FIRSTBANCSHARES OF TEXAS, INC.

Fourth Quarter 2013 Shareholders' Report

FIRSTBANCSHARES OF TEXAS, INC.

Dear Shareholders

I am proud to say that FirstCapital Bank of Texas just completed its 15th year of operation. It has been a good run since we opened the doors on November 18th of 1998. In this short 15 year period, much has transpired in our country and in our industry. The financial crisis in 2008 brought with it many challenges and many changes to our industry. These changes are affecting us now and will affect the industry for years to come. The financial crisis brought us the Dodd Frank Act and the Consumer Financial Protection Bureau, both of which are forcing us to pay much more attention to compliance and taking time away from the most important thing we do which is serving our customers.

Earnings for 2013 at the Company level were basically flat to 2012, declining from $6.4 million to $6.3 million. The lack of improvement in earnings can be attributed to three basic factors.

1. A slight decline in loan balances from year end 2012 to year end 2013. Loans declined by about $8 million dollars during 2013 as a number of our customers sold businesses and paid off their loans. Also, the strong economy is producing strong earnings and businesses are using this opportunity to reduce debt levels.
2. The significantly increased focus on regulation which is being driven by the Dodd Frank act forced us to hire more staff to deal with the compliance expectations resulting in increased overhead.
3. Mortgage loan revenue declined significantly in the 4th quarter due to a significant increase in the 10 year bond yield in September of 2013. Mortgage rates are driven by the 10 year bond. As mortgage rates increased, our mortgage origination volume decreased significantly. Earnings for the first three quarters of the year had been ahead of the prior year, but the weakness of the 4th quarter brought earnings slightly below the prior year.

We will see some continued weakness through the 1st quarter of 2014, but we are now beginning to see improvement in mortgage origination and we have a very strong pipeline of commercial loans which should be booked before the end of the 1st quarter. These two factors will serve to rapidly improve our earnings picture as we move into the 2nd quarter.

On a very positive note, the Company continued to see very strong deposit growth in 2013. Deposits increased by $108 million during the year. This resulted in year-end Total Assets of $826 million. Even though we have not been able to put this money to work yet, the deposit growth gives us the potential to make more loans and loans are the strongest determinant for earnings strength.

We had several construction projects underway during 2013. The most significant was the construction of a new main office in Amarillo. We completed that project in early 2014 and our staff has now moved from the original location in downtown Amarillo to our new location on Soncy Road. The new location gives us a stronger presence in Amarillo and we are already feeling the increased recognition in the market. I hope you will drop by to visit with our Team members there.

Thank you for your continued to support for the Company. I look forward to seeing each of you at the annual shareholders meeting in April. You will be receiving a letter and a financial package soon with all of the details.

Sincerely,

Ken L. Burgess, Jr.
Chairman

FIRST BANCSHARES OF TEXAS, INC.

FOURTH QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary				
For the Twelve Months Ended December 31		2013		2012
Interest Income	$	29,077	$	25,999
Interest Expense		2,568		2,148
Provision for loan losses		1,240		1,500
Net Income		6,321		6,412

Performance Ratios (annualized)*		
For the Twelve Months Ended December 31	2013	2012
Return on Average Assets	0.89%	1.04%
Return on Common Shareholders' Average Equity	9.79%	11.40%
Net Interest Margin	3.85%	4.01%

Period-End Data				
As of December 31		2013		2012
Total Assets	$	826,012	$	714,840
Average Assets		820,635		658,727
Investments**		339,414		225,282
Loans, net		438,377		446,261
Deposits		733,346		625,244
Shareholders' Equity				
Common		68,383		63,418
Preferred		9,337		9,337

Per Share Data***				
As of and For the Twelve Months Ended December 31		2013		2012
Net Income	$	0.61	$	0.65
Book Value	$	7.24	$	6.71
Number of Shareholders				
Common		486		464
Preferred		86		86

**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)
	2013	2012
ASSETS		
Cash and due from banks	**$ 15,655**	$ 19,650
Federal funds sold	**10,000**	3,529
Cash and cash equivalents	**25,655**	23,179
Interest bearing deposits in banks	**222,134**	157,874
Securities available for sale, at fair value	**37,222**	35,423
Securities held to maturity	**66,868**	25,047
Investment in First Bancshares of Texas Statutory Trust I	**93**	93
Investment in FirstCapital GP, LLC	**905**	1,046
Investments in partnerships	**502**	248
Restricted investment held at cost	**1,690**	2,022
Loans held for sale	**8,248**	62,808
Loans and leases receivable, net of allowance for loan and lease losses	**430,129**	383,453
Accrued interest receivable	**2,371**	2,205
Premises and equipment	**18,881**	10,973
Deferred tax asset, net	**2,524**	1,513
Foreclosed assets	**-**	25
Cash surrender value of life insurance	**7,683**	7,447
Prepaid FDIC assessment	**-**	521
Other assets	**1,107**	963
TOTAL ASSETS	**$ 826,012**	$ 714,840
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-interest bearing deposits	**$ 232,801**	$ 228,923
Interest bearing deposits	**500,545**	396,321
Total deposits	**733,346**	625,244
Accrued expenses and other liabilities	**1,648**	1,213
Securities sold under agreement to repurchase	**10,205**	2,535
Subordinated debentures	**3,093**	3,093
Other borrowed funds	**-**	10,000
Total liabilities	**748,292**	642,085
SHAREHOLDERS' EQUITY		
Common stock	**9,440**	9,440
Preferred stock	**937**	937
Treasury stock, at cost	**(44)**	(129)
Surplus		
Common	**31,618**	31,481
Preferred	**8,400**	8,400
Capital Surplus	**40,018**	39,881
Retained earnings	**27,574**	21,914
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**(205)**	712
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-
Total shareholders' equity	**77,720**	72,755
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 826,012**	$ 714,840

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Twelve Months Ended December

(Dollar amounts in thousands)

	(Unaudited)	(Audited)
	2013	2012
Interest Income:		
Loans and leases, including fees	**$ 25,946**	$ 23,542
Debt Securities		
Taxable	**1,044**	948
Tax exempt	**1,073**	687
Federal funds sold	**24**	25
Deposits with banks	**853**	720
Other interest	**137**	77
TOTAL INTEREST INCOME	**29,077**	25,999
Interest Expense:		
Deposits	**2,446**	2,035
Other borrowed money	**24**	9
Subordinated debentures	**98**	104
TOTAL INTEREST EXPENSE	**2,568**	2,148
Net Interest Income (Loss)	**26,509**	23,851
Provision for loan and lease losses	**1,240**	1,500
Net Interest Income (Loss) After Provision	**25,269**	22,351
Non-Interest Income:		
Trust department income	**421**	429
Service charges on deposit accounts	**648**	576
Other service charges and fees	**680**	723
Net realized gain (loss) on sales of available for sale securities	**-**	35
Appreciation in cash surrender value of life insurance	**236**	234
Gain/Loss on sale of loans	**4,309**	4,284
Gain/Loss on sale of foreclosed assets	**85**	-
Gain/Loss on sale of other assets	**24**	-
TOTAL NON-INTEREST INCOME	**6,403**	6,281
Non-Interest Expenses:		
Salaries and employee benefits	**13,729**	11,654
Occupancy and equipment expense	**2,779**	2,456
Advertising	**191**	254
Community and philanthropic support	**370**	104
IT and data processing expense	**536**	415
Legal, professional, accounting, and exam fees	**1,183**	1,137
FDIC assessment	**376**	317
Reduction in value of foreclosed assets	**286**	304
Other expenses	**3,089**	2,794
TOTAL NON-INTEREST EXPENSES	**22,539**	19,435
Income Before Income Taxes	**9,133**	9,197
Income tax expense	**2,812**	2,785
NET INCOME	**$ 6,321**	$ 6,412

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

As a bank financial holding company, we generate most of our revenue from interest on loans and investments, trust fees, fees from the sale of mortgage loans and service charges on our deposits. Our primary source of funding for our loans and investments are deposits held by our bank. Our largest expenses are interest on these deposits and salaries and related employee benefits. We usually measure our performance by calculating our return on average assets, return on average equity, our regulatory leverage and risk based capital ratios and our efficiency ratio, which is calculated by dividing non-interest expense by the sum of net interest income on a tax equivalent basis and non-interest income.

Critical Accounting Policies

We prepare consolidated financial statements based on the selection of certain accounting policies, generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

The following discussion addresses (1) our allowance for loan losses and its provision for loan losses and (2) our valuation of securities, which we deem to be our most critical accounting policies. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period.

Allowance for Loan Losses:

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The allowance is an amount management believes is appropriate to absorb estimated inherent losses on existing loans that are deemed uncollectible based upon management's review and evaluation of the loan portfolio. The allowance for loan losses is comprised of three elements: (i) specific reserves determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans; (ii) general reserves determined in accordance with current authoritative accounting guidance that consider historical loss rates; and (iii) qualitative reserves determined in accordance with current authoritative accounting guidance based upon general economic conditions

and other qualitative risk factors both internal and external to the Company. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company's historical loss rate. The Company's methodology is constructed so that specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase in risk of loss. In addition, the Company adjusts our allowance for qualitative factors such as current local economic conditions and trends, including unemployment, lending staff, policies and procedures, credit concentrations, trends and severity of problem loans and trends in volume and terms of loans. This additional allocation based on qualitative factors serves to compensate for additional areas of uncertainty inherent in our portfolio that are not reflected in our historic loss factors.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A downturn in the economy and employment could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in income. Additionally as an integral part of their examination process, bank regulatory agencies periodically review our allowance for loan losses. The bank regulatory agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

Accrual of interest is discontinued on a loan and payments applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Generally all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

Loans are considered impaired when, based on current information and events, it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

The Company's policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan's observable market price.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of December 31, 2013, troubled debt restructurings totaled $1.3 million, with $813 thousand of the total also being classified as non-accrual.

Valuation of Securities:

Management classifies debt and equity securities as held-to-maturity or available-for-sale, based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at estimated fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported as a separate component of shareholders' equity. Available- for-sale securities that have unrealized losses that are judged other than temporary are included in gain (loss) on sale of securities and a new cost basis is established.

Fair value of these securities is determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates and yield curves. Fair values for our investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the marketplace as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair market value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) whether we have the intent to sell our securities before recovery or maturity, (ii) whether it is more likely than not that we will have to sell our securities before recovery or maturity, (iii) the length of time and extent to which the fair value has been less than costs, and (iv) the financial condition of the issuer. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or

conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing matrices. The Company's investment portfolio consists of traditional investments, substantially all in U. S. Treasury securities, obligations of U. S. government-sponsored enterprises and agencies, mortgage pass-through securities, and general obligation or revenue based municipal bonds. Pricing for such securities is relatively straightforward and generally not difficult to obtain.

Bank Premises Additions

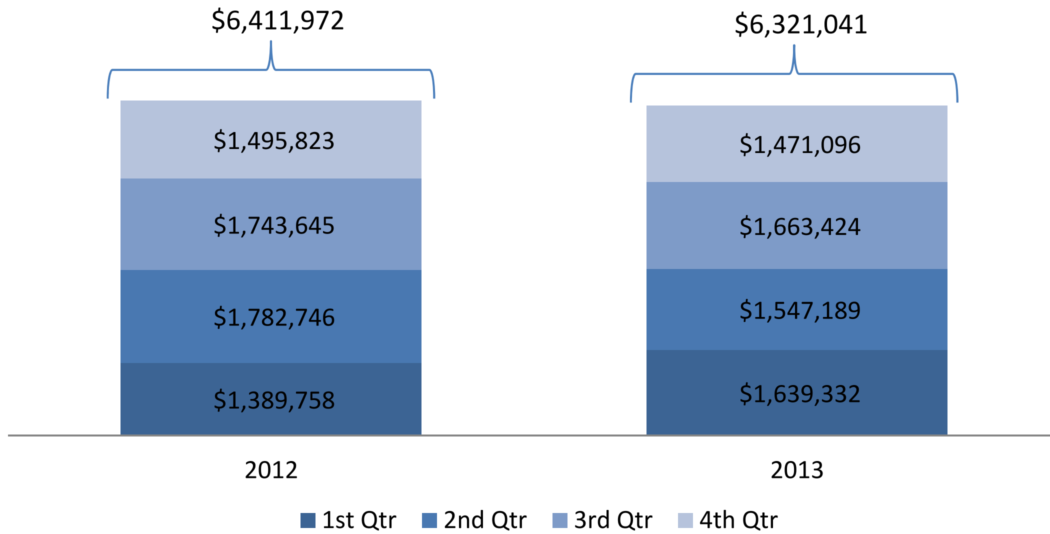
We have completed construction on our new main location in Amarillo at 3900 S. Soncy and the branch officially opened on February 10, 2014. Our downtown location at 620 S. Taylor was leased space and will officially close as of February 28, 2014.

Results of Operations

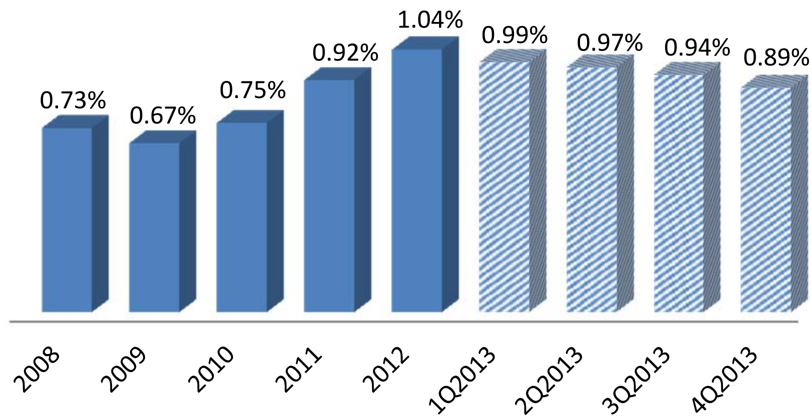
Performance Summary:

We ended the year with consolidated net earnings of $6.3 million, a slight decrease of $91 thousand compared to year end in 2012. We experienced growth in net interest income and non-interest income of 13.06% and 1.95%, respectively. Return on average assets at the bank level as of December 31, 2013 and 2012 was .89% and 1.04%, respectively. The return on common shareholder's average equity at the bank level for the same period was 9.79% and 11.40%. On a basic net earnings per share basis, net earnings were $0.61 as of December 31, 2013 compared to $.65 for December 31, 2012. Our deposits have grown $108 million year over year, and a good portion of that money has been reinvested at 50 basis points, impacting our return on assets and our net interest margin. In addition, we have experienced a reduction in efficiency from December 31, 2012 to December 31, 2013 due to the increased regulatory environment in which bank's operate and the expense associated with that and our growth which has required additional staffing and systems.

Net Consolidated Earnings



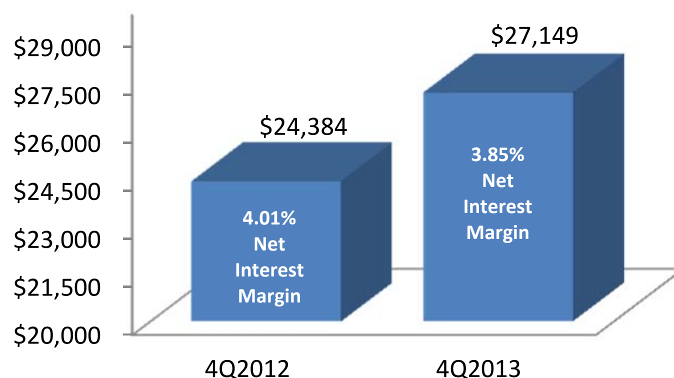
Return on Average Assets



Net Interest Income:

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 $27.1 million for the twelve months ended December 31, 2013 compared to $24.4 million for the same period in 2012. Although we experienced an increase in

net interest income, our net interest margin at December 31, 2013 was 3.85%, which was lower compared to 4.01% for the same period in 2012.[1] This is attributable to an increase in the volume of earning assets being invested at a lower yield. Net interest margin is calculated by dividing the Company's net interest income by average earning assets for the period.



Non-Interest Income:

Non-interest income for the period ended December 31, 2013 was $6.4 million, an increase of $123 thousand or 1.95% over the same period in 2012. The majority of the increase was the result of increased revenue from the service charges on our deposit accounts. The following schedule shows each of the major components of non-interest income for the periods ended December 31, 2013 as compared to December 31, 2012.

Non-Interest Income	For the periods ended December 31		Incr./	%
	2013	2012	(Decr.)	Change
Trust department income	$421,330	$428,983	($7,653)	-1.78%
Service charges on deposit accounts	648,477	576,301	72,176	12.52%
Other service charges and fees	678,632	722,613	(43,982)	-6.09%
Appreciation in cash surrender value of life insurance	235,799	233,783	2,016	0.86%
Gain/(Loss) on sale of available for sale securities	-	35,417	(35,417)	-100.00%
Gain/(Loss) on sale of loans	4,309,203	4,283,633	25,570	0.60%
Gain/(Loss) on sale of foreclosed assets	85,451	-	85,451	
Gain/(Loss) on sale of other assets	24,460	-	24,460	
Total Non-Interest Income	$6,403,352	$6,280,730	$122,622	1.95%

[1] Data provided at the Bank level

Service charges on deposit accounts increased by $72 thousand or 12.52% year over year. As mentioned previously, our deposits grew $108 million in 2013 and our service charge income grew as well with the new volume of deposits. It has become more difficult to increase fee income from deposit related products due to the regulatory restrictions on overdrafts and debit card products. At this time, the Company has not experienced a significant reduction in income from these two income sources.

Mortgage fee income (net of related processing costs) increased from $4.28 million to $4.30 million, a slight increase of $25 thousand or .60% from December 31, 2012 compared to December 31, 2013. We experienced a decline in the volume of refinancing activity in 2013 as rates started to rise as well as an overall decrease in volume across the markets we serve.

A combined increase of $109 thousand for gains on the sales of foreclosed and other assets is a result of an $85 thousand gain recognized on the sale of other real estate owned and repossessed vehicles. The remaining $24 thousand are gains recognized for fixed assets the Company sold or disposed of during the period.

Non-Interest Expense:

Non-interest expense for the period ended December 31, 2013 was $22.5 million as compared to $19.4 million for the period ended December 31, 2012. This represents an increase in non-interest expense of $3.1 million or 15.97%. The increase in non-interest expense is primarily the result of our fast growth and the need to provide staffing and systems to support the growth. We have also increased our staffing to deal with increased regulations.

Non-Interest Expense	For the periods ended December 31		Incr./ (Decr.)	% Change
	2013	2012		
Salaries & employee benefits	$13,729,478	$11,654,304	$2,075,174	17.81%
Occupancy & equipment expense	2,778,557	2,455,903	322,654	13.14%
Advertising	369,327	253,477	115,850	45.70%
Community and philanthropic support	191,314	104,145	87,169	83.70%
IT & data processing	536,076	414,745	121,331	29.25%
Legal, professional, accounting, and exam fees	1,182,988	1,136,964	46,024	4.05%
FDIC assessments	375,902	317,700	58,202	18.32%
Other expense	3,374,860	3,098,038	276,822	8.94%
Total Non-Interest Expense	$22,538,502	$19,435,276	$3,103,226	15.97%

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $2.1 million for the period ended December 31, 2013 as compared to December 31, 2012 and represented an increase of 17.8%. As mentioned above, with the accelerated growth the Company has experienced year over year, the need to provide additional staffing has become a priority. In an effort to fill some management positions, additional monies were spent with recruiting agents to find the necessary talent needed. Benefits costs have continued to increase as well.

The increase in occupancy and equipment of $323 thousand was mostly related to the purchases of furniture, equipment, and software. Furniture purchases are generally depreciated over seven years and equipment and software is generally amortized over a three year period.

Advertising costs increased $116 thousand or 45.7% from December 31, 2012 compared to December 31, 2013. We engaged an advertising firm to work on rebranding the Company. This will be a focus in 2014.

Community and philanthropic support increased by $87 thousand or 83.7% for the period ended December 31, 2013 compared to the same period in 2012. We continue to increase our support of the communities we serve. Some of the community initiatives we have supported in this time frame are Habitat for Humanity, the Alzheimer's Association and the American Cancer Society, just to name a few. Our company also completed the largest United Way campaign in the history of our bank.

IT and data processing expenses increased $121 thousand year over year. Most of this increase relates to growth in the bank's number of deposit and loan accounts. We contract with a major national core processing vendor to provide our data processing services and their pricing primarily relates to transaction volume and account volume.

Legal, professional, accounting, and exam fees increased $46 thousand from the period ended December 31, 2013 compared to December 31, 2012. Our OCC assessment increased by $19 thousand. The OCC assessments are based on the call report data asset size as of December and June of each year. Audit expenses increased $34 thousand which are due to growth and increased regulation. These expense increases were offset by a decrease of $7 thousand in consulting and legal expenses year over year.

The Company experienced an increase in FDIC assessments, or deposit insurance costs. This cost as of December 31 for 2012 was $318 thousand and for the same time period in 2013 increased to $376 thousand, which was an increase of 18.2%. The methodology in which the FDIC assesses premiums on banks for FDIC deposit insurance takes the difference between total deposit liabilities and average tangible equity.

All other expenses increased by $277 thousand or 8.9%. Much of this increase is attributable to the growth of the bank and the increased need for training our current and new staff. Other employee expenses increased from $651 thousand to $902 thousand year over year, which was an increase of $251 thousand or 39%. This is due to additional training costs and the travel associated with it to train our staff additions.

Balance Sheet Review

Our portfolio is comprised of loans made to businesses, professionals, and individuals located in the primary trade areas served by our bank. As of December 31, 2013, the Company had total loans outstanding of $438.4 million as compared to $446.3 million for the same period in 2012 resulting in a decrease of $7.9 million or -1.8%.

Composition of Loans ($ in 000's)	December 31 2013	December 31 2012	Incr./ (Decr.)	% change
Real estate loans (held for investment)	$279,738,567	$267,696,988	$12,041,579	4.50%
Real estate Loans (held for sale)	8,248,079	62,807,919	(54,559,840)	-86.87%
Loans to governmental entities	619,340	1,024,565	(405,224)	-39.55%
Commercial & industrial loans	128,502,394	110,730,759	17,771,635	16.05%
Consumer loans	7,495,316	8,779,810	(1,284,494)	-14.63%
Other loans	19,952,380	421,680	19,530,699	4631.64%
Total Loans before loan loss reserve	$444,556,077	$451,461,722	($6,905,645)	-1.53%
Less: Loan loss reserve	(6,178,514)	(5,200,842)	(977,672)	18.80%
Total Loans	$438,377,562	$446,260,880	($7,883,317)	-1.77%

Real estate loans represent loans primarily for new home construction, home ownership and investment, and commercial real estate. Real estate loans held for investment represent construction and development loans for both residential and commercial real estate projects. This category also includes longer-term loans for the purpose of financing residential and commercial real estate. Real estate loans held for investment increased from $267.7 million at December 31, 2012 to $279.7 million as of December 31, 2013, an increase of $12 million or 4.5%.

Real estate loans held for sale represent loans originated for the purpose of purchasing or refinancing one-to-four family residential properties. These loans are originated by the bank with the intent to sell to secondary market investors. The loans are generally sold within 30 days after origination. Real estate loans held for sale decreased by $54.6 million or -86.87% from December 31, 2012 to December 31, 2013. In late December of 2012, the Company entered into an agreement with another Texas bank to purchase participations in mortgage warehouse lines of credit that the bank has outstanding to several mortgage origination companies, which were originally classified as 1-4 family loans held for sale. These loans, which represented $39.1 million or 62.3% of the $62.8 million as of December 31, 2012, were re-classed in the first quarter of 2013 to loans to non-depository institutions which falls into the other loan category. The volume of loans held for sale has slowed from the previous year as rates have increased and not as many customers are refinancing their mortgages.

Loans to governmental entities decreased by $405 thousand year over year. Loans in this category generally produce tax free income much like a municipal bond.

Commercial & industrial loans increased from $110.7 million at December 31, 2012 to $128.5 million at December 31, 2013, an increase of $17.8 million or 16.1%. Loans in this category include oil and gas production loans, loans to oil and gas service companies, and loans to manufacturing and wholesale supply companies and miscellaneous other commercial businesses.

Consumer loans declined by $1.3 million or -14.63% from December 31, 2012 to December 31, 2013. The decline was the result of regular monthly payments on installment loan contracts. The Company had previously financed car loans for a car dealer in one of our markets. The amount of volume under this relationship has declined over the last two years so that monthly payments exceed the amount of new volume being placed on the books. The Company is interested in making consumer loans of all types, but consumer lending is not its primary focus. The Company has purchased consumer credit underwriting software and hired a seasoned consumer credit underwriting manager. Management anticipates that our consumer loan portfolio will increase over the next year.

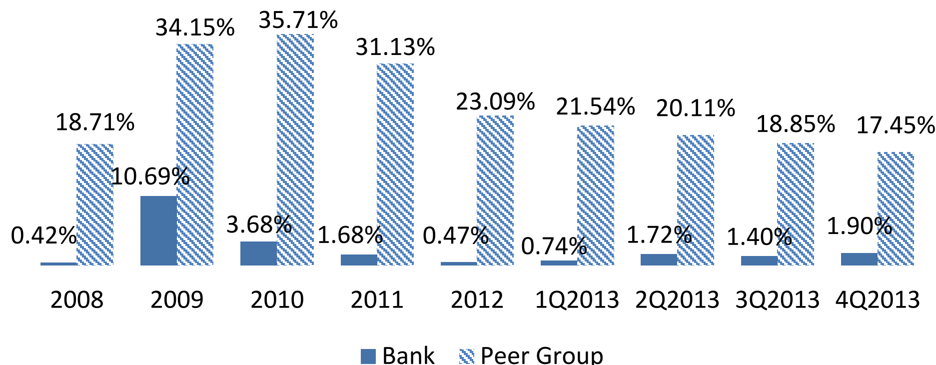
All other loans increased by $19.5 million from December 31, 2012 to December 31, 2013. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions. As noted above, the mortgage warehouse lines of credit purchased from Texas Capital, now categorized as non-depository institution loans, represent $12.1 million or 61% of other loans as of December 31, 2013.

Asset Quality:

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. The provision for loan losses expense was $1.2 million for the period ended December 31, 2013 as compared to $1.5 million for same period in 2012. Our asset quality remains strong and our allowance for loan loss was adequate; therefore, there wasn't the need to take as much provision expense in 2013. As a percent of average loans, net loan charge-offs were 0.06% at December 31, 2013 and 0.23% at December 31, 2012. Comparatively, the peer group averages for the same periods were 0.29% and 0.51%, respectively. Our allowance for loan losses as a percent of loans was 1.39% as of December 31, 2013, as compared to 1.15% as of December 31, 2012.

As of December 31, 2013, past due loans over 90 days as a percentage of total loans were 0.00%, the same can be said for the same period in 2012. Loans placed on non-accrual status as a percentage of total loans were 0.23% as of December 31, 2013 compared to 0.07% at December 31, 2012. Our peer group for the same time period was 1.35% and 1.91%, respectively.

Another common measure of asset quality is the Texas Ratio. The Texas Ratio is calculated as the sum of restructured loans plus non-accrual loans plus real estate acquired in foreclosure divided by the sum of equity capital plus the allowance for loan losses. As of December 31, 2013, the Company's Texas Ratio was 1.90% as compared to the peer group of 17.45%. For the same period in 2012, the Company had a Texas Ratio of .47% as compared to its peer group of 23.09%.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $222.1 million as of December 31, 2013, as compared to $157.8 million as of December 31, 2012. The average yield on these balances was 0.50% for both periods. These balances were held with various regional banks located within the state of Texas. Management evaluates the financial strength of each bank it holds balances with on a quarterly basis to assure the safety of the investment in each bank.

Available-for-Sale and Held-to-Maturity Securities:

At December 31, 2013, available-for-sale securities had a fair value of $37.2 million and held-to-maturity securities had an amortized cost of $66.9 million. As of December 31, 2013, the portion of the securities portfolio classified as available-for-sale had a market loss of approximately $310 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market gain of $843 thousand. The Company did not hold any securities as of December 31, 2013 or 2012 that would be classified as below investment grade or with any impairment.

As of December 31, 2013, the tax-equivalent yield to maturity on the portion of the securities portfolio classified as available-for- sale was 4.40%. The tax-equivalent yield to maturity on that portion of the portfolio classified as held-to-maturity was 3.51%. Our overall tax-equivalent yield to maturity on our portfolio at December 31, 2013 was 3.83%. Comparatively, as of December 31, 2012, the tax-equivalent yield to maturity on the portion of the securities portfolio classified as available-for- sale was 3.83%. The tax-equivalent yield to maturity on that portion of the portfolio classified as held-to-maturity was 4.53%. The overall tax-equivalent yield to maturity on our portfolio at December 31, 2012 was 4.13 %.

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 34.00%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

Deposits:

Deposits represent our primary source of funding. Total deposits were $733.3 million as of December 31, 2013 compared to $625.2 million as of the same period in 2012, an increase of $108.1 million or 17.3%. The growth was mostly attributed to increases in jumbo certificates of deposit of $68.9 million and money market and savings accounts of $31.5 million.

Composition of Deposits ($ in 000's)	December 31 2013	December 31 2012	Incr./ (Decr.)	% change
Non-interest bearing demand	$232,800,815	$228,923,011	$3,877,805	1.69%
Interest-bearing demand	56,486,731	60,170,685	(3,683,954)	-6.12%
Money market and savings	149,732,191	118,209,537	31,522,653	26.67%
Certificates of deposits ≥ $100,000	256,555,375	187,613,764	68,941,611	36.75%
Certificates of deposits < $100,000	37,771,500	30,327,555	7,443,945	24.55%
Total Deposits	$733,346,612	$625,244,552	$108,102,060	17.29%

The average cost of interest-bearing deposits as of December 31, 2013 was .39% which compares to .38% for the same period in 2012. Our peer group's ratios for the same period end were .58% and .76%, respectively. We still continue to outperform our peer group in keeping the cost of our funds low.

Capital Resources:

We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant asset quality deterioration.

Total shareholders' equity was $77.7 million, or 9.41% of total assets, at December 31, 2013, as compared to $72.8 million, or 10.18% of total assets, at December 31, 2012. The total book value on common stock as of December 31, 2013 was $7.24 compared to $6.71 as of December 31, 2012. The graph below illustrates the increases in book value over an eight quarter period timeframe.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and leverage ratio. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories ranging from 0% to 100%. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets. Regulatory minimums for total risk-based, Tier 1 risked-based and leverage ratios are 8.00%, 4.00% and 3.00%, respectively. As of December 31, 2013, our total risk-based, Tier 1 risk-based and leverage capital ratios were 16.67%, 15.49% and 9.86%, respectively, as compared to total risk-based, Tier 1 risked-based and leverage capital ratios of 17.27%, 16.15% and 11.39% as of December 31, 2012. We believe by all measurements our capital ratios remain well above regulatory minimums.

Dividend Policy:

To pay dividends, we must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve Board, the FDIC and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve Board, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

The Company has not paid dividends since its inception due to the need to maintain capital for growth purposes. We anticipate that we will continue to have strong growth and that we will not begin paying dividends in the immediate future. However, if growth slows, the Company could consider paying dividends at a later date.

CAPITALIZATION

The following table represents, on a consolidated basis, the capitalization of the Company as of December 31, 2013.

	At December 31, 2013
Long-Term Indebtedness:	
Junior subordinated debentures - trust preferred securities	$ 3,093,000
Total indebtedness	$ 3,093,000
Shareholders' Equity:	
Common stock, par value $1.00 per share, 15,000,000 shares authorized, 9,439,992 shares issued, 9,435,458 shares outstanding as of December 31, 2013	$ 9,439,992
Preferred stock, par value $1.00 per share, 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of December 31, 2013	937,044
Surplus	
Common	31,618,193
Preferred	8,399,979
Surplus	40,018,172
Treasury stock	(44,252)
Retained earnings	27,573,649
Accumulated other comprehensive income	(204,646)
Total shareholders' equity	$ 77,719,959
Capital Ratios (Consolidated):	
Tier 1 to average assets capital ratio	9.86%
Tier 1 risk-based capital ratio	15.49%
Total risk-based capital ratio	16.67%

OFFICERS

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BRAD D. BURGESS

Chief Executive Officer

TED AWERKAMP

Chief Operating Officer

JAY W. ISAACS

President

TRACY BACON

Chief Financial Officer

BRAD D. BULLOCK

Chief Risk Officer

J. GREG BURGESS

Chief Lending Officer

GEORGE H. REEVES

Chief Operations Officer

***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 & Senior Relationship Manager

KATIE J. BOYD

Senior Vice President & Marketing, Training, & Call Center 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

MARTIN F. RUEHL

Senior Vice President & Retail Banking Manager

SHEA FERLAND

Vice President & Team Resources Representative II

JANA SALDIVAR

Vice President & Credit Administration Manager

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Assistant Vice President & Loan Operations Manager

MICHAEL J. CANON, JR.

Assistant Vice President & IT Specialist

BETHANY ETHEREDGE

Assistant Vice President & Relationship Manager

SHERYL RYAN

Assistant Vice President & Information Security Officer

LISA SHANKS

Assistant Vice President & BSA Officer

CHRIS ANN WHITNEY

Assistant Vice President & Branch Manager

CALIB WILLIAMS

Assistant Vice President & Systems Administration Officer

BRIAN ANGUISH

Banking Officer & Branch Manager

FORBES KEIM

Banking Officer & Relationship Manager

KENNY MWANSA

Banking Officer & Branch Manager

EDGAR PAZ

Banking Officer & Loan Servicing Assistant

AVERY PULLIN

Banking Officer & Training Manager

OFFICERS, CONT.

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

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CHRIS KOOP

President, Amarillo Market

LACIE McDOWELL

Senior Vice President & Treasury Management

RICKY RODRIGUEZ

Senior Vice President & Operations Officer

DONALD TAYLOR

Senior Vice President & Relationship Manager

MURIELLE BARNES

Vice President & Mortgage Underwriter

KENNETH L. BURGESS, III

Vice President & Loan Review Manager

BRUCE FIELDER

Vice President & Mortgage Operations Manager

ANITA K. FINK

Vice President & Assistant Operations Manager

M. KAY KUHN

Vice President & Amarillo Mortgage Manager

BRAD STUTEVILLE

Vice President & Relationship Manager

CARMELLA SMITH

Assistant Vice President & Wire Transfer Manager

ABBY SNYDER

Assistant Vice President & Branch Manager

KYLE BALL

Banking Officer & Relationship Manager

LANCE GREEN

Banking Officer & Relationship Manager

MICHAEL KNOWLES

Banking Officer & Assistant Branch Manager

LUBBOCK MARKET -

TONY PENA

President, Lubbock Market

MARILANDA CRISTAN

Senior Vice President & Consumer Credit Underwriting Manager

DARRELL HILL

Senior Vice President & Senior Relationship Manager

ROSALINDA VILLALON

Senior Vice President & Compliance Officer

TRAVIS HILLMAN

Vice President, Relationship Manager

LISHA KING

Vice President & TellerConnect Manager

CINDI LEA

Vice President & Lubbock Mortgage Manager

SHIRLEY WIGLEY

Vice President & Compliance Specialist II

YOLANDA BELGARA

Banking Officer & Consumer Credit Underwriter

CATHY COPPLE

Banking Officer & Loan Documentation Preparation Department Manager

MARGE DAVIS

Banking Officer & Branch Manager

JASON SHIPP

Banking Officer & Relationship Manager

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