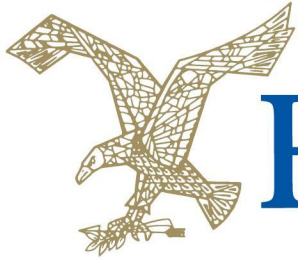


FIRSTBANCSHARES
OF TEXAS, INC.

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First Quarter 2011 Shareholders' Report

FIRSTBANCSHARES
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Dear Shareholders

I am happy to report that the strong asset growth we experienced in 2010 has continued in the first quarter of 2011. Total assets of the Bank closed the first quarter at \$523.8 million, an increase of \$43.4 million since the end of the year and an increase of \$118.0 million over the prior year. This growth is no doubt partially the result of strong oil and gas prices in our Permian Basin market and strong cotton prices in our Lubbock market.

We have also begun to see some strengthening in loan demand with loans increasing from \$274.9 million at March 31, 2010 to \$309.4 million at March 31, 2011, an increase of about \$34.5 million. Deposits have increased much faster than loans, so the bank has a sizeable amount of excess liquidity that is not being invested as profitably as we would like. This has had the impact of reducing our net interest margin from historical levels.

We have been able to achieve this very strong growth with a small increase in staffing which is greatly improving our efficiency ratios. This is one of the reasons that you see a sizeable increase in earnings over the first quarter of 2010.

Regulatory Environment

The regulatory environment continues to be somewhat of a challenge to all banks. The Dodd-Frank Act, which passed last year to supposedly correct problems in the banking industry, may be creating more problems than it is fixing. Many items added to the bill at the last moment were done so with little to no study and with no contemplation as to the unintended consequences.

One example of this is the mandate to cap interchange rates on debit cards. If implemented as the Fed is currently proposing, the amount of fees that the banking industry will be able to collect on a transaction is significantly less than the cost of processing the transaction and does not take into account the fraud liability that banks assume on every retail transaction. If not changed, this one item has the potential of drastically changing or possibly eliminating debit card activity over time and will no doubt be cause for an increase in service charges industry wide.

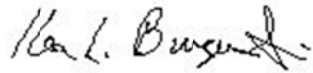
Many other regulatory challenges await banks as well, but where challenges exist, so do opportunities. We will adjust to whatever comes our way as we always have and we may even find some competitive advantages along the way.

Improved Profitability

Profitability of the bank increased from \$2.29 million in 2009 to \$3.2 million in 2010, an increase of about \$900 thousand. Our goal for 2011 is \$4.5 million which would be an increase of \$1.29 million over 2010. I don't want to jinx us, but we are on track to accomplish that goal through the end of the first quarter. Our balance sheet is poised for rising interest rates, so when that begins, it will have a very positive impact on earnings as well.

Thank you for your support of the bank.

Sincerely,

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

Ken L. Burgess, Jr.
Chief Executive Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

FIRST QUARTER 2011 DETAILED FINANCIALS

FirstCapital Bank increased earnings 113 percent from the first quarter of 2011 over the first quarter of 2010, with earnings of \$848 thousand compared to \$398 thousand respectively. Our balance sheet has grown \$117.9 million quarter over quarter, primarily in deposit growth (31 percent), but also with solid loan growth (12.5 percent). We have achieved this with relatively small growth in non-interest expenses, just 15 percent for the same time period and significant growth in net interest income and non-interest income, 20 percent and 18.7 percent respectively.

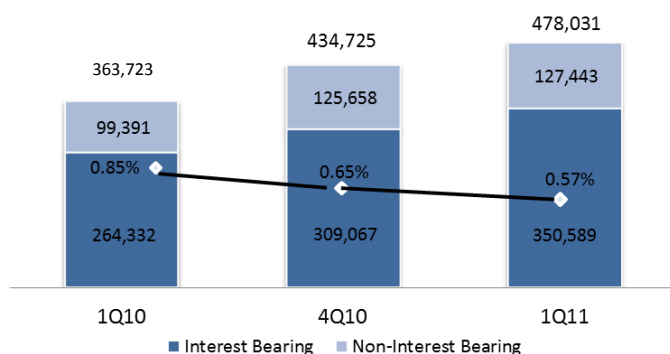
Deposits

Strong growth and reduced cost

- Our deposits have grown \$114 million from the first quarter of 2010 to the first quarter of 2011, while our cost of funds has decreased 28 basis points for the same time period.
- Non-interest bearing deposits grew \$28 million from the first quarter of 2010 to the first quarter of 2011, which is part of the reason our cost of funds is declining.

Deposits and Rates

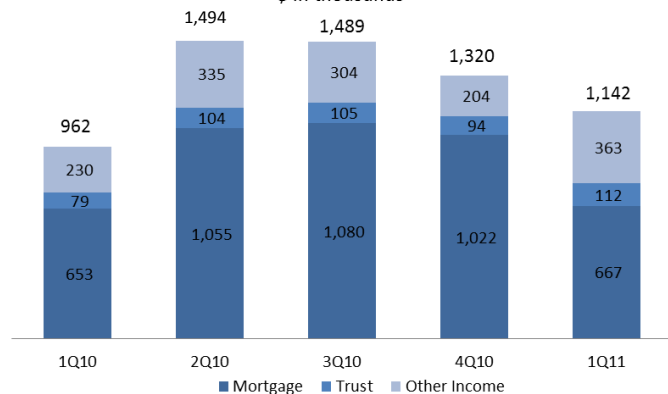
\$ in thousands



Non-Interest Income

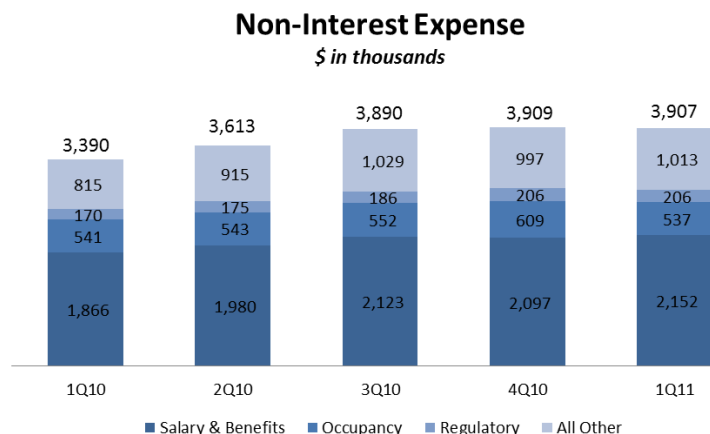
Non-Interest Income

\$ in thousands



- Non-interest income grew \$180 thousand from the first quarter of 2010 to the first quarter of 2011, but is down \$178 thousand from the previous quarter. The decrease from the previous quarter is due to the seasonality of mortgage originations and the fee income tied to it.

Non-Interest Expense



- Considering the balance sheet growth we have experienced over the last several years, our growth in expenses is modest – just 15 percent from the first quarter of 2010 compared to the first quarter of 2011.
- Our expenses have remained flat for the last three quarters and we anticipate that trend to continue.

Our margin continues to be compressed by the higher levels of low-yielding excess liquidity that we have experienced with our significant deposit growth. We will continue to focus on our loan pipeline and other conservative investments to decrease our excess liquidity over the next months. The efforts we have made on making quality loans, investing conservatively and controlling our expenses thus far are evidenced by our quarter over quarter increase in our balance sheet and our earnings. We have achieved our budgeted earnings through the first quarter and we are expecting that trend to continue.

Sincerely,

Tracy Bacon
Chief Financial Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

FIRST QUARTER 2011 FINANCIAL HIGHLIGHTS

(Unaudited)

(Dollar amounts in thousands)

Earnings Summary

For the Three Months Ended March 31	<u>2011</u>	<u>2010</u>
Interest Income	\$ 5,068	\$ 4,418
Interest Expense	674	763
Provision for loan losses	450	700
Net Income	848	398

Performance Ratios (annualized)

For the Three Months Ended March 31	<u>2011</u>	<u>2010</u>
Return on Average Assets	0.70%	0.42%
Return on Shareholders' Equity	8.36%	5.05%
Net Interest Margin	3.86%	4.19%

Period-End Data

As of March 31	<u>2011</u>	<u>2010</u>
Total Assets	\$ 523,784	\$ 405,845
Average Assets	489,293	378,611
Investments*	189,036	107,179
Loans, net	305,519	271,924
Deposits	478,031	363,723
Shareholders' Equity	42,200	35,369

Per Share Data**

As of and For the Three Months Ended March 31	<u>2011</u>	<u>2010</u>
Net Income	\$ 0.09	\$ 0.04
Book Value	\$ 5.12	\$ 4.68
Number of Shareholders	396	370

*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		
	March 31	2010	December 31
	<u>2011</u>		<u>2010</u>
ASSETS			
CASH AND DUE FROM BANKS	\$ 7,788	\$ 11,270	\$ 5,362
INVESTMENTS:			
Municipal securities	15,049	11,618	14,490
U.S. gov't agencies	-	500	-
Mortgage backed securities	39,248	31,468	37,730
Due from bank CD's and MMA's	124,428	48,853	88,019
Federal Reserve Bank stock	829	769	769
Federal Home Loan Bank stock	229	229	229
Independent Bank Capital Fund	73	73	73
Texas Independent Bankers Bank Stock	200	200	200
Total Investments	<u>180,056</u>	93,710	<u>141,510</u>
FEDERAL FUNDS SOLD	8,980	13,469	17,721
LOANS:			
Real estate	194,935	164,245	181,682
Secondary mortgage	6,973	6,639	10,123
Commercial, industrial, and agricultural	92,850	83,331	98,062
Government entities	2,361	6,090	2,408
Consumer	12,211	14,634	12,109
Other	54	39	33
Total Loans	<u>309,384</u>	274,978	<u>304,417</u>
Less - Allowance for possible loan losses	<u>(3,865)</u>	<u>(3,054)</u>	<u>(3,482)</u>
Loans, net	<u>305,519</u>	271,924	<u>300,935</u>
BANK PREMISES AND EQUIPMENT, NET	9,618	9,857	9,790
BANK OWNED LIFE INSURANCE (BOLI)	7,042		
OTHER ASSETS	4,781	5,615	5,103
TOTAL ASSETS	<u>\$ 523,784</u>	<u>\$ 405,845</u>	<u>\$ 480,421</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS:			
Demand	\$ 127,442	\$ 99,391	\$ 125,659
NOW Accounts	37,034	27,153	40,025
Savings	10,957	7,108	10,963
Money Market	111,244	79,862	104,806
Certificates of Deposit	109,334	97,249	106,197
CDARS	82,020	52,960	47,075
Total Deposits	<u>478,031</u>	363,723	<u>434,725</u>
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	2,396	5,635	4,228
Federal Home Loan Bank borrowings	-	-	-
Total Short-term borrowings	<u>2,396</u>	5,635	<u>4,228</u>
ACCRUED EXPENSES AND OTHER LIABILITIES	1,157	1,118	1,195
Total Liabilities	<u>481,584</u>	370,476	<u>440,148</u>
SHAREHOLDERS' EQUITY			
Common Stock	3,096	3,096	3,096
Surplus	25,546	22,546	24,546
Retained earnings	13,558	9,727	12,631
Total shareholders' equity	<u>42,200</u>	<u>35,369</u>	<u>40,273</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 523,784</u>	<u>\$ 405,845</u>	<u>\$ 480,421</u>

FIRSTCAPITAL BANK OF TEXAS, N.A.

STATEMENT OF INCOME

For the Three Months Ended March

(Unaudited)

(Dollar amounts in thousands)

	<u>2011</u>	<u>2010</u>
Interest Income:		
Interest and fees on loans	\$ 4,433	\$ 3,966
Interest on investment securities	445	380
Interest on federal funds sold	10	12
Interest on due from bank CD's and MMA's	180	61
TOTAL INTEREST INCOME	<u>5,068</u>	<u>4,418</u>
Interest Expense:		
Deposits	674	763
Short-term borrowings	-	-
TOTAL INTEREST EXPENSE	<u>674</u>	<u>763</u>
Net Interest Income	4,394	3,655
Provision for possible loan losses	<u>450</u>	<u>700</u>
Net Interest Income After Provision	<u>3,944</u>	<u>2,955</u>
Other Income:		
Mortgage	667	653
Trust	112	79
Other income	363	230
TOTAL OTHER INCOME	<u>1,142</u>	<u>962</u>
Other Expenses:		
Salary and employee benefits	2,152	1,866
Building occupancy expense	537	527
Marketing expense	75	49
Data processing expense	88	80
Other employee expense	136	89
Regulatory expense	206	170
Other expenses	713	609
TOTAL OTHER EXPENSES	<u>3,907</u>	<u>3,390</u>
Income Before Income Taxes	1,179	527
Income tax expense	<u>331</u>	<u>129</u>
NET INCOME	<u>\$ 848</u>	<u>\$ 398</u>

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Banking Officer & Loan Review Coordinator

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[MARK ODLE](#)

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Banking Officer, Senior Credit Analyst & Relationship Manager

[STACYE M. WORTHEN](#)

Banking Officer & Branch Manager

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