<u>1,810</u>	<u>1,489</u>
<b>Net Interest Income (Loss)</b>	<b>16,800</b>	14,357
Provision for loan and lease losses	<u>850</u>	<u>555</u>
<b>Net Interest Income (Loss) After Provision</b>	<b>15,950</b>	13,802
<b>Non-Interest Income:</b>		
Trust department income	194	232
Service charges on deposit accounts	347	299
Other service charges and fees	399	329
Net realized gain (loss) on sales of securities	361	-
Appreciation in cash surrender value of life insurance	121	118
Gain/Loss on sale of loans	749	1,387
Gain/Loss on sale of foreclosed assets	(4)	(14)
Gain/Loss on sale of fixed assets	11	18
TOTAL NON-INTEREST INCOME	<u>2,178</u>	<u>2,369</u>
<b>Non-Interest Expenses:</b>		
Salaries and employee benefits	7,937	7,180
Occupancy and equipment expense	2,037	1,587
Advertising	196	121
Community and philanthropic support	121	97
IT and data processing expense	400	360
Legal, professional, accounting, and exam fees	621	673
FDIC assessment	266	238
Reduction in value of foreclosed assets	-	-
Other expenses	1,641	1,451
TOTAL NON-INTEREST EXPENSES	<u>13,219</u>	<u>11,707</u>
<b>Income Before Income Taxes</b>	<b>4,909</b>	4,464
Income tax expense	<u>1,511</u>	<u>1,361</u>
<b>NET INCOME</b>	<b>\$ 3,398</b>	<b>\$ 3,103</b>

# FIRST BANCSHARES OF TEXAS, INC.

## SECOND QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

### Earnings Summary

For the Six Months Ended June 30		<u>2015</u>		<u>2014</u>
Interest Income	\$	18,610	\$	15,846
Interest Expense		1,810		1,489
Provision for loan losses		850		555
Net Income		3,398		3,103

### Performance Ratios (annualized)

For the Six Months Ended June 30		<u>2015</u>		<u>2014</u>
Return on Average Assets		0.71%		0.76%
Return on Common Shareholders' Average Equity		8.88%		8.89%
Net Interest Margin		3.71%		3.79%

### Period-End Data

As of June 30		<u>2015</u>		<u>2014</u>
Total Assets	\$	980,522	\$	848,081
Average Assets		968,955		821,320
Investments*		300,349		276,541
Loans, net		619,424		511,141
Deposits		832,923		750,194
Shareholders' Equity				
Common		78,426		71,597
Preferred		9,337		9,337

### Per Share Data

For the Six Months Ended June 30		<u>2015</u>		<u>2014</u>
Net Income	\$	0.33	\$	0.30
Book Value	\$	8.29	\$	7.58
Number of Shareholders				
Common		487		493
Preferred		86		86

\*Includes interest-bearing deposits in banks, securities, investments in subsidiaries, investments in partnerships, and restricted investments held at cost

































## CAPITALIZATION

The following table represents, on a consolidated basis, the capitalization of the Company as of June 30, 2015.

	<b>At June 30, 2015</b>
<b>Long-Term Indebtedness:</b>	
Junior subordinated debentures - trust preferred securities	<u>\$ 3,093,000</u>
Total indebtedness	<u>\$ 3,093,000</u>
<b>Shareholders' Equity:</b>	
Common stock, par value \$1.00 per share, 15,000,000 shares authorized, 9,453,657 shares issued, 9,453,657 shares outstanding as of June 30, 2015	\$ 9,453,657
Preferred stock, par value \$1.00 per share, 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of June 30, 2015	937,044
Surplus	
Common	31,886,021
Preferred	<u>8,399,979</u>
Surplus	<u>40,286,000</u>
Treasury stock	-
Retained earnings	36,755,885
Accumulated other comprehensive income	<u>330,371</u>
Total shareholders' equity	<u>\$ 87,762,957</u>
<b>Capital Ratios (Consolidated):</b>	
Tier 1 to average assets capital ratio	9.19%
Common Equity Tier 1 capital ratio	10.73%
Tier 1 risk-based capital ratio	12.43%
Total risk-based capital ratio	13.56%

## HISTORICAL TRADES AND VALUATIONS

There have been very few trades in our common stock. The following table presents the low and high per share prices, number of shares traded and the number of trades per quarter for trades in our common stock of which we are aware since January 1, 2009:

<u>Quarter</u>	<u>Low</u>	<u>High</u>	<u>Number of Shares Traded</u>	<u>Number of Trades</u>	<u>Book Value as of Prior Quarter end</u>	<u>Multiple of Price to Book Value</u>	
						<u>Low</u>	<u>High</u>
1st Quarter 2009	\$ 6.00	\$ 6.00	43,133	9	3.95	1.52	1.52
2nd Quarter 2009	\$ 6.00	\$ 6.15	119,151	13	4.05	1.48	1.52
3rd Quarter 2009	\$ 6.00	\$ 6.15	45,850	9	4.12	1.46	1.49
4th Quarter 2009	\$ 6.15	\$ 6.35	43,337	9	4.24	1.45	1.50
1st Quarter 2010	\$ -	\$ -	0	0	4.32	0.00	0.00
2nd Quarter 2010	\$ 6.35	\$ 7.04	149,870	11	4.68	1.36	1.50
3rd Quarter 2010	\$ 7.08	\$ 7.25	160,570	21	4.79	1.48	1.51
4th Quarter 2010	\$ 7.25	\$ 7.34	77,000	9	4.89	1.48	1.50
1st Quarter 2011	\$ 7.50	\$ 7.50	22,500	7	5.01	1.50	1.50
2nd Quarter 2011	\$ 6.35	\$ 7.68	35,386	7	5.12	1.24	1.50
3rd Quarter 2011	\$ 7.86	\$ 8.16	70,306	15	5.30	1.48	1.54
4th Quarter 2011	\$ 8.16	\$ 8.43	140,730	31	5.51	1.48	1.53
1st Quarter 2012	\$ 8.50	\$ 8.51	16,194	9	5.68	1.50	1.50
2nd Quarter 2012	\$ 8.50	\$ 9.46	1,446,285	140	5.85	1.45	1.62
3rd Quarter 2012	\$ 8.77	\$ 9.62	40,160	22	6.41	1.37	1.50
4th Quarter 2012	\$ 9.62	\$ 9.91	21,751	7	6.61	1.46	1.50
1st Quarter 2013	\$ 9.56	\$ 10.06	35,334	4	6.71	1.42	1.50
2nd Quarter 2013	\$ 9.25	\$ 10.41	59,876	12	6.87	1.35	1.52
3rd Quarter 2013	\$ 9.76	\$ 10.55	58,932	10	6.93	1.41	1.52
4th Quarter 2013	\$ 10.00	\$ 10.82	135,149	11	7.10	1.41	1.52
1st Quarter 2014	\$ 10.87	\$ 11.01	89,103	5	7.24	1.50	1.52
2nd Quarter 2014	\$ 11.03	\$ 11.14	9,234	3	7.42	1.49	1.50
3rd Quarter 2014	\$ 11.24	\$ 11.54	30,632	8	7.58	1.48	1.52
4th Quarter 2014	\$ 11.54	\$ 11.81	79,783	8	7.75	1.49	1.52
1st Quarter 2015	\$ 11.81	\$ 12.10	51,216	8	7.95	1.49	1.52
2nd Quarter 2015	\$ 12.31	\$ 12.31	71,073	7	8.11	1.52	1.52

The prices given 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 above, our stock has generally traded at a multiple of 1.5 times book value, as is reflected in the far right columns. We are not obligated to register our common stock or preferred stock with the SEC or, upon any registration, to create a market for our shares. Thus, a holder of our common stock may be unable to liquidate his investment and must be able to bear the economic risk of such investment indefinitely.

# OFFICERS

## OF FIRSTCAPITAL BANK OF TEXAS, N.A.

---

### MICHAEL J. CANON

Chairman - First Bancshares of Texas, Inc.  
& General Counsel

### KENNETH L. BURGESS, JR.

Chairman - FirstCapital Bank of Texas, N.A.

### BRAD D. BURGESS

Chief Executive Officer

### JAY W. ISAACS

President

### TRACY BACON

Chief Operating Officer

### **MIDLAND MARKET -**

### SCOTT NELSON

President, Midland Market

### JEREMY M. BISHOP

Branch President

### BETHANY ETHEREDGE

Branch President

### TOM BECKHAM

Senior Vice President, Midland Lending Manager  
& Senior Relationship Manager

### KATIE J. BOYD

Senior Vice President, Marketing & Training Manager

### BILL J. HILL

Senior Vice President & Trust Officer

### MELANIE J. HORTON

Senior Vice President & Controller

### CHRIS L. MCGINNIS

Senior Vice President & IT Manager

### TOBY D. PAYNE

Senior Vice President & Senior Relationship Manager

### ROBIN RICHEY

Senior Vice President & Trust Administration

### BRADY ROSS

Senior Vice President & Senior Relationship Manager

### GRISELDA J. BUJANDA

Vice President & Loan Operations Manager

### SHEA FERLAND

Vice President & Team Resources Representative II

### JANA SALDIVAR

Vice President & Credit Administration Manager

### LISA SHANKS

Vice President & BSA Officer

### SCOTT STREIT

Vice President & Relationship Manager

### PHYLLIS BECHNER

Chief Financial Officer

### BRAD D. BULLOCK

Chief Risk Officer

### J. GREG BURGESS

Chief Credit Officer

### GEORGE H. REEVES

Chief Deposit & Technology Officer

### MICHAEL J. CANON, JR.

Assistant Vice President & IT Specialist

### AVERY PULLIN

Assistant Vice President & Training Manager

### SHERYL RYAN

Assistant Vice President & Information Security Officer

### CRYSTAL STURM

Assistant Vice President, Data Analytics & Project Manager

### CHRIS ANN WHITNEY

Assistant Vice President & Branch Manager

### CALIB WILLIAMS

Assistant Vice President & Systems Administration Officer

### TAMMY BROWN

Banking Officer & Mortgage Loan Officer

### MARTA HERNANDEZ

Banking Officer & Branch Manager

### STEPHANIE HILL

Banking Officer & Team Resources Representative II

### BRITTON KUHNHENN

Banking Officer, Marketing & Corporate Communication

### LIZETT LEYVA

Banking Officer & Project Analyst

### KAMI LITTLE

Banking Officer & BSA Analyst II

### CODY PETTY

Banking Officer & Branch Manager

### BLAKE SCOTT

Banking Officer & Staff Accountant II

# OFFICERS, CONT.

## OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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### **AMARILLO MARKET -**

[CHRIS KOOP](#)

President, Amarillo Market

[BRAD STUTEVILLE](#)

Branch President

[BOWDEN JONES, JR.](#)

Senior Vice President & Retail Banking Manager

[LACIE McDOWELL](#)

Senior Vice President & Treasury Management

[RICKY RODRIGUEZ](#)

Senior Vice President & Operations Officer

[DONALD TAYLOR](#)

Senior Vice President & Relationship Manager

[KENNETH L. BURGESS, III](#)

Vice President & Loan Review Manager

[ANITA K. FINK](#)

Vice President & Assistant Operations Manager

[M. KAY KUHN](#)

Vice President & Amarillo Mortgage Manager

[CARMELLA SMITH](#)

Assistant Vice President & Wire Transfer Manager

[ABBY SNYDER](#)

Assistant Vice President & Branch Manager

[MEREDITH STOVER](#)

Assistant Vice President & Relationship Manager

[CHRISTY CAMPBELL](#)

Banking Officer & Branch Manager

### **HORSESHOE BAY MARKET -**

[TAMI RANDOLPH](#)

Banking Officer & Mortgage Loan Officer

### **LUBBOCK MARKET -**

[TONY PENA](#)

President, Lubbock Market

[DAVE SWECKER](#)

Executive Vice President & Mortgage Division Manager

[MARILANDA CRISTAN](#)

Senior Vice President & Consumer Credit

Underwriting Manager

[DARRELL HILL](#)

Senior Vice President & Senior Relationship Manager

[TRAVIS HILLMAN](#)

Senior Vice President & Senior Relationship Manager

[ROSALINDA MEREDITH](#)

Senior Vice President & Compliance Officer

[LISHA KING](#)

Vice President & TellerConnect Manager

[YOLANDA BELGARA](#)

Assistant Vice President & Consumer Credit Underwriter

[CATHY COPPLE](#)

Assistant Vice President & Loan Documentation Preparation  
Department Manager

[DWINNA WULFJEN](#)

Assistant Vice President & Mortgage Operations Analyst

[OLGA AGUNDIZ](#)

Banking Officer & Compliance Specialist

[LASEY ASHBURN](#)

Banking Officer & Relationship Manager

[ISRAEL ARMENDARIZ](#)

Banking Officer, CRA & Fair Lending Officer

[SAVANNA HOLTON](#)

Banking Officer & Mortgage Loan Officer

[STEPHANIE KAVANAUGH](#)

Banking Officer & Mortgage Loan Officer

# THE BOARD OF DIRECTORS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

---

**JOHN D. BERGMAN**

Oil & Gas Independent

**JAY W. ISAACS**

President

**CARY BILLINGSLEY**

Independent Petroleum Engineer

**CHRIS MATTHEWS**

Investments

**BRAD D. BURGESS**

Chief Executive Officer

**SUBODH I. PATEL**

Hospitality Industry

**J. GREG BURGESS**

Chief Credit Officer

**ALLEN PRUITT**

Investments

**KENNETH L. BURGESS, JR.**

Chairman

**GEORGE H. REEVES**

Chief Deposit & Technology Officer

**MICHAEL J. CANON**

Chairman - First Bancshares of Texas, Inc.  
& General Counsel

**JERRY ROHANE**

Commercial Construction

**STEPHEN N. CASTLE**

Oil & Gas Independent

**C. TODD SPARKS**

Vice President & Chief Financial Officer  
Discovery Operating, Inc.

**A. SCOTT DUFFORD**

Oil & Gas Independent

**DR. JAMES WELSH**

Physician

**H. TEVIS HERD**

Attorney at Law

**TERRY D. WILKINSON**

Investments



# THE BOARD OF DIRECTORS

OF FIRST BANCSHARES OF TEXAS, INC.

---

**MICHAEL J. CANON**

Chairman

**KENNETH L. BURGESS, JR.**

President

**BRAD D. BURGESS**

Vice President

**BRECK COLQUETT**

Director

**H. TEVIS HERD**

Director

**JAY W. ISAACS**

Director

**SUBODH I. PATEL**

Director

**DON PICKERING**

Director

**JAMES W. RAMSEY**

Director

**C. TODD SPARKS**

Director

**TERRY D. WILKINSON**

Director

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