

FIRSTBANCSHARES
OF TEXAS, INC.

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Second Quarter 2011 Shareholders' Report

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Dear Shareholders

As I have stated for several quarters, we continue to see very strong asset growth. The Bank ended the 2nd quarter of 2011 with Total Assets of \$565.6 million as compared to \$523.8 million at March 31, 2011 and \$480.4 million at December 31, 2010. The rate of growth through the first six months of the year equates to an annualized growth rate of 35.7%. We expect growth for the remainder of the year will continue, but we feel the growth rate will drop closer to the 28% to 29% annualized rate for the full year. This will be more in line with what we have experienced the last three years.

We are seeing significant improvement in earnings. Earnings for the first 6 months were \$2.03 million compared to \$1.35 million for the same time period in 2010. The bank has been able to manage the increased asset size without a large growth in staff and this has translated into improved efficiency. Our earnings rate has been improving each month this year. As a result, we expect earnings for the full year in excess of \$4.4 million.

Capital Adequacy


We have solid capital levels at this time, but with the rate of growth we are experiencing, we need to begin considering another stock offering to allow the bank to continue its growth pattern. The board of directors of the Company and the Bank has approved another stock offering this year which we expect to roll out around November 1st. You will be hearing more about the offering as we get closer to that time. The current regulatory environment dictates that we must maintain higher levels of capital than we have previously been required to maintain.

Company Vision

The management and board of directors feel it is important to have a strong vision for the Company to guide our decisions. We have had very good success the last few years, but we began to feel the need to set a strong goal for the Company over the next five years to assure our continued success and to drive us to be the best we can be. The result of this consideration was the approval of a goal by management and the board of directors to strive to be ranked in the top 5 banks in West Texas and the Panhandle by December 31, 2015. As of this time, we are ranked #15 out of 93 banks. With our progress over the first six months of this year, we are well on track to achieve this goal.

Thank you for your continued support. If you have any questions about the Company, please give me a call at (432) 687-9101. You may also find financial information about the Company on our website at www.fcbtexas.com.

Sincerely,



Ken L. Burgess, Jr.
CEO & President

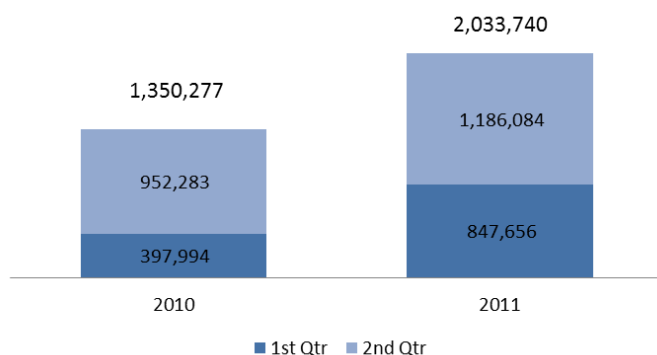
FIRSTCAPITAL BANK OF TEXAS, N.A.

SECOND QUARTER 2011 DETAILED FINANCIALS

Our business fundamentals are strong as evidenced by increases in revenue, loans and deposits. FirstCapital Bank increased earnings 51 percent for the first six months of 2011 as compared to the first six months of 2010, with earnings of \$2.03 million compared to \$1.35 million respectively. Total Assets have grown by \$129 million from June 30, 2010 to June 30, 2011. This growth was driven by a 31% increase in total deposits. We have also experienced solid loan growth over the same period of about 14%.

Earnings

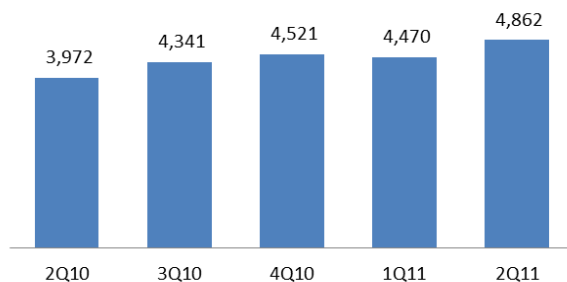
Net Earnings



- Our net earnings grew \$233 thousand for the quarter ended June 30, 2011 vs. the quarter ended June 30, 2010 representing an increase of 24%.
- The primary factors contributing to the improvement were improved net interest income, a reduction in provisions for loan losses and lower operating expenses as a percentage of total assets.

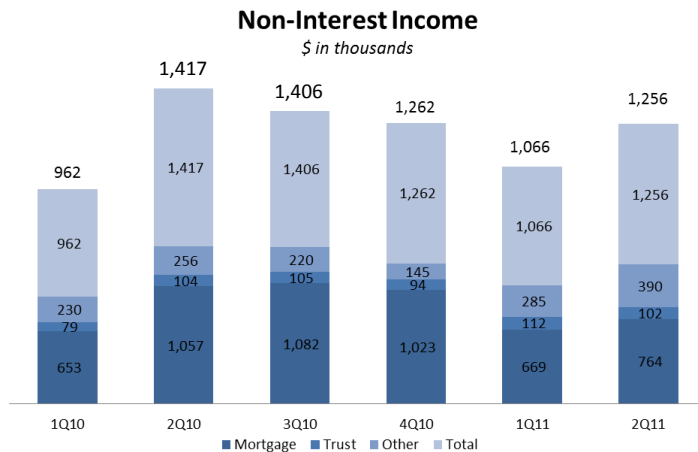
Net Interest Income

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



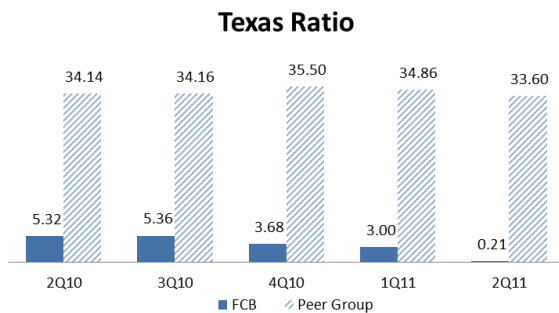
- Net interest income increased \$890 thousand from second quarter 2010 to second quarter 2011, an increase of 22%.
- Several factors contributed to this improvement. We experienced a solid increase in loan volume which moved low yielding assets into higher yielding ones while maintaining loan pricing at about the same yields or slightly better than 2010. In addition as certificates of deposit which were booked in prior periods have matured, we have been able to reduce our overall cost of funds.

Non-Interest Income

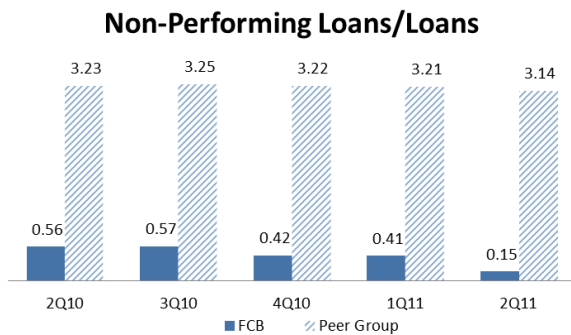


- Non-interest income declined slightly from the second quarter of 2010 to the second quarter of 2011 due to a slow-down in mortgage originations. In the 2nd quarter of 2011 we experienced a 15% increase in mortgage origination fee income as our mortgage origination volume improved. The national economy's impact on oil prices will determine how well we perform in the 3rd and 4th quarters of the year in this category.

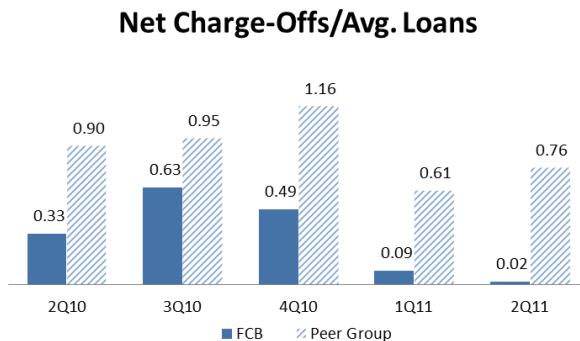
Asset Quality



- Asset quality has remained strong through our steady growth in loans with asset quality ratios outperforming those of our peer group of comparable banks. We have remained diligent in our conservative lending practices and we are fortunate to be located in the top three markets in the state from an employment perspective which has insulated our bank from some of the issues banks have experienced on a national scale.

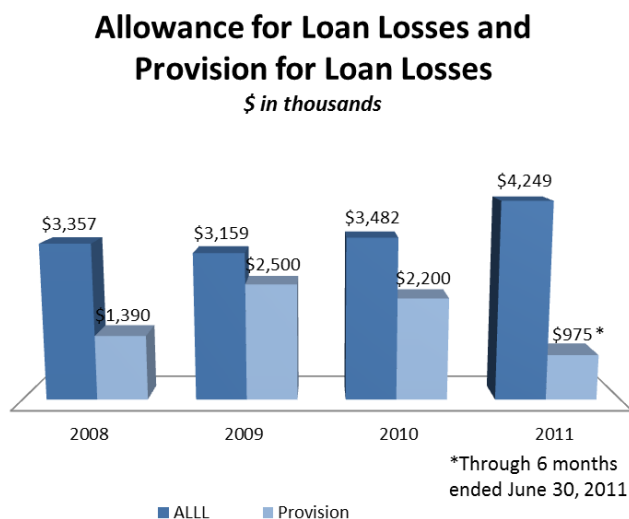


- The Texas Ratio is a common measure of asset quality. The ratio is defined as non-performing assets as a percent of equity capital plus the allowance for loan losses. Our Texas Ratio decreased from 5.32% at the end of the second quarter of 2010 to .21% at the end of the second quarter of 2011 and is well below the averages of our national peer group.



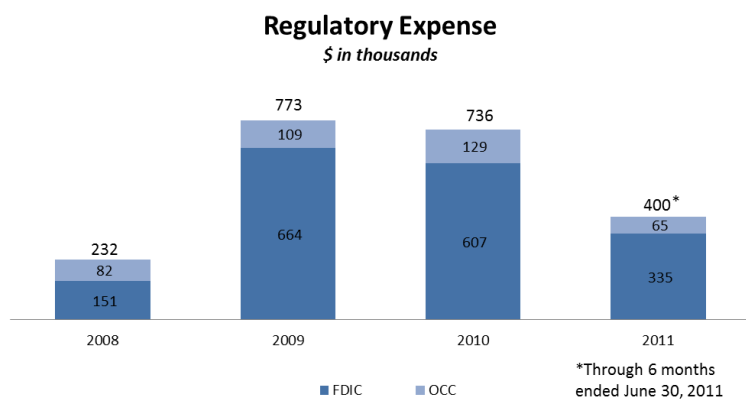
- Non-performing loans as a percentage of total loans has remained very low for the last two years, .15 percent as of June 2011 compared to .56 percent in June 2010.
- Net charge-offs for the six months ending June 2011 were \$83 thousand, or .02% as a percentage of total average loans.

Loan Loss Comparison



- One component of our increase in earnings from June 2010 to June 2011 is lower loan loss provision expense. We booked \$975 thousand as a provision for possible future loan losses through June 30, 2011 as compared to \$1.1 million through June 30, 2010. We have been able to lower loan loss provision expense about 12 percent a year since we hit our high of \$2.5 million in 2009, which was a tough year for our economy.
- We have continued to add to our reserve for possible loan losses because of our continued strong loan growth. With negligible losses in 2011, we have been able to increase the reserve with lower loan loss provision expense.

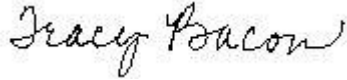
Regulatory Expense



- As a result of the banking industry crisis of late 2008 through 2009, FDIC Insurance premiums increased significantly in an effort to rebuild the FDIC Insurance Fund to regulatory mandated levels. As you can see from the graph, our regulatory expense increased in 2009 to three times what we incurred in 2008 and has been at that level ever since.
- Because of changes to the FDIC assessment base related to the Dodd-Frank Act, we anticipate our FDIC premiums will decrease slightly in the 2nd half of the year.

We expect continued strong growth in assets through the remainder of the year. With our focus on reducing operating expenses as a percentage of total assets, the new growth should produce greater earnings as a percentage of assets. We look forward to a solid 2nd half of 2011 in spite of the issues we are experiencing nationally.

Sincerely,

A handwritten signature in cursive script that reads "Tracy Bacon". The signature is written in black ink and is positioned above the typed name.

Tracy Bacon
Chief Financial Officer

FIRSTCAPITAL BANK OF TEXAS, N.A.

SECOND QUARTER 2011 FINANCIAL HIGHLIGHTS

(Unaudited)

(Dollar amounts in thousands)

Earnings Summary

For the Six Months Ended June 30	<u>2011</u>	<u>2010</u>
Interest Income	\$ 10,412	\$ 9,115
Interest Expense	1,398	1,565
Provision for loan losses	850	1,100
Net Income	2,034	1,350

Performance Ratios (annualized)

For the Six Months Ended June 30	<u>2011</u>	<u>2010</u>
Return on Average Assets	0.79%	0.66%
Return on Shareholders' Equity	9.65%	7.84%
Net Interest Margin	3.75%	4.08%

Period-End Data

As of June 30	<u>2011</u>	<u>2010</u>
Total Assets	\$ 565,567	\$ 436,513
Average Assets	557,496	398,841
Investments*	211,316	128,855
Loans, net	324,511	285,732
Deposits	515,590	394,338
Shareholders' Equity	45,712	36,410

Per Share Data**

As of and For the Six Months Ended June 30	<u>2011</u>	<u>2010</u>
Net Income	\$ 0.23	\$ 0.16
Book Value	\$ 5.30	\$ 4.79
Number of Shareholders	400	377

*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		
	June 30 <u>2011</u>	2010	December 31 <u>2010</u>
ASSETS			
CASH AND DUE FROM BANKS	\$ 8,774	\$ 7,074	\$ 5,362
INVESTMENTS:			
Municipal securities	17,085	13,474	14,490
U.S. gov't agencies	2,067	-	-
Mortgage backed securities	37,851	38,723	37,730
Due from bank CD's and MMA's	144,396	69,125	88,019
Federal Reserve Bank stock	859	769	769
Federal Home Loan Bank stock	241	229	229
Independent Bank Capital Fund	73	73	73
Texas Independent Bankers Bank Stock	200	200	200
Total Investments	<u>202,772</u>	122,593	141,510
FEDERAL FUNDS SOLD	8,544	6,262	17,721
LOANS:			
Real estate	212,196	167,989	181,682
Secondary mortgage	10,626	9,837	10,123
Commercial, industrial, and agricultural	91,203	92,163	98,062
Government entities	2,118	5,059	2,408
Consumer	12,562	13,831	12,109
Other	55	78	33
Total Loans	<u>328,760</u>	288,957	304,417
Less - Allowance for possible loan losses	<u>(4,249)</u>	<u>(3,225)</u>	<u>(3,482)</u>
Loans, net	<u>324,511</u>	285,732	300,935
BANK PREMISES AND EQUIPMENT, NET	9,460	9,755	9,790
BANK OWNED LIFE INSURANCE (BOLI)	7,099	-	-
OTHER ASSETS	4,407	5,097	5,103
TOTAL ASSETS	<u>\$ 565,567</u>	<u>\$ 436,513</u>	<u>\$ 480,421</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
DEPOSITS:			
Demand	\$ 140,386	\$ 100,584	\$ 125,659
NOW Accounts	39,026	27,925	40,025
Savings	11,874	8,119	10,963
Money Market	111,538	94,117	104,806
Certificates of Deposit	112,673	103,273	106,197
CDARS	100,092	60,320	47,075
Total Deposits	<u>515,590</u>	394,338	434,725
SHORT-TERM BORROWINGS			
Federal funds purchased	-	-	-
Securities sold under agreement to repurchase	2,543	4,381	4,228
Federal Home Loan Bank borrowings	-	-	-
Total Short-term borrowings	<u>2,543</u>	4,381	4,228
ACCRUED EXPENSES AND OTHER LIABILITIES	1,722	1,384	1,195
Total Liabilities	<u>519,855</u>	400,103	440,148
SHAREHOLDERS' EQUITY			
Common Stock	3,096	3,096	3,096
Surplus	27,546	22,546	24,546
Retained earnings	15,070	10,768	12,631
Total shareholders' equity	<u>45,712</u>	36,410	40,273
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 565,567</u>	<u>\$ 436,513</u>	<u>\$ 480,421</u>

FIRSTCAPITAL BANK OF TEXAS, N.A.

STATEMENT OF INCOME

For the Six Months Ended June

(Unaudited)

(Dollar amounts in thousands)

	<u>2011</u>	<u>2010</u>
Interest Income:		
Interest and fees on loans	\$ 9,152	\$ 8,155
Interest on investment securities	952	770
Interest on federal funds sold	17	24
Interest on due from bank CD's and MMA's	291	166
TOTAL INTEREST INCOME	<u>10,412</u>	<u>9,115</u>
Interest Expense:		
Deposits	1,398	1,565
Short-term borrowings	-	-
TOTAL INTEREST EXPENSE	<u>1,398</u>	<u>1,565</u>
Net Interest Income	9,014	7,550
Provision for possible loan losses	<u>850</u>	<u>1,100</u>
Net Interest Income After Provision	<u>8,164</u>	<u>6,450</u>
Other Income:		
Mortgage	1,429	1,745
Trust	213	183
Other income	998	528
TOTAL OTHER INCOME	<u>2,640</u>	<u>2,456</u>
Other Expenses:		
Salary and employee benefits	4,376	3,846
Building occupancy expense	1,099	1,056
Marketing expense	207	142
Data processing expense	181	174
Other employee expense	274	169
Regulatory expense	400	345
Other expenses	1,395	1,272
TOTAL OTHER EXPENSES	<u>7,932</u>	<u>7,004</u>
Income Before Income Taxes	2,872	1,902
Income tax expense	<u>838</u>	<u>552</u>
NET INCOME	<u>\$ 2,034</u>	<u>\$ 1,350</u>

OFFICERS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

MIDLAND MARKET -

KENNETH L. BURGESS, JR.

Chief Executive Officer

JAY W. ISAACS

President, Midland Market & Senior Trust Officer

BRAD D. BULLOCK, CRCM

Executive Vice President & Senior Compliance Officer

TRACY BACON

Senior Vice President, Chief Financial Officer & Controller

TOM BECKHAM

Senior Vice President & Senior Relationship Manager

JANENE D. BINNION, PHR

Senior Vice President & Team Resources Manager

BILL J. HILL

Senior Vice President & Trust Administration Officer

CHRIS L. MCGINNIS

Senior Vice President & IT Manager

TOBY D. PAYNE

Senior Vice President, Midland Commercial Lending Manager
& Senior Relationship Manager

ROBIN RICHEY

Senior Vice President & Trust Administration Officer

LYNNE M. SAWYER

Senior Vice President & Internal Auditor

SHANNON L. SMITH

Senior Vice President & Senior Relationship Manager

TRACY A. TIMLIN

Senior Vice President & Mortgage Division Manager

JEREMY M. BISHOP

Vice President & Relationship Manager

JON D. BLACK

Vice President & Odessa Mortgage Manager

DEBBIE GLENNAN

Vice President, Branch Operations

MARTIN F. RUEHL

Vice President, Midland Retail Manager & Relationship Manager

KATIE J. BOYD

Assistant Vice President, Training & Product
Implementation Officer

GRISELDA J. BUJANDA

Assistant Vice President & Loan Operations Manager

MICHAEL J. CANON, JR.

Assistant Vice President & IT Specialist

MELANIE J. HORTON

Assistant Vice President & Assistant Controller

VERONICA S. PYLE

Assistant Vice President & Branch Manager

SHEA EDWARDS

Banking Officer & Team Resources Representative

RODGER L. HORTON

Banking Officer, Branch Manager & Relationship Manager

EDGAR PAZ

Banking Officer & Loan Review Coordinator

GINA SIMMONS

Banking Officer & Compliance Specialist

CHRIS A. WHITNEY

Banking Officer, Branch Manager & Personal Banker

AMARILLO MARKET -

J. GREG BURGESS

President, Amarillo Market

MARK ODLE

Executive Vice President & Chief Lending Officer

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Executive Vice President & Chief Operations Officer

ANITA K. FINK

Vice President, Operations

LANDON M. GANN

Vice President & Relationship Manager

DORA M. EVANS

Assistant Vice President & Credit Administration Manager

KENNETH L. BURGESS, III

Banking Officer, Senior Credit Analyst & Relationship Manager

BRAD STUTEVILLE

Banking Officer & Senior Credit Analyst

STACYE M. WORTHEN

Banking Officer & Branch Manager

OFFICERS, CONT.

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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[BRAD D. BURGESS](#)

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[DAVID R. QUINTANILLA](#)

Executive Vice President & Senior Relationship Manager

[TONY PENA](#)

Senior Vice President & Senior Relationship Manager

[LISHA F. KING](#)

Vice President & Operations Manager

[CINDI LEA](#)

Vice President & Lubbock Mortgage Manager

[BEVERLY R. HOLLAND](#)

Assistant Vice President & Relationship Services Manager

[RAINA KENEDA](#)

Assistant Vice President & Credit Administration Manager

[JULIE BELLAR](#)

Banking Officer & Documentation Preparation Department Manager

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Attorney at Law

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Independent Petroleum Engineer

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Senior Trust Officer

BRAD D. BURGESS

President - Lubbock Market
Senior Relationship Manager

ROBERT C. LEIBROCK

Oil & Gas Independent

J. GREG BURGESS

President - Amarillo Market

CHRIS MATTHEWS

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Executive Vice President
Senior Relationship Manager

STEPHEN N. CASTLE

Oil & Gas Independent

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Executive Vice President
Chief Operations Officer

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Owner, B.C. Supply

C. TODD SPARKS

Vice President & Chief Financial Officer
Discovery Operating, Inc.

A. SCOTT DUFFORD

Oil & Gas Independent

DR. JAMES WELSH

Physician

J. GAUT

Commercial Real Estate Broker

TERRY D. WILKINSON

Investments
