

FIRSTBANCSHARES
OF TEXAS, INC.

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Fourth Quarter 2010 Shareholders' Report

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Dear Shareholders

2010 saw the beginning of a recovery in the banking industry. While still exhibiting weakness on a national basis, Texas banking has seen some improvement. Thankfully, West Texas and the Panhandle where we operate has been the strongest in the state. We experienced improvement in 2010 as can be seen through our financial performance. The bit of credit weakness we experienced in 2009 and 2010 has now subsided significantly. We should see much less cost from loan losses in 2011 vs. the last two years.

FirstCapital Bank ended the year with earnings of \$3.21 million as compared to \$2.28 million in 2009. The significant increase in earnings was possible due to strong improvement in our net interest income and a reduction in the provision for loan losses.

The Bank experienced one of its strongest growth years as assets increased \$103.9 million representing an increase of 27.6%. This growth was achieved with a small increase in staffing which allowed the bank to improve its efficiency measures. The improvement in efficiency was part of the reason for the significant improvement in earnings in 2010 and will play an even bigger role in 2011.

Oil and cotton prices continue to be very strong. The price of these two commodities has a very strong impact on our customers in the markets we serve. At current pricing, we are seeing significant improvement in our customer's performance and the bank's performance is a mirror of our customers.

Focus On Service

As we move into 2011, the Bank is renewing its focus on "Customer Service". Almost every community bank says the thing that separates them from other banks is the customer service they provide. The reality is that most banks do not really do a very good job of taking care of their customers. We want to be recognized by our customers and by you, as an organization that truly makes a difference in their lives. I hope in the next few months, as you interact with our team, you will see a profound change in how we serve you. I would be very interested in any feedback you have to give.

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." with a stylized flourish at the end.

Ken L. Burgess, Jr.
Chief Executive Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

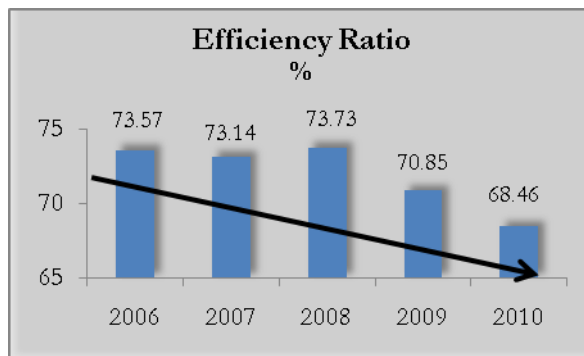
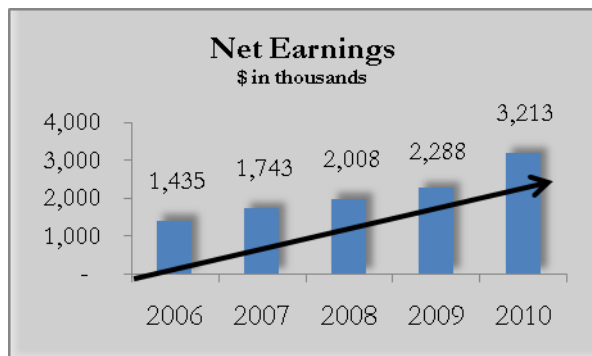
FOURTH QUARTER 2010 DETAILED FINANCIALS

FirstCapital Bank reported year-to-date net earnings of \$3.213 million, a 40 percent increase over our 2009 year-to-date net earnings. Our balance sheet reported significant growth as well with an increase of \$103.9 million, a 27.6 percent increase year over year.

Our balance sheet growth was primarily in the form of deposit growth, with \$435 million in total deposits at year-end 2010, an increase of \$95 million from year-end 2009. Over half of our deposit growth was in the core deposit categories, which favorably impacted our overall cost of funds and allowed us to decrease our interest expense year over year while at the same time growing our deposit base. Our total loans increased as well, to \$304 million at year-end 2010. This \$36.5 million increase from 2009 to 2010 equates to 13.6 percent growth in our loan portfolio for the year. The significant growth in our loan portfolio contributed to an increase in interest income from 2009 to 2010 as well, with an increase of \$1.6 million. Even though our net interest income grew 15 percent year over year, our net interest margin compressed 34 basis points from 2009 to 2010 due to a \$60 million increase in liquidity being invested in short-term, low-yielding assets.

Asset quality continues to be a strong component for our bank. In spite of the overall economic downturn, we experienced a decrease in the level of non-performing assets and credit losses during 2010. A common measure of this is the Texas Ratio which is non-performing assets as a percent of total capital. Our Texas Ratio at the end of December 2010 was 3.86 percent, a significant improvement from our December 2009 ratio of 10.69 percent. We are well below our peer group ratio of 34.16 percent, which is attributable to the fact that we have continued to do what we have always done – make quality, conservative loans to customers that we know.

Our ability to grow our balance sheet by 27.6 percent and our net earnings by 40 percent is evidence that we are operating more efficiently. Our non-interest income decreased slightly, 1 percent, from 2009 to 2010 due to a slow-down in mortgage originations and our non-interest expenses only increased 8 percent, even with one-time expenses related to our name change in July 2010. The efficiency ratio measures how much it costs in expense to generate \$1 dollar of income, so it is desirable for this number to be low and trending downward. Our annualized efficiency ratio for 2010 was 68.46 percent compared to our 2009 annualized efficiency ratio of 70.85 percent. As you can see from the graphs below, our efficiency ratio is decreasing while our net earnings are increasing, which is a trend we are continuing to focus our efforts on.



We are pleased with our 2010 performance and are positioned to continue our trend of steady growth in 2011. Our focus for growth in 2011 will be a renewed commitment to creating an exceptional customer experience at every interaction point and penetrating deeper into our customer base for additional products and services that we can provide.

Sincerely,

Tracy Bacon

Tracy Bacon
Chief Financial Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

FOURTH QUARTER 2010 FINANCIAL HIGHLIGHTS

(Unaudited)

(Dollar amounts in thousands)

Earnings Summary

For the Twelve Months Ended December 31,	<u>2010</u>	<u>2009</u>
Interest Income	\$ 19,342	\$ 17,408
Interest Expense	3,070	3,266
Provision for loan losses	2,200	2,500
Net Income	3,213	2,289

Performance Ratios (annualized)

For the Twelve Months Ended December 31,	<u>2010</u>	<u>2009</u>
Return on Average Assets	0.74%	0.68%
Return on Shareholders' Equity	8.86%	8.27%
Net Interest Margin	4.06%	4.40%

Period End Data

As of December 31,	<u>2010</u>	<u>2009</u>
Total Assets	\$ 480,421	\$ 376,443
Average Assets	426,482	342,025
Investments*	159,231	86,127
Loans, net	300,935	264,756
Deposits	434,725	339,860
Shareholders' Equity	40,273	29,953

Per Share Data**

As of and for the Twelve Months Ended December 31,	<u>2010</u>	<u>2009</u>
Net Income	\$ 0.36	\$ 0.33
Book Value	5.01	4.32
Number of Shareholders	392	267

*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)

	As of	
	December 31	
	<u>2010</u>	<u>2009</u>
ASSETS		
CASH AND DUE FROM BANKS	\$ 5,362	\$ 10,485
INVESTMENTS:		
Municipal securities	14,490	10,584
U.S. gov't agencies	-	499
Mortgage backed securities	37,730	27,827
Due from bank CD's and MMA's	88,018	41,413
Federal Reserve Bank stock	769	604
Federal Home Loan Bank stock	229	228
Independent Bank Capital Fund	73	38
Texas Independent Bankers Bank Stock	200	200
Total Investments	<u>141,510</u>	<u>81,393</u>
FEDERAL FUNDS SOLD	17,721	4,734
LOANS:		
Real estate	181,681	157,435
Secondary mortgage	10,123	8,096
Commercial, industrial, and agricultural	98,062	81,801
Government entities	2,408	6,152
Consumer	12,109	14,376
Other	33	55
Total Loans	<u>304,416</u>	<u>267,915</u>
Less - Allowance for possible loan losses	<u>(3,482)</u>	<u>(3,159)</u>
Loans, net	<u>300,935</u>	<u>264,756</u>
BANK PREMISES AND EQUIPMENT, NET	9,790	10,019
OTHER ASSETS	5,103	5,056
TOTAL ASSETS	<u>\$ 480,421</u>	<u>\$ 376,443</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS:		
Demand	\$ 125,658	\$ 93,289
NOW Accounts	40,025	26,030
Savings	10,963	5,860
Money Market	104,806	74,028
Certificates of Deposit	106,197	90,153
CDARS	47,075	50,500
Total Deposits	<u>434,725</u>	<u>339,860</u>
SHORT-TERM BORROWINGS		
Federal funds purchased	-	-
Securities sold under agreement to repurchase	4,228	5,821
Federal Home Loan Bank borrowings	-	-
Total Short-term borrowings	<u>4,228</u>	<u>5,821</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	1,195	809
Total Liabilities	<u>440,148</u>	<u>346,490</u>
SHAREHOLDERS' EQUITY		
Common Stock	3,096	3,096
Surplus	24,546	17,546
Retained earnings	12,631	9,311
Total shareholders' equity	<u>40,273</u>	<u>29,953</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 480,421</u>	<u>\$ 376,443</u>

FIRSTCAPITAL BANK OF TEXAS, N.A.

STATEMENT OF INCOME

For the Twelve Months Ended December

(Unaudited)

(Dollar amounts in thousands)

	<u>2010</u>	<u>2009</u>
Interest Income:		
Interest and fees on loans	\$ 17,185	\$ 15,544
Interest on investment securities	1,601	1,688
Interest on federal funds sold	49	25
Interest on due from bank CD's and MMA's	507	151
TOTAL INTEREST INCOME	<u>19,342</u>	<u>17,408</u>
Interest Expense:		
Deposits	3,070	3,210
Short-term borrowings	-	56
TOTAL INTEREST EXPENSE	<u>3,070</u>	<u>3,266</u>
Net Interest Income	16,272	14,142
Provision for possible loan losses	<u>2,200</u>	<u>2,500</u>
Net Interest Income After Provision	<u>14,072</u>	<u>11,642</u>
Other Income:		
Mortgage	3,809	3,958
Trust, net	172	189
Other income	976	872
TOTAL OTHER INCOME	<u>4,957</u>	<u>5,019</u>
Other Expenses:		
Salary and employee benefits	8,066	7,685
Building occupancy expense	2,245	2,166
Marketing expense	354	229
Data processing expense	332	298
Other employee expense	355	231
Regulatory expense	736	773
Other expenses	2,407	2,071
TOTAL OTHER EXPENSES	<u>14,495</u>	<u>13,453</u>
Income Before Income Taxes	4,534	3,208
Income tax expense	<u>1,321</u>	<u>919</u>
NET INCOME	<u>\$ 3,213</u>	<u>\$ 2,289</u>

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[STACYE M. WORTHEN](#)

Banking Officer & Branch Manager

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[CINDI LEA](#)

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Assistant Vice President & Relationship Services Manager

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