

First Bancshares of Texas, Inc. and Subsidiary

Report of Independent Auditors and
Consolidated Financial Statements

December 31, 2015 and 2014

First Bancshares of Texas, Inc. and Subsidiary
December 31, 2015 and 2014

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Report of Independent Auditors

To the Shareholders of
First Bancshares of Texas, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of First Bancshares of Texas, Inc. and Subsidiary (a Texas corporation), which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bancshares of Texas, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.


Certified Public Accountants

Abilene, Texas
March 7, 2016

First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Financial Condition
December 31, 2015 and 2014

Assets

	2015	2014
	<hr/>	<hr/>
Cash and due from banks	\$ 10,541,170	\$ 10,993,486
Federal funds sold	3,514,000	4,821,000
	<hr/>	<hr/>
Cash and cash equivalents	14,055,170	15,814,486
Interest-bearing deposits in banks	48,828,449	150,929,956
Securities available for sale	24,203,921	36,715,819
Securities held to maturity (fair value is \$147,442,081 and \$75,924,538 at December 31, 2015 and 2014, respectively)	147,049,359	74,620,479
Investment in partnerships	1,342,801	1,084,061
Restricted investments carried at cost	1,956,500	1,841,700
Investment in First Bancshares of Texas Statutory Trust I	93,000	93,000
Investment in FirstCapital GP, LLC	845,579	839,195
Loans held for sale	4,382,103	1,570,003
Loans, net of allowance for loan losses of \$9,728,929 and \$7,390,027 at December 31, 2015 and 2014, respectively	680,975,028	569,198,716
Accrued interest receivable	3,490,813	3,040,941
Premises and equipment, net	21,320,221	21,365,918
Deferred tax asset, net	3,430,395	2,787,644
Cash surrender value of life insurance	8,168,888	7,922,704
Other assets	1,089,436	1,074,047
	<hr/>	<hr/>
Total assets	<u>\$ 961,231,663</u>	<u>\$ 888,898,669</u>

Liabilities and Shareholders' Equity

	2015	2014
Liabilities		
Noninterest-bearing	\$ 244,784,462	\$ 252,769,829
Interest-bearing	575,138,386	520,434,050
	<hr/>	<hr/>
Total deposits	819,922,848	773,203,879
Accrued expenses and other liabilities	2,560,901	2,181,688
Securities sold under agreements to repurchase	42,902,491	24,776,255
Advances from Federal Home Loan Bank	1,112,654	1,159,301
Subordinated debentures	3,093,000	3,093,000
	<hr/>	<hr/>
Total liabilities	869,591,894	804,414,123
	<hr/>	<hr/>
Shareholders' Equity		
Common stock, \$1 par value; 15,000,000 shares authorized; 9,476,590 and 9,449,992 shares issued in 2015 and 2014, respectively; 9,476,590 and 9,448,477 shares outstanding in 2015 and 2014, respectively	9,476,590	9,449,992
Preferred stock, \$1 par value; 1,100,000 shares authorized; 937,044 shares issued and outstanding in 2015 and 2014; total liquidation value of \$9,370,440 in 2015 and 2014	937,044	937,044
Capital surplus	40,516,495	40,174,024
Retained earnings	40,235,380	33,638,929
Treasury stock, at cost	-	(15,953)
Accumulated other comprehensive income, net of tax	474,260	300,510
	<hr/>	<hr/>
Total shareholders' equity	91,639,769	84,484,546
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 961,231,663	\$ 888,898,669
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First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest Income		
Loans, including fees	\$ 34,052,552	\$ 29,176,253
Debt securities:		
Taxable	3,021,379	2,289,466
Tax-exempt	1,165,860	1,203,469
Federal funds sold	33,084	27,971
Deposits in other banks	680,195	857,074
Other interest	127,187	89,451
	<hr/>	<hr/>
Total interest income	39,080,257	33,643,684
	<hr/>	<hr/>
Interest Expense		
Deposits	3,077,035	2,891,571
Securities sold under agreements to repurchase	327,964	50,820
Advances from Federal Home Loan Bank	22,704	673
Subordinated debentures	98,317	96,772
	<hr/>	<hr/>
Total interest expense	3,526,020	3,039,836
	<hr/>	<hr/>
Net Interest Income	35,554,237	30,603,848
	<hr/>	<hr/>
Provision for Loan Losses	2,395,000	1,320,000
	<hr/>	<hr/>
Net Interest Income After Provision for Loan Losses	33,159,237	29,283,848
	<hr/>	<hr/>
Noninterest Income		
Trust department income	373,672	454,808
Service charges on deposit accounts	768,025	672,478
Other service charges and fees	867,497	758,522
Appreciation in cash surrender value of life insurance	246,184	239,428
Gain on sales of loans	1,410,474	1,979,846
Gain on sales of securities	367,458	-
Gain on sales of fixed assets	10,839	18,037
	<hr/>	<hr/>
Total noninterest income	4,044,149	4,123,119
	<hr/>	<hr/>

First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Income (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Noninterest Expense		
Salaries and employee benefits	\$ 15,860,620	\$ 14,143,711
Occupancy and equipment	4,286,982	3,373,012
Advertising	752,374	561,564
IT and data processing	824,925	727,461
Legal, accounting and exam fees	1,263,698	1,252,444
FDIC assessment	548,250	484,890
Loss on sales of foreclosed assets	4,590	14,676
Other expenses	3,338,331	3,328,984
Total noninterest expense	26,879,770	23,886,742
Income Before Income Taxes	10,323,616	9,520,225
Provision for Income Taxes	3,164,942	2,892,712
Net Income	\$ 7,158,674	\$ 6,627,513

First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

	2015	2014
Net Income	\$ 7,158,674	\$ 6,627,513
Other Comprehensive Income		
Change in unrealized gains on investment securities available for sale, before tax	630,716	765,389
Less reclassification adjustment for realized gains included in net income, before tax	(367,458)	-
Other comprehensive income	263,258	765,389
Comprehensive Income Before Taxes	7,421,932	7,392,902
Income tax (expense) related to other comprehensive income	(89,508)	(260,233)
Comprehensive Income	\$ 7,332,424	\$ 7,132,669

First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock	Preferred Stock	Capital Surplus
Balance, January 1, 2014	\$ 9,439,992	\$ 937,044	\$ 40,018,172
Comprehensive income:			
Net income	-	-	-
Net change in unrealized gains on available-for-sale securities, net of taxes of \$260,233	-	-	-
Dividends accrued	-	-	-
Exercise of stock options	10,000	-	40,400
Purchases of treasury stock	-	-	-
Sales of treasury stock	-	-	11,529
Stock-based compensation	-	-	103,923
Balance, December 31, 2014	9,449,992	937,044	40,174,024
Comprehensive income:			
Net income	-	-	-
Net change in unrealized gains on available-for-sale securities, net of taxes of \$89,508	-	-	-
Dividends accrued	-	-	-
Exercise of stock options	16,500	-	96,540
Sales of treasury stock	-	-	1,666
Shares issued in employee stock purchase plan	10,098	-	112,401
Stock-based compensation	-	-	131,864
Balance, December 31, 2015	<u>\$ 9,476,590</u>	<u>\$ 937,044</u>	<u>\$ 40,516,495</u>

Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income	Total Shareholders' Equity
\$ 27,573,642	\$ (44,252)	\$ (204,646)	\$ 77,719,952
6,627,513	-	-	6,627,513
-	-	505,156	505,156
(562,226)	-	-	(562,226)
-	-	-	50,400
-	(105,300)	-	(105,300)
-	133,599	-	145,128
-	-	-	103,923
33,638,929	(15,953)	300,510	84,484,546
7,158,674	-	-	7,158,674
-	-	173,750	173,750
(562,223)	-	-	(562,223)
-	-	-	113,040
-	15,953	-	17,619
-	-	-	122,499
-	-	-	131,864
<u>\$ 40,235,380</u>	<u>\$ 0</u>	<u>\$ 474,260</u>	<u>\$ 91,639,769</u>

First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	\$ 7,158,674	\$ 6,627,513
Items not requiring (providing) cash:		
Provision for loan losses	2,395,000	1,320,000
Net amortization of securities	195,518	153,465
Depreciation	2,045,460	1,662,082
Net realized gains on available for sale securities	(367,458)	-
Gain on sales of loans	(1,410,474)	(1,979,846)
Appreciation in cash surrender value life insurance	(246,184)	(239,428)
Net loss on sales of foreclosed assets	4,590	14,676
Reduction in value of foreclosed assets	27,725	-
Gain on sales of fixed assets	(10,839)	(18,037)
Deferred income taxes	(732,259)	(523,490)
Stock-based compensation	131,864	103,923
Equity in undistributed (earnings) loss of FirstCapital GP, LLC	(6,384)	65,521
Net change in:		
Loans held for sale	(1,401,626)	6,678,076
Accrued interest receivable	(449,872)	(670,661)
Other assets	38,340	33,137
Accrued expenses and other liabilities	379,213	533,162
Net cash provided by operating activities	7,751,288	13,760,093
Investing Activities		
Net change in interest-bearing deposits in banks	102,101,507	71,204,466
Activity in available-for-sale securities:		
Proceeds from sales	38,198,628	-
Maturities, prepayments and calls	244,951,583	203,286,434
Purchases	(270,386,876)	(202,554,264)
Activity in held-to-maturity securities:		
Maturities, prepayments and calls	21,669,509	7,049,486
Purchases	(93,914,628)	(14,416,326)
Activity in investment in partnerships:		
Purchases	(258,740)	(581,945)
Net change in restricted investments carried at cost	(114,800)	(151,400)
Loan originations and principal collections, net	(114,278,541)	(138,409,560)
Proceeds from sales of fixed assets	31,277	36,476
Proceeds from sales of foreclosed assets	21,185	21,014
Additions to premises and equipment	(2,020,201)	(4,201,290)
Net cash used in investing activities	(74,000,097)	(78,716,909)

First Bancshares of Texas, Inc. and Subsidiary
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Financing Activities		
Net increase in deposits	\$ 46,718,969	\$ 39,857,695
Net increase (decrease) in advances from Federal Home Loan Bank	(46,647)	1,159,301
Net change in securities sold under agreements to repurchase	18,126,236	14,570,860
Exercise of stock options	113,040	50,400
Proceeds from sales of treasury stock	17,619	145,128
Proceeds from employee stock purchase plan	122,499	-
Purchases of treasury stock	-	(105,300)
Dividends paid	(562,223)	(562,226)
	<u>64,489,493</u>	<u>55,115,858</u>
Decrease in Cash and Cash Equivalents	(1,759,316)	(9,840,958)
Cash and Cash Equivalents, Beginning of Year	<u>15,814,486</u>	<u>25,655,444</u>
Cash and Cash Equivalents, End of Year	<u>\$ 14,055,170</u>	<u>\$ 15,814,486</u>

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 1: Summary of Significant Accounting Policies

Nature of Operation

First Bancshares of Texas, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, FirstCapital Bank of Texas, N.A. (the Bank). The Bank's primary source of revenue is providing a variety of financial services to individuals and businesses primarily in the Texas cities of Midland, Lubbock and Amarillo and their respective surrounding areas. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, other than temporary impairments (OTTI) and fair values of financial instruments.

Cash and Cash Equivalents

For purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold, all of which mature within ninety days.

The Company may be required to maintain average balances on hand or with the Federal Reserve Bank. The Company was not required to maintain a required reserve as of December 31, 2015 and 2014.

First Bancshares of Texas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

At December 31, 2015 and 2014, the Company's cash accounts exceeded federally insured limits by approximately \$57,396,000 and \$158,072,000, respectively.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks mature within one year and are carried at cost.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, any amount of an OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

In determining whether other than temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Investment in Partnerships

In 2014, the Company purchased a partnership interest in Independent Bankers Capital Fund III, L.P. for \$457,897 and committed to purchase a total of \$1,500,000. At December 31, 2015 and 2014, the carrying value of the investment in the partnership was \$457,897.

First Bancshares of Texas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

In 2012, the Company committed to purchase a partnership interest in Pharos III, L.P. for a total of \$1,500,000. At December 31, 2015 and 2014, the carrying value of the investment in the partnership was \$487,500 and \$240,000, respectively.

In 2011, the Company purchased a partnership interest in Valesco Commerce Street Capital, L.P. for \$53,188 and committed to purchase a total of \$500,000. At December 31, 2015 and 2014, the carrying value of the investment in the partnership was \$256,005 and \$190,706, respectively.

In 2009, the Company purchased a partnership interest in Independent Bankers Capital Fund II, L.P. for \$37,500 and committed to purchase a total of \$250,000. At December 31, 2015 and 2014, the carrying value of the investment in the partnership was \$141,399 and \$195,458, respectively.

Restricted Investments Carried at Cost

Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB) and TIB-The Independent BankersBank (TIB) stock are required investments for institutions that are members of the FHLB, FRB and TIB systems. The required investments in the common stock are based on predetermined formulas, carried at cost and evaluated for impairment.

Investment in FirstCapital GP, LLC

The Company is a fifty percent owner in FirstCapital GP, LLC, which owns an airplane. As of December 31, 2015 and 2014, the Company had an investment in FirstCapital GP, LLC in the amount of \$845,579 and \$839,195, respectively. The Company accounts for the ownership based on the equity method of accounting.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at loan origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Texas cities of Midland, Lubbock and Amarillo and their respective surrounding areas. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

First Bancshares of Texas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on all loans is generally discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to 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.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Troubled Debt Restructured Loans

A troubled debt restructured loan is a loan, which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired in the year of modification and will be assessed periodically for continued impairment.

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Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35-40 years
Leasehold improvements	5-10 years
Equipment	3-5 years

Cash Surrender Value of Life Insurance

The Company has purchased life insurance policies on certain key executives. Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as income or expense on the consolidated statements of income.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2015 and 2014.

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (*Accounting Standards Codification [ASC] Topic 815, Derivatives and Hedging*). Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets and other liabilities with changes in their fair values recorded in noninterest income.

Forward Loan Sale Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under *ASC Topic 815, Derivatives and Hedging*, as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of financial condition in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within one year from the transaction date and are presented at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Preferred Stock

The Company has the authority to issue up to 1,100,000 shares of preferred stock, \$1.00 par value per share. The preferred stock was available for issuance from time to time for various purposes as determined by the board of directors, including making future acquisitions, raising additional equity capital and financing.

The Company has designated 1,100,000 of authorized shares as Series 2009 Preferred Stock. The Series 2009 Preferred Stock had a subscription price of \$10.00 per share and a par value of \$1.00 per share. Dividends are calculated at an annual rate of 6 percent based upon the subscription

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price of \$10.00 and paid quarterly. Dividends are noncumulative. If the board of directors does not declare a dividend for a particular quarterly period, the Company has no obligation to pay dividends for that quarter.

The holders of the Series 2009 Preferred Stock have no voting rights, except in connection with (1) the creation of a class or series of stock ranking prior to the Series A in the payment of dividends or in the distribution of assets on its liquidation, dissolution, or winding up; (2) certain mergers and consolidations between the Company and another entity; (3) amendments to the Company's Articles. Holders also do not have any preemptive or subscription rights to acquire additional shares of Company stock.

The Series 2009 Preferred Stock has no maturity date and the Company is not obligated to redeem them. The Company may, at its option, and subject to the prior approval of the Federal Reserve Bank, redeem the Series 2009 Preferred Stock in whole or in part at any time at a cash redemption price of \$10.00 per share.

As of December 31, 2015 and 2014, the Company had issued 937,044 shares of Series 2009 Preferred Stock.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 1,515 shares in 2014. There was no treasury stock at December 31, 2015.

Stock Options

At December 31, 2015 and 2014, the Company recognizes the fair value (calculated value) of stock-based awards to employees as compensation cost over the requisite service period. The share-based employee compensation plan is described more fully in Note 13.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its

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creditors, even in bankruptcy or other receivership, (2) the transferee obtains the rights (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and, upon examination, also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. There were no interest or penalties recorded during the years ended December 31, 2015 and 2014. The Company files consolidated income tax returns with its subsidiary. With few exceptions, the Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years before 2011.

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Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized gains on available-for-sale securities.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Note 2: Securities

The amortized cost and approximate fair value of the Company's available-for-sale securities, with gross unrealized gains and losses, are presented below.

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale Securities				
Debt securities:				
Mortgage-backed	\$ 8,474,954	\$ 615,717	\$ -	\$ 9,090,671
Municipal bonds	15,010,391	125,184	(22,325)	15,113,250
Total available-for-sale securities	<u>\$ 23,485,345</u>	<u>\$ 740,901</u>	<u>\$ (22,325)</u>	<u>\$ 24,203,921</u>
Held to maturity Securities				
Debt securities:				
Mortgage-backed	\$ 92,642,496	\$ 307,332	\$ (1,333,644)	\$ 91,616,184
Municipal bonds	30,026,645	1,218,247	-	31,244,892
U.S. Government and agency	24,380,218	208,882	(8,095)	24,581,005
Total held-to-maturity securities	<u>\$ 147,049,359</u>	<u>\$ 1,734,461</u>	<u>\$ (1,341,739)</u>	<u>\$ 147,442,081</u>

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	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale Securities				
Debt securities:				
Mortgage-backed	\$ 12,438,502	\$ 939,570	\$ -	\$ 13,378,072
Municipal bonds	21,273,254	4,398	(480,905)	20,796,747
U.S. Government and agency	2,548,744	-	(7,744)	2,541,000
Total available-for-sale securities	<u>\$ 36,260,500</u>	<u>\$ 943,968</u>	<u>\$ (488,649)</u>	<u>\$ 36,715,819</u>
Held-to-maturity Securities				
Debt securities:				
Mortgage-backed	\$ 43,149,269	\$ 428,250	\$ (222,828)	\$ 43,354,691
Municipal bonds	21,620,933	955,528	(37,763)	22,538,698
U.S. Government and agency	9,850,277	180,872	-	10,031,149
Total held-to-maturity securities	<u>\$ 74,620,479</u>	<u>\$ 1,564,650</u>	<u>\$ (260,591)</u>	<u>\$ 75,924,538</u>

The amortized cost and fair value of available for sale securities and held to maturity securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year or less	\$ -	\$ -	\$ 2,495,472	\$ 2,501,275
Due from one to five years	-	-	29,457,085	29,936,034
Due from five to ten years	3,386,232	3,381,929	12,619,055	13,171,415
Due after ten years	11,624,159	11,731,321	9,835,251	10,217,173
Mortgage-backed securities	8,474,954	9,090,671	92,642,496	91,616,184
Totals	<u>\$ 23,485,345</u>	<u>\$ 24,203,921</u>	<u>\$ 147,049,359</u>	<u>\$ 147,442,081</u>

Gross gains of \$367,458 resulting from sales of available-for-sale securities were realized for 2015. There were no gross losses resulting from sales of available for sale securities for 2015. There were no sales of securities available for sale for 2014.

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At December 31, 2015 and 2014, securities with a carrying value of \$80,356,145 and \$62,256,310, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014:

Category	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds	\$ 2,469,037	\$ (6,376)	\$ 1,192,496	\$ (15,949)	\$ 3,661,533	\$ (22,325)
U.S. Government and agency	11,991,905	(8,095)	-	-	11,991,905	(8,095)
Mortgage-backed securities	56,648,717	(1,211,632)	5,905,539	(122,012)	62,554,256	(1,333,644)
Total	<u>\$ 71,109,659</u>	<u>\$ (1,226,103)</u>	<u>\$ 7,098,035</u>	<u>\$ (137,961)</u>	<u>\$ 78,207,694</u>	<u>\$ (1,364,064)</u>

Category	December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal bonds	\$ 10,059,244	\$ (127,273)	\$ 12,233,474	\$ (391,395)	\$ 22,292,718	\$ (518,668)
U.S. Government and agency	2,541,000	(7,744)	-	-	2,541,000	(7,744)
Mortgage-backed securities	4,768,173	(34,412)	8,771,045	(188,416)	13,539,218	(222,828)
Total	<u>\$ 17,368,417</u>	<u>\$ (169,429)</u>	<u>\$ 21,004,519</u>	<u>\$ (579,811)</u>	<u>\$ 38,372,936</u>	<u>\$ (749,240)</u>

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014, was \$78,207,694 and \$38,372,936, which is approximately 46 percent and 34 percent, respectively, of the Company's available for sale and held to maturity investment portfolio. These declines primarily resulted from recent changes in market interest rates. Management believes the declines in fair value for these securities are temporary.

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Mortgage-backed

The unrealized losses on the Company's investment in mortgage-backed securities were caused by interest rate increases and increases in prepayment speeds. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and increases in prepayment speeds and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014, respectively.

U.S. Government and Agency

The unrealized losses on the Company's investment in U.S. government and agency securities were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

Municipal Bonds

The unrealized losses on the Company's investment in municipal bonds were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

Note 3: Loans and Allowance for Loan Losses

Portfolio segments of loans as of December 31 are as follows.

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	2015	2014
Real estate	\$ 464,643,099	\$ 377,250,806
Consumer	7,803,329	7,138,039
Commercial	194,081,597	174,535,161
Other loans	24,008,527	17,279,349
Leases receivable	167,405	385,388
Gross loans	690,703,957	576,588,743
Less allowance for loan losses	(9,728,929)	(7,390,027)
Loans, net	\$ 680,975,028	\$ 569,198,716

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and evaluation method as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015					
	Real Estate	Consumer	Commercial	Other Loans	Leases Receivable	Total
Allowance for Loan Losses						
Beginning balance	\$ 4,104	\$ 221	\$ 2,499	\$ 519	\$ 47	\$ 7,390
Charge-offs	(12)	(33)	(267)	-	-	(312)
Recoveries	2	5	249	-	-	256
Provision (credit) for loan losses	2,151	(17)	528	(222)	(45)	2,395
Ending balance	\$ 6,245	\$ 176	\$ 3,009	\$ 297	\$ 2	\$ 9,729
Ending balance allocated to loans individually evaluated for impairment	\$ 605	\$ -	\$ 189	\$ -	\$ -	\$ 794
Ending balance allocated to loans collectively evaluated for impairment	5,640	176	2,820	297	2	8,935
Ending balance	\$ 6,245	\$ 176	\$ 3,009	\$ 297	\$ 2	\$ 9,729
Loans Receivable						
Ending balance of loans individually evaluated for impairment	\$ 1,264	\$ -	\$ 927	\$ -	\$ -	\$ 2,191
Ending balance of loans collectively evaluated for impairment	463,379	7,803	193,155	24,009	167	688,513
Ending balance	\$ 464,643	\$ 7,803	\$ 194,082	\$ 24,009	\$ 167	\$ 690,704

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	December 31, 2014					
	Real Estate	Consumer	Commercial	Other Loans	Leases Receivable	Total
Allowance for Loan Losses						
Beginning balance	\$ 2,507	\$ 178	\$ 3,371	\$ 114	\$ 9	\$ 6,179
Charge-offs	-	(52)	(223)	-	-	(275)
Recoveries	2	54	110	-	-	166
Provision (credit) for loan losses	1,595	41	(759)	405	38	1,320
Ending balance	<u>\$ 4,104</u>	<u>\$ 221</u>	<u>\$ 2,499</u>	<u>\$ 519</u>	<u>\$ 47</u>	<u>\$ 7,390</u>
Ending balance allocated to loans individually evaluated for impairment	\$ 257	\$ -	\$ 199	\$ -	\$ -	\$ 456
Ending balance allocated to loans collectively evaluated for impairment	3,847	221	2,300	519	47	6,934
Ending balance	<u>\$ 4,104</u>	<u>\$ 221</u>	<u>\$ 2,499</u>	<u>\$ 519</u>	<u>\$ 47</u>	<u>\$ 7,390</u>
Loans Receivable						
Ending balance of loans individually evaluated for impairment	\$ 1,738	\$ -	\$ 813	\$ -	\$ -	\$ 2,551
Ending balance of loans collectively evaluated for impairment	375,513	7,138	173,722	17,279	385	574,037
Ending balance	<u>\$ 377,251</u>	<u>\$ 7,138</u>	<u>\$ 174,535</u>	<u>\$ 17,279</u>	<u>\$ 385</u>	<u>\$ 576,588</u>

Internal Risk Categories

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

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Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

Credits rated loss are those that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Real Estate: The Company's real estate portfolio is comprised primarily of homogenous loans secured by residential and commercial real estate. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers and successful operations of the property securing the loan or the business conducted on the property securing the loan. Credit risk in the residential loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is

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mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Consumer: The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Other: Other loans are subject to underwriting standards and processes similar to commercial loans. These loans are based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most loans are secured by the assets being financed and may include personal guarantees.

The following tables set forth information regarding the internal classes of the loan portfolio by primary credit quality indicator as of December 31, 2015 and 2014:

	December 31, 2015					Total
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	Loss	
Real estate:						
1-4 family	\$ 139,689,582	\$ -	\$ 2,928,196	\$ -	\$ -	\$ 142,617,778
Commercial	207,244,392	3,432,367	956,703	-	-	211,633,462
Construction	73,691,022	-	-	-	-	73,691,022
Land development	35,303,856	1,192,992	203,989	-	-	36,700,837
Consumer	7,787,055	-	16,274	-	-	7,803,329
Commercial	186,092,933	1,616,434	6,372,230	-	-	194,081,597
Other loans	23,846,333	-	162,194	-	-	24,008,527
Leases receivable	167,405	-	-	-	-	167,405
Total	\$ 673,822,578	\$ 6,241,793	\$ 10,639,586	\$ 0	\$ 0	\$ 690,703,957

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	December 31, 2014					
	Internal Loan Grade					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 family	\$ 128,393,385	\$ 205,858	\$ 5,448,634	\$ -	\$ -	\$ 134,047,877
Commercial	160,968,166	2,763,970	1,366,562	-	-	165,098,698
Construction	52,126,619	-	-	-	-	52,126,619
Land development	25,431,310	546,302	-	-	-	25,977,612
Consumer	7,124,741	5,312	7,986	-	-	7,138,039
Commercial	171,992,198	383,864	2,097,701	61,398	-	174,535,161
Other loans	17,279,349	-	-	-	-	17,279,349
Leases receivable	385,388	-	-	-	-	385,388
Total	\$ 563,701,156	\$ 3,905,306	\$ 8,920,883	\$ 61,398	\$ 0	\$ 576,588,743

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during the years ended December 31, 2015 and 2014.

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2015 and 2014.

	December 31, 2015					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
1-4 family	\$ 1,496,994	\$ -	\$ 1,496,994	\$ 141,120,784	\$ 142,617,778	\$ -
Commercial	215,854	-	215,854	211,417,608	211,633,462	-
Construction	387,200	-	387,200	73,303,822	73,691,022	-
Land development	84,754	-	84,754	36,616,083	36,700,837	-
Consumer	66,300	-	66,300	7,737,029	7,803,329	-
Commercial	559,671	-	559,671	193,521,926	194,081,597	-
Other loans	11,046	-	11,046	23,997,481	24,008,527	-
Leases receivable	-	-	-	167,405	167,405	-
Total	\$ 2,821,819	\$ 0	\$ 2,821,819	\$ 687,882,138	\$ 690,703,957	\$ 0

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December 31, 2014						
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
1-4 family	\$ 219,896	\$ 85,036	\$ 304,932	\$ 133,742,945	\$ 134,047,877	\$ -
Commercial	-	-	-	165,098,698	165,098,698	-
Construction	-	-	-	52,126,619	52,126,619	-
Land development	-	-	-	25,977,612	25,977,612	-
Consumer	75,880	1,074	76,954	7,061,085	7,138,039	-
Commercial	723,542	93,686	817,228	173,717,933	174,535,161	-
Other loans	13,579	-	13,579	17,265,770	17,279,349	-
Leases receivable	-	-	-	385,388	385,388	-
Total	\$ 1,032,897	\$ 179,796	\$ 1,212,693	\$ 575,376,050	\$ 576,588,743	\$ 0

The following table sets forth information regarding the nonaccrual status within the loan portfolio as of December 31, 2015 and 2014:

	2015	2014
Real estate:		
1-4 family	\$ 374,082	\$ 85,036
Commercial	30,490	-
Construction	-	-
Land development	-	-
Consumer	-	1,074
Commercial	32,209	155,084
Other loans	-	-
Leases receivable	-	-
Total	\$ 436,781	\$ 241,194

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

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The following tables present impaired loans by class of loans for the years ended December 31, 2015 and 2014:

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 family	\$ 26,401	\$ 26,401	\$ -	\$ 70,229	\$ 4,806
Commercial	-	-	-	-	-
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer					
Commercial	3,006,530	3,006,530	-	2,882,087	178,521
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
With a related allowance:					
Real estate:					
1-4 family	374,082	374,082	374,082	760,214	43,085
Commercial	858,128	858,128	230,490	915,553	55,676
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer					
Commercial	959,173	959,173	189,073	996,522	61,265
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
Total:					
Real estate:					
1-4 family	400,483	400,483	374,082	830,443	47,891
Commercial	858,128	858,128	230,490	915,553	55,676
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer					
Commercial	3,965,703	3,965,703	189,073	3,878,609	239,786
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
Totals	<u>\$ 5,224,314</u>	<u>\$ 5,224,314</u>	<u>\$ 793,645</u>	<u>\$ 5,624,605</u>	<u>\$ 343,353</u>

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 family	\$ 96,556	\$ 96,556	\$ -	\$ 48,278	\$ 5,129
Commercial	399,297	399,297	-	199,649	27,487
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	-	-	-	333,422	-
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
With a related allowance:					
Real estate:					
1-4 family	309,001	309,001	57,500	159,499	19,686
Commercial	933,068	933,068	200,000	682,381	62,743
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	813,413	813,413	198,796	497,468	47,607
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
Total:					
Real estate:					
1-4 family	405,557	405,557	57,500	207,777	24,815
Commercial	1,332,365	1,332,365	200,000	882,030	90,230
Construction	-	-	-	-	-
Land development	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	813,413	813,413	198,796	830,890	47,607
Other loans	-	-	-	-	-
Leases receivable	-	-	-	-	-
Totals	\$ 2,551,335	\$ 2,551,335	\$ 456,296	\$ 1,920,697	\$ 162,652

First Bancshares of Texas, Inc. and Subsidiary
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At December 31, 2015 and 2014, the company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following table presents information regarding troubled debt restructurings by class for the years ended December 31, 2015 and 2014.

Newly classified troubled debt restructurings:

	December 31, 2015		
	Number of Loans	Pre- modification Recorded Balance	Post- modification Recorded Balance
Real estate:			
1-4 family	1	\$ 320,616	\$ 229,326
Commercial	-	-	-
Construction	-	-	-
Land development	-	-	-
Consumer	-	-	-
Commercial	4	2,956,530	3,006,530
Other loans	-	-	-
Leases receivable	-	-	-
Total	<u>5</u>	<u>\$ 3,277,146</u>	<u>\$ 3,235,856</u>
	December 31, 2014		
	Number of Loans	Pre- modification Recorded Balance	Post- modification Recorded Balance
Real estate:			
1-4 family	1	\$ 96,556	\$ 96,556
Commercial	-	-	-
Construction	-	-	-
Land development	-	-	-
Consumer	-	-	-
Commercial	1	42,754	37,398
Other loans	-	-	-
Leases receivable	-	-	-
Total	<u>2</u>	<u>\$ 139,310</u>	<u>\$ 133,954</u>

First Bancshares of Texas, Inc. and Subsidiary
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The troubled debt restructurings described above increased the allowance for loan losses by \$229,326 and \$37,398 during the years ended December 31, 2015 and 2014, respectively. There were no charge offs related to the troubled debt restructurings above during 2015. There were charge offs related to troubled debt restructurings of \$4,185 during 2014.

Newly restructured loans by type of modification:

December 31, 2015				
	Payment			Total
	Restructure	Term	Combination	Modification
Real estate:				
1-4 family	\$ -	\$ -	\$ 229,326	\$ 229,326
Commercial	-	-	-	-
Construction	-	-	-	-
Land development	-	-	-	-
Consumer	-	-	-	-
Commercial	-	2,849,999	156,531	3,006,530
Other loans	-	-	-	-
Leases receivable	-	-	-	-
	<u>0</u>	<u>2,849,999</u>	<u>385,857</u>	<u>3,235,856</u>
Total loans	<u>\$ 0</u>	<u>\$ 2,849,999</u>	<u>\$ 385,857</u>	<u>\$ 3,235,856</u>
December 31, 2014				
	Payment			Total
	Restructure	Term	Combination	Modification
Real estate:				
1-4 family	\$ 96,556	\$ -	\$ -	\$ 96,556
Commercial	-	-	-	-
Construction	-	-	-	-
Land development	-	-	-	-
Consumer	-	-	-	-
Commercial	37,398	-	-	37,398
Other loans	-	-	-	-
Leases receivable	-	-	-	-
	<u>133,954</u>	<u>0</u>	<u>0</u>	<u>133,954</u>
Total loans	<u>\$ 133,954</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 133,954</u>

The Bank has no commitments to loan additional funds to borrowers whose loans have been modified.

First Bancshares of Texas, Inc. and Subsidiary
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Note 4: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is presented below:

	2015	2014
Land	\$ 2,720,925	\$ 2,720,925
Projects and construction in progress	1,746,302	2,066,344
Bank premises	18,419,762	17,314,875
Furniture, software and equipment	<u>8,443,137</u>	<u>7,280,439</u>
Premises and equipment, at cost	31,330,126	29,382,583
Accumulated depreciation	<u>(10,009,905)</u>	<u>(8,016,665)</u>
Net premises and equipment	<u>\$ 21,320,221</u>	<u>\$ 21,365,918</u>

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2015, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows.

	Operating Leases
2016	\$ 631,148
2017	436,501
2018	191,593
2019	173,384
2020	153,892
Thereafter	<u>1,077,248</u>
Total minimum lease payments	<u>\$ 2,663,766</u>

These leases expire over the next 12 years. Various leases contain options to extend for periods of five years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2015 and 2014 was \$825,929 and \$681,240, respectively.

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Note 5: Deposits

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2015 and 2014 were \$58,126,245 and \$50,823,499, respectively. At December 31, 2015, the scheduled maturities of time deposits were as follows:

2016	\$ 112,943,895
2017	24,217,308
2018	1,626,344
2019	226,817
2020 and thereafter	<u>1,173,930</u>
	<u><u>\$ 140,188,294</u></u>

Note 6: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to \$42,902,491 and \$24,776,255 at December 31, 2015 and 2014, respectively. Such agreements mature on a daily basis and are secured by U.S. government securities with a fair value of \$43,931,266 and \$27,387,568 as of December 31, 2015 and 2014, respectively.

Note 7: Advances From Federal Home Loan Bank

At December 31, 2015, advances of \$1,112,654 consisted of multiple advances from the FHLB. Pursuant to collateral agreements with the FHLB, the advances are secured by qualifying first mortgage loans totaling \$293,083,385. Advances are subject to restrictions or penalties in the event of prepayment. The stated interest rates ranged from 0.75 percent to 2.695 percent and the advances mature between December 16, 2016 and December 16, 2026.

At December 31, 2014, advances of \$1,159,301 consisted of multiple advances from FHLB. Pursuant to collateral agreements with FHLB, the advances were secured by qualifying first mortgage loans. The stated interest rates ranged from .75 percent to 2.695 percent and the advances mature between December 16, 2016 and December 16, 2026.

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Maturities of FHLB advances as of December 31, 2015 are as follows:

2016	\$ 84,927
2017	44,448
2018	-
2019	93,070
2020	-
Thereafter	<u>890,209</u>
	<u><u>\$ 1,112,654</u></u>

Note 8: Subordinated Debentures

On December 30, 2003, the Company completed the placement of \$3,093,000 in subordinated debentures to First Bancshares of Texas Statutory Trust I (the Trust). The Trust funded the purchase of the subordinated debentures through the sale of trust preferred securities to First Tennessee Bank National Association with a liquidation value of \$3,093,000.

Using interest payments made by the Company on the debentures, the Trust began paying quarterly dividends to preferred security holders on June 17, 2004. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 2.85 percent (3.18 percent and 3.10 percent at December 31, 2015 and 2014, respectively). Also, the interest rate cannot exceed the maximum rate permitted by New York law.

Dividends on the preferred securities are cumulative and the Trust may defer the payments for up to five years. The preferred securities mature in March 2034.

Subordinated debt may be included in regulatory Tier I capital subject to a limitation that such amounts do not exceed 25 percent of Tier I capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital.

For the years ended December 31, 2015 and 2014, interest expense on the subordinated debentures was \$98,317 and \$96,772, respectively.

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Note 9: Lines of Credit

The Company has a line of credit with a correspondent bank totaling \$15,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds. The agreement does not contain a stated expiration date, but may be terminated at any time at the discretion of the correspondent bank. As of December 31, 2015 and 2014, no advances were made under this agreement.

The Company has a second line of credit with a correspondent bank totaling \$20,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first ten (10) days and on the eleventh (11) day, the Company must furnish collateral in the form of marketable securities. The agreement expires August 1, 2016. As of December 31, 2015 and 2014, no advances were made under this agreement.

The Company has a third line of credit with a correspondent bank totaling \$20,000,000 at a variable interest rate quoted on the day any advances are drawn. The terms provide for the unsecured purchase of federal funds for the first ten (10) days and on the eleventh (11) day, the Company must furnish collateral in the form of government securities. The agreement expires April 25, 2016. As of December 31, 2015 and 2014, no advances were made under this agreement.

Note 10: Income Taxes

The provision for income taxes includes these components.

	2015	2014
Current federal income tax	\$ 3,884,436	\$ 3,405,071
Current state income tax	12,765	11,131
Deferred federal income tax	<u>(732,259)</u>	<u>(523,490)</u>
Total provision	<u>\$ 3,164,942</u>	<u>\$ 2,892,712</u>

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A reconciliation of income tax expense at the statutory rate of the Company's actual income tax expense is shown below.

	2015	2014
Income tax expense at the statutory rate	34.0 %	34.0 %
State income taxes	0.1	0.1
Nontaxable earnings	(4.7)	(5.2)
Nondeductible expenses	0.7	0.7
Other	0.6	0.8
Effective tax rate	30.7 %	30.4 %

The tax effects of temporary differences related to deferred taxes shown on the consolidated statements of financial condition were:

	2015	2014
Deferred tax assets:		
Loans	\$ 3,307,836	\$ 2,512,610
Benefits payable	153,286	140,495
Other real estate	5,950	-
Other	333,501	408,233
	3,800,573	3,061,338
Deferred tax liabilities:		
Premises and equipment	125,862	118,886
Unrealized gain on available-for-sale securities	244,316	154,808
	370,178	273,694
Net deferred tax asset	\$ 3,430,395	\$ 2,787,644

Note 11: Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends for the year 2016 to the extent of the Bank's earnings for 2016 plus \$14,199,106 of available earnings from prior years. In

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addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 12: Minimum Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off balance sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk weighted assets (as defined), common equity Tier I capital (as defined) to total risk weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk based capital, Tier I risk based capital, common equity Tier I risk based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since the notification that management believes have changed the Bank's category.

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The Company's and Bank's actual capital amounts and ratios are also presented in the following table (in thousands).

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total capital (to risk-weighted assets):						
Consolidated	\$ 103,773	13.5 %	\$ 61,454	8.0 %	N/A	N/A %
Bank	101,359	13.2	61,348	8.0	76,686	10.0
Tier I capital (to risk-weighted assets):						
Consolidated	94,166	12.3	46,090	6.0	N/A	N/A
Bank	91,768	12.0	46,011	6.0	61,348	8.0
Common Equity Tier 1 (to risk-weighted assets):						
Consolidated	81,829	10.7	34,568	4.5	N/A	N/A
Bank	91,768	12.0	34,508	4.5	49,846	6.5
Tier I capital (to average assets):						
Consolidated	94,166	9.6	39,079	4.0	N/A	N/A
Bank	91,768	9.4	38,991	4.0	48,739	5.0
As of December 31, 2014:						
Total capital (to risk-weighted assets):						
Consolidated	\$ 94,857	14.5 %	\$ 52,351	8.0 %	\$ N/A	N/A %
Bank	89,104	13.7	52,196	8.0	65,245	10.0
Tier I capital (to risk-weighted assets):						
Consolidated	87,184	13.3	26,175	4.0	N/A	N/A
Bank	81,431	12.5	26,098	4.0	39,147	6.0
Tier I capital (to average assets):						
Consolidated	87,184	9.8	35,562	4.0	N/A	N/A
Bank	81,431	9.2	35,424	4.0	44,280	5.0

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Basel III Capital Rules

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd Frank Act. These rules substantially revise the risk based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk weighting approach with a more risk sensitive approach. The Basel III Capital Rules were effective for the Company on January 1, 2015 (subject to a four year phase in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015, are as follows:

- 4.5 percent CET1 to risk weighted assets
- 6.0 percent Tier 1 capital to risk weighted assets
- 8.0 percent Total capital to risk weighted assets
- 4.0 percent Minimum leverage ratio

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will phase in over a four year period (beginning at 40 percent on January 1, 2015, and an additional 20 percent per year thereafter). Under the new rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of CET1 capital above its minimum risk based capital requirements. The implementation of the

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capital conservation buffer begins on January 1, 2016, at the 0.625 percent level and will phase in over a four year period (increasing by that amount on each subsequent January 1 until it reaches 2.5 percent on January 1, 2019).

Note 13: Employee Benefit Plans

401(k) Plan

The Company has a 401(k) plan in which substantially all employees may participate. The Company matches employees' contributions based on a percentage of salary contributed by participants. The Company's expense for the plan was \$592,833 and \$404,771 for the years ended December 31, 2015 and 2014, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan effective August 1, 2011, allowing all employees of the Company an opportunity to purchase shares of common stock of the Company through an after-tax payroll deduction withheld from each paycheck up to 500,000 shares. Payroll deductions are transferred into an escrow account until they have enough to purchase 250 shares, which is the minimum number of shares that can be purchased through this program. The Company matches 25 percent of employees' contributions each payroll period up to \$125 per payroll period. The Company's expense for the plan was \$29,294 and \$35,579 for the years ended December 31, 2015 and 2014, respectively.

Stock Option Plan

Under the Company's 2007 stock option plan, the Company may grant options to purchase its common stock to its directors, officers and employees for up to 600,000 shares of common stock. These stock option grants are primarily incentive-based in order to attract and retain qualified and highly productive employees. The exercise price of each stock option is determined on the date of the grant. The Company's stock option agreements are for a maximum term of ten years. The options vest over a period of five years following the date of the grant.

In accordance with authoritative accounting guidance, the Company recognizes compensation cost relating to share-based payment transactions in the consolidated financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the years ended December 31, 2015 and 2014, the Company recognized \$131,864 and \$103,922, respectively, in compensation expense for stock options, which is included as a part of salaries and employee benefits on the consolidated statements of income. As of December 31, 2015, the remaining compensation expense to be recognized for outstanding stock options was \$339,899. This compensation expense is to be fully recognized by the year ending December 31, 2020.

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The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that options are expected to be outstanding; the range given below results from certain groups of employees exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The Company granted 31,500 new stock options during 2015.

	<u>2015</u>	<u>2014</u>
Dividend yield	-	-
Expected life	10 years	10 years
Expected volatility	43.63%	43.63%
Risk-free interest rate	1.82%	2.80%

An analysis of stock option activity is presented below:

	<u>December 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Shares</u>	<u>Weighted- average Exercise Price</u>	<u>Shares</u>	<u>Weighted- average Exercise Price</u>
Outstanding, January 1	256,600	\$ 7.41	265,100	\$ 7.31
Granted	31,500	11.92	1,500	10.87
Exercised	(16,500)	6.85	(10,000)	5.04
Cancelled	(8,600)	8.51	-	-
	<u>263,000</u>	<u>\$ 7.96</u>	<u>256,600</u>	<u>\$ 7.41</u>
Outstanding, December 31				
Exercisable, December 31	<u>168,200</u>	<u>\$ 6.49</u>	<u>158,600</u>	<u>\$ 5.99</u>

The following table summarizes information concerning outstanding and vested stock options as of December 31, 2015.

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Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price	Shares Exercisable	Weighted-average Exercise Price
\$4.00 - \$5.00	65,000	1.10	\$ 4.25	65,000	\$ 4.25
\$5.00 - \$6.00	22,500	2.20	5.58	22,500	5.58
\$6.00 - \$7.00	18,500	3.30	6.08	18,500	6.08
\$7.00 - \$8.00	10,000	4.80	7.34	10,000	7.34
\$8.00 - \$9.00	20,000	6.40	8.71	12,000	8.71
\$9.00 - \$10.00	7,000	6.80	9.61	4,200	9.61
\$10.00 - \$11.00	88,500	7.20	10.11	35,400	10.11
\$11.00 - \$12.00	31,500	9.10	11.92	600	11.92
	<u>263,000</u>	<u>5.00</u>	<u>\$ 7.98</u>	<u>168,200</u>	<u>\$ 6.52</u>
				Number of Shares	Weighted-average Grant Date Value
Non-vested options, December 31, 2014				98,000	\$ 3.97
Granted				31,500	6.60
Vested				(28,700)	3.71
Cancelled				<u>(6,000)</u>	3.08
Non-vested options, December 31, 2015				<u>94,800</u>	<u>\$ 4.94</u>

Note 14: Related-party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Annual activity consisted of the following.

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	December 31,	
	2015	2014
Beginning balance	\$ 25,858,785	\$ 19,351,430
New loans	8,086,049	11,640,428
Repayments	(9,154,172)	(5,133,073)
Ending balance	\$ 24,790,662	\$ 25,858,785

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2015 and 2014, amounted to \$15,901,904 and \$16,479,003, respectively.

Note 15: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial condition measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014.

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December 31, 2015				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities:				
Mortgage-backed	\$ -	\$ 9,090,671	\$ -	\$ 9,090,671
Municipals bonds	-	15,113,250	-	15,113,250
<hr/>				
Total financial assets	\$ 0	\$ 24,203,921	\$ 0	\$ 24,203,921
<hr/>				
December 31, 2014				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities:				
Mortgage-backed	\$ -	\$ 13,378,072	\$ -	\$ 13,378,072
Municipals bonds	-	20,796,747	-	20,796,747
U.S. Government and agency	-	2,541,000	-	2,541,000
<hr/>				
Total financial assets	\$ 0	\$ 36,715,819	\$ 0	\$ 36,715,819
<hr/>				

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2015 and 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There are no Level 3 available for sale securities.

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014:

		December 31, 2015			
		Level 1	Level 2	Level 3	Total
		Inputs	Inputs	Inputs	Fair Value
Financial assets:					
Impaired loans	\$	-	\$	-	\$ 4,430,669
				\$ 4,430,669	\$ 4,430,669

		December 31, 2014			
		Level 1	Level 2	Level 3	Total
		Inputs	Inputs	Inputs	Fair Value
Financial assets:					
Impaired loans	\$	-	\$	-	\$ 2,095,039
				\$ 2,095,039	\$ 2,095,039

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated statements of financial condition, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2015 and 2014.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
December 31, 2015:				
Impaired loans	\$ 4,430,669	Market comparable properties	Marketability discount	10-30% (20%)
December 31, 2014:				
Impaired loans	\$ 2,095,039	Market comparable properties	Marketability discount	10-30% (20%)

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2015 and 2014.

	2015		2014	
	Carrying Value	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 14,055,170	\$ 14,055,170	\$ 15,814,486	\$ 15,814,486
Interest-bearing deposits in banks	48,828,449	48,828,449	150,929,956	150,929,956
Securities held to maturity	147,049,359	147,442,081	74,620,479	75,924,538
Investments in partnerships	1,342,801	1,342,801	1,084,061	1,084,061
Restricted investments held at cost	1,956,500	1,956,500	1,841,700	1,841,700
Investment in First Bancshares of Texas Statutory Trust I	93,000	93,000	93,000	93,000
Investment in FirstCapital GP, LLC	845,579	845,579	839,195	839,195
Loans held for sale	4,382,103	4,382,103	1,570,003	1,570,003
Loans, net	676,544,359	690,535,331	567,103,677	575,917,638
Accrued interest receivable	3,490,813	3,490,813	3,040,941	3,040,941
Cash surrender value of life insurance	8,168,888	8,168,888	7,922,704	7,922,704
Financial liabilities:				
Deposits	819,922,848	821,703,000	773,203,879	773,271,879
Accrued interest payable	306,158	306,158	254,171	254,171
Securities sold under agreements to repurchase	42,902,491	42,902,491	24,776,255	24,776,255
Advances from FHLB	1,112,654	1,112,654	1,159,301	1,159,301
Subordinated debentures	3,093,000	3,093,000	3,093,000	3,093,000

First Bancshares of Texas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following methods and assumptions were used by the Company in estimating the fair value of the above classes of financial instruments.

Cash and Cash Equivalents, Interest-bearing Deposits in Banks, Loans Held for Sale, Accrued Interest Receivable, Accrued Interest Payable and Securities Sold Under Agreements to Repurchase – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Securities Held to Maturity – Fair value estimates are based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Investment in Partnerships, Restricted Investments Held at Cost, Investment in First Bancshares of Texas Statutory Trust I, Investment in FirstCapital GP, LLC – The carrying value of these investments approximates fair value based on the redemption provisions contained in each.

Loans, Net – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, consumer, and other loans with each category further segmented into fixed and adjustable rate interest terms.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans, and risk adjustments on the remaining portfolio based on credit loss experience.

Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

Cash Surrender Value of Life Insurance – The carrying amount of bank-owned life insurance is based on information received from the insurance carriers indicating the financial performance of the policies and the amount the Company would receive should the policies be surrendered.

Deposits – The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

First Bancshares of Texas, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Advances From FHLB and Subordinated Debentures – The fair value of the Company's debentures and advances are estimated using discounted cash flow analysis based on the interest rate that would be effective December 31, 2015, if the borrowings repriced according to their stated terms.

Off-balance-sheet Instruments – Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of these financial instruments is considered insignificant. Additionally, these financial instruments have no carrying value.

Note 16: Derivatives

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (ASC 815, Derivatives and Hedging). Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets and other liabilities with changes in their fair values recorded in noninterest income. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated mortgage loan commitments was \$5,481,597 and \$5,245,372 at December 31, 2015 and 2014, respectively. The fair value of such commitments was insignificant.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (for example, on the same day the lender commits to lend funds to a potential borrower).

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was \$4,382,103 and \$1,570,003 at December 31, 2015 and 2014, respectively. The fair value of such commitments was insignificant.

Note 17: Commitments and Credit Risk

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

	2015	2014
Commitments to extend credit	\$ 137,025,086	\$ 169,558,000
Standby letters of credit	4,754,600	5,364,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the consolidated financial statements.

First Bancshares of Texas, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Note 18: Supplementary Cash Flow Information

The following is a summary of supplementary cash flow information:

	December 31,	
	2015	2014
Interest paid	\$ 3,474,033	\$ 3,040,700
Income taxes paid	3,359,930	2,310,000
Assets acquired through foreclosure	106,600	-

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 20: Subsequent Events

The Company has evaluated all subsequent events through the date of the Report of Independent Auditors, which is the date the consolidated financial statements were available to be issued.

Report of Independent Auditors On Supplementary Information

To the Shareholders of
First Bancshares of Texas, Inc. and Subsidiary

We have audited the consolidated financial statements of First Bancshares of Texas, Inc. and Subsidiary as of and for the years ended December 31, 2015 and 2014, and our report thereon dated March 7, 2016, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating, parent company, and bank financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Davis Kinard & Co, PC
Certified Public Accountants

Abilene, Texas
March 7, 2016

Supplementary Information – Consolidating

First Bancshares of Texas, Inc. and Subsidiary
Consolidating Statement of Financial Condition
December 31, 2015

	First Bancshares of Texas, Inc.	FirstCapital Bank of Texas, N.A.	Eliminations	Consolidated
Assets				
Cash and due from banks	\$ 127,760	\$ 10,541,170	\$ (127,760)	\$ 10,541,170
Federal funds sold	-	3,514,000	-	3,514,000
	127,760	14,055,170	(127,760)	14,055,170
Cash and cash equivalents	127,760	14,055,170	(127,760)	14,055,170
Interest-bearing deposits in banks	1,016,963	48,267,033	(455,547)	48,828,449
Securities available for sale	-	24,203,921	-	24,203,921
Securities held to maturity (fair value is \$147,442,081)	-	147,049,359	-	147,049,359
Investment in partnerships	-	1,342,801	-	1,342,801
Restricted investments carried at cost	-	1,956,500	-	1,956,500
Investment in First Bancshares of Texas Statutory Trust I	93,000	-	-	93,000
Investment in subsidiary	92,242,262	-	(92,242,262)	-
Investment in FirstCapital GP, LLC	845,579	-	-	845,579
Loans held for sale	-	4,382,103	-	4,382,103
Loans, net of allowance for loan losses	683,103	680,291,925	-	680,975,028
Accrued interest receivable	2,277	3,488,536	-	3,490,813
Premises and equipment, net	-	21,320,221	-	21,320,221
Deferred tax asset, net	-	3,430,395	-	3,430,395
Cash surrender value of life insurance	-	8,168,888	-	8,168,888
Other assets	348,165	1,089,436	(348,165)	1,089,436
Total assets	<u>\$ 95,359,109</u>	<u>\$ 959,046,288</u>	<u>\$ (93,173,734)</u>	<u>\$ 961,231,663</u>
Liabilities and Shareholders' Equity				
Liabilities				
Noninterest-bearing	\$ -	\$ 244,912,222	\$ (127,760)	\$ 244,784,462
Interest-bearing	-	575,593,933	(455,547)	575,138,386
Total deposits	<u>0</u>	<u>820,506,155</u>	<u>(583,307)</u>	<u>819,922,848</u>
Accrued expenses and other liabilities	626,340	2,282,726	(348,165)	2,560,901
Securities sold under agreements to repurchase	-	42,902,491	-	42,902,491
Advances from Federal Home Loan Bank	-	1,112,654	-	1,112,654
Subordinated debentures	3,093,000	-	-	3,093,000
Total liabilities	<u>3,719,340</u>	<u>866,804,026</u>	<u>(931,472)</u>	<u>869,591,894</u>
Shareholders' Equity				
Common stock	9,476,590	3,096,250	(3,096,250)	9,476,590
Preferred stock	937,044	-	-	937,044
Capital surplus	40,516,495	44,046,250	(44,046,250)	40,516,495
Retained earnings	40,235,380	44,625,502	(44,625,502)	40,235,380
Accumulated other comprehensive income	474,260	474,260	(474,260)	474,260
Total shareholders' equity	<u>91,639,769</u>	<u>92,242,262</u>	<u>(92,242,262)</u>	<u>91,639,769</u>
Total liabilities and shareholders' equity	<u>\$ 95,359,109</u>	<u>\$ 959,046,288</u>	<u>\$ (93,173,734)</u>	<u>\$ 961,231,663</u>

First Bancshares of Texas, Inc. and Subsidiary
Consolidating Statement of Income
Year Ended December 31, 2015

	First Bancshares of Texas, Inc.	FirstCapital Bank of Texas, N.A.	Eliminations	Consolidated
Interest Income				
Loans, including fees	\$ 67,331	\$ 33,985,221	\$ -	\$ 34,052,552
Debt securities:				
Taxable	-	3,021,379	-	3,021,379
Tax-exempt	-	1,165,860	-	1,165,860
Federal funds sold	-	33,084	-	33,084
Deposits in other banks	6,287	678,160	(4,252)	680,195
Other interest	-	127,187	-	127,187
Total interest income	73,618	39,010,891	(4,252)	39,080,257
Interest Expense				
Deposits	-	3,081,287	(4,252)	3,077,035
Securities sold under agreements to repurchase	-	327,964	-	327,964
Advances from Federal Home Loan Bank	-	22,704	-	22,704
Subordinated debentures	98,317	-	-	98,317
Total interest expense	98,317	3,431,955	(4,252)	3,526,020
Net Interest Income (Loss)	(24,699)	35,578,936	0	35,554,237
Provision for Loan Losses	-	2,395,000	-	2,395,000
Net Interest Income (Loss) After Provision for Loan Losses	(24,699)	33,183,936	0	33,159,237
Noninterest Income				
Trust department income	-	373,672	-	373,672
Service charges on deposit accounts	-	768,025	-	768,025
Other service charges and fees	10,063	857,434	-	867,497
Appreciation in cash surrender value of life insurance	-	246,184	-	246,184
Equity in earnings of subsidiary	7,336,823	-	(7,336,823)	-
Gain on sales of loans	-	1,410,474	-	1,410,474
Gain on sales of securities	-	367,458	-	367,458
Gain on sales of fixed assets	-	10,839	-	10,839
Total noninterest income	7,346,886	4,034,086	(7,336,823)	4,044,149
Noninterest Expense				
Salaries and employee benefits	131,864	15,728,756	-	15,860,620
Occupancy and equipment	-	4,286,982	-	4,286,982
Advertising	7,500	744,874	-	752,374
IT and data processing	-	824,925	-	824,925
Legal, accounting and exam fees	18,606	1,245,092	-	1,263,698
FDIC assessment	-	548,250	-	548,250
Loss on sale of foreclosed assets	-	4,590	-	4,590
Other expenses	5,543	3,332,788	-	3,338,331
Total noninterest expense	163,513	26,716,257	0	26,879,770
Income Before Taxes	7,158,674	10,501,765	(7,336,823)	10,323,616
Provision for Income Taxes	-	3,164,942	-	3,164,942
Net Income	\$ 7,158,674	\$ 7,336,823	\$ (7,336,823)	\$ 7,158,674

First Bancshares of Texas, Inc. and Subsidiary
Consolidating Statement of Cash Flows
Year Ended December 31, 2015

	First Bancshares of Texas, Inc.	FirstCapital Bank of Texas, N.A.	Eliminations	Consolidated
Operating Activities				
Net income	\$ 7,158,674	\$ 7,336,823	\$ (7,336,823)	\$ 7,158,674
Items not requiring (providing) cash:				
Provision for loan losses	-	2,395,000	-	2,395,000
Net amortization of securities	-	195,518	-	195,518
Depreciation	-	2,045,460	-	2,045,460
Net realized gains on available for sale securities	-	(367,458)	-	(367,458)
Gain on sales of loans	-	(1,410,474)	-	(1,410,474)
Appreciation in cash surrender value life insurance	-	(246,184)	-	(246,184)
Net loss on sales of foreclosed assets	-	4,590	-	4,590
Reduction in value of foreclosed real estate	-	27,725	-	27,725
Net gain on sales of fixed assets	-	(10,839)	-	(10,839)
Deferred income taxes	-	(732,259)	-	(732,259)
Stock-based compensation	131,864	-	-	131,864
Equity in undistributed earnings of FirstCapital GP, LLC	(6,384)	-	-	(6,384)
Equity in undistributed earnings of subsidiary	(7,336,823)	-	7,336,823	-
Net change in:				
Loans held for sale	-	(1,401,626)	-	(1,401,626)
Accrued interest receivable	2,656	(452,528)	-	(449,872)
Other assets	199,422	38,340	(199,422)	38,340
Accrued expenses and other liabilities	4,507	175,284	199,422	379,213
Net cash provided by operating activities	153,916	7,597,372	0	7,751,288
Investing Activities				
Net change in interest-bearing deposits in banks	1,918,920	102,103,542	(1,920,955)	102,101,507
Capital contributions to subsidiary	(3,000,000)	-	3,000,000	-
Activity in available-for-sale securities:				
Proceeds from sales	-	38,198,628	-	38,198,628
Maturities, prepayments and calls	-	244,951,583	-	244,951,583
Purchases	-	(270,386,876)	-	(270,386,876)
Activity in held-to-maturity securities:				
Maturities, prepayments and calls	-	21,669,509	-	21,669,509
Purchases	-	(93,914,628)	-	(93,914,628)
Activity in investment in partnerships:				
Purchases	-	(258,740)	-	(258,740)
Net change in restricted investments carried at cost	-	(114,800)	-	(114,800)
Loan originations and principal collections, net	1,249,536	(115,528,077)	-	(114,278,541)
Proceeds from sales of fixed assets	-	31,277	-	31,277
Proceeds from sales of foreclosed assets	-	21,185	-	21,185
Additions to premises and equipment	-	(2,020,201)	-	(2,020,201)
Net cash provided by (used in) investing activities	168,456	(75,247,598)	1,079,045	(74,000,097)

First Bancshares of Texas, Inc. and Subsidiary
Consolidating Statement of Cash Flows (Continued)
Year Ended December 31, 2015

	First Bancshares of Texas, Inc.	FirstCapital Bank of Texas, N.A.	Eliminations	Consolidated
Financing Activities				
Capital contribution from parent company	\$ -	\$ 3,000,000	\$ (3,000,000)	\$ -
Net increase in deposits	-	44,811,321	1,907,648	46,718,969
Net increase in advances from Federal Home Loan Bank	-	(46,647)	-	(46,647)
Net change in securities sold under agreements to repurchase	-	18,126,236	-	18,126,236
Exercise of stock options	113,040	-	-	113,040
Proceeds from sales of treasury stock	17,619	-	-	17,619
Proceeds from employee stock purchase plan	122,499	-	-	122,499
Dividends paid - preferred stock	(562,223)	-	-	(562,223)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) financing activities	(309,065)	65,890,910	(1,092,352)	64,489,493
	<hr/>	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Cash and Cash Equivalents	13,307	(1,759,316)	(13,307)	(1,759,316)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, Beginning of Year	114,453	15,814,486	(114,453)	15,814,486
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 127,760	\$ 14,055,170	\$ (127,760)	\$ 14,055,170
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**Supplementary Information – First Bancshares of Texas, Inc.
(Parent Company Only)**

First Bancshares of Texas, Inc.
(Parent Company Only)
Statements of Financial Condition
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 127,760	\$ 114,453
Interest-bearing deposits in banks	1,016,963	2,935,883
Investment in First Bancshares of Texas Statutory Trust I	93,000	93,000
Loans	683,103	1,932,639
Investment in subsidiary	92,242,262	81,731,689
Investment in FirstCapital GP, LLC	845,579	839,195
Accrued interest receivable	2,277	4,933
Other assets	348,165	547,587
	\$ 95,359,109	\$ 88,199,379
Liabilities and Shareholders' Equity		
Liabilities		
Accrued expenses and other liabilities	\$ 626,340	\$ 621,833
Subordinated debentures	3,093,000	3,093,000
	3,719,340	3,714,833
Shareholders' Equity		
Common stock	9,476,590	9,449,992
Preferred stock	937,044	937,044
Capital surplus	40,516,495	40,174,024
Retained earnings	40,235,380	33,638,929
Treasury stock, at cost	-	(15,953)
Accumulated other comprehensive income	474,260	300,510
	91,639,769	84,484,546
	\$ 95,359,109	\$ 88,199,379

First Bancshares of Texas, Inc.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Interest Income		
Loans, including fees	\$ 67,331	\$ 48,539
Deposits in other banks	6,287	13,642
	<u>73,618</u>	<u>62,181</u>
Other Income		
Other income	3,679	2,185
Undistributed income (loss) in FirstCapital GP, LLC	6,384	(65,521)
	<u>10,063</u>	<u>(63,336)</u>
Expenses		
Interest on subordinated debentures	98,317	96,772
Salaries and employee benefits	131,864	103,923
Legal, accounting and exam fees	18,606	24,966
Advertising	7,500	2,500
Other expenses	5,543	5,454
	<u>261,830</u>	<u>233,615</u>
Loss Before Income Taxes and Equity in Earnings of Subsidiary	(178,149)	(234,770)
Provision for Income Taxes	<u>-</u>	<u>-</u>
Loss Before Equity in Earnings of Subsidiary	(178,149)	(234,770)
Undistributed Earnings of Subsidiary	<u>7,336,823</u>	<u>6,862,283</u>
Net Income	<u>\$ 7,158,674</u>	<u>\$ 6,627,513</u>

First Bancshares of Texas, Inc.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Net income	\$ 7,158,674	\$ 6,627,513
Items not requiring (providing) cash:		
Stock-based compensation	131,864	103,923
Equity in undistributed (earnings) loss of FirstCapital GP, LLC	(6,384)	65,521
Equity in undistributed earnings of subsidiary	(7,336,823)	(6,862,283)
Net change in:		
Accrued interest receivable	2,656	(2,377)
Other assets	199,422	(97,926)
Accrued expenses and other liabilities	4,507	245,070
	<u>153,916</u>	<u>79,441</u>
Net cash provided by operating activities		
Investing Activities		
Net change in interest-bearing deposits in banks	1,918,920	3,613,035
Capital contributions to subsidiary	(3,000,000)	(2,000,000)
Loan originations and principal collections, net	1,249,536	(1,165,716)
	<u>168,456</u>	<u>447,319</u>
Net cash provided by (used in) investing activities		
Financing Activities		
Exercise of stock options	113,040	50,400
Proceeds from sales of treasury stock	17,619	145,128
Purchases of treasury stock	-	(105,300)
Proceeds from employee stock purchase plan	122,499	-
Dividends paid - preferred stock	(562,223)	(562,226)
	<u>(309,065)</u>	<u>(471,998)</u>
Net cash used in financing activities		
Increase (Decrease) in Cash and Cash Equivalents	13,307	54,762
Cash and Cash Equivalents, Beginning of Year	<u>114,453</u>	<u>59,691</u>
Cash and Cash Equivalents, End of Year	<u>\$ 127,760</u>	<u>\$ 114,453</u>

Supplementary Information – FirstCapital Bank of Texas, N.A.

FirstCapital Bank of Texas, N.A.
Statements of Financial Condition
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and due from banks	\$ 10,541,170	\$ 10,993,486
Federal funds sold	3,514,000	4,821,000
Cash and cash equivalents	14,055,170	15,814,486
Interest-bearing deposits in banks	48,267,033	150,370,575
Securities available for sale	24,203,921	36,715,819
Securities held to maturity (fair value is \$147,442,081 and \$75,924,538 at December 31, 2015 and 2014, respectively)	147,049,359	74,620,479
Investment in partnerships	1,342,801	1,084,061
Restricted investments carried at cost	1,956,500	1,841,700
Loans held for sale	4,382,103	1,570,003
Loans, net of allowance for loan losses of \$9,728,929 and \$7,390,027 at December 31, 2015 and 2014, respectively	680,291,925	567,265,448
Accrued interest receivable	3,488,536	3,036,008
Premises and equipment, net	21,320,221	21,365,918
Deferred tax asset, net	3,430,395	2,787,644
Cash surrender value of life insurance	8,168,888	7,922,704
Other assets	1,089,436	1,074,676
Total assets	\$ 959,046,288	\$ 885,469,521
Liabilities and Shareholder's Equity		
Liabilities		
Noninterest-bearing	\$ 244,912,222	\$ 252,884,282
Interest-bearing	575,593,933	522,810,552
Total deposits	820,506,155	775,694,834
Accrued expenses and other liabilities	2,282,726	2,107,442
Securities sold under agreements to repurchase	42,902,491	24,776,255
Advances from Federal Home Loan Bank	1,112,654	1,159,301
Total liabilities	866,804,026	803,737,832
Shareholder's Equity		
Common stock	3,096,250	3,096,250
Capital surplus	44,046,250	41,046,250
Retained earnings	44,625,502	37,288,679
Accumulated other comprehensive income	474,260	300,510
Total shareholder's equity	92,242,262	81,731,689
Total liabilities and shareholder's equity	\$ 959,046,288	\$ 885,469,521

FirstCapital Bank of Texas, N.A.
Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest Income		
Loans, including fees	\$ 33,985,221	\$ 29,127,714
Debt securities:		
Taxable	3,021,379	2,289,466
Tax-exempt	1,165,860	1,203,469
Federal funds sold	33,084	27,971
Deposits in other banks	678,160	857,074
Other interest	127,187	89,451
	<hr/>	<hr/>
Total interest income	39,010,891	33,595,145
	<hr/>	<hr/>
Interest Expense		
Deposits	3,081,287	2,905,213
Securities sold under agreements to repurchase	327,964	50,820
Advances from Federal Home Loan Bank	22,704	673
	<hr/>	<hr/>
Total interest expense	3,431,955	2,956,706
	<hr/>	<hr/>
Net Interest Income	35,578,936	30,638,439
	<hr/>	<hr/>
Provision for Loan Losses	2,395,000	1,320,000
	<hr/>	<hr/>
Net Interest Income After Provision for Loan Losses	33,183,936	29,318,439
	<hr/>	<hr/>
Noninterest Income		
Trust department income	373,672	454,808
Service charges on deposit accounts	768,025	672,478
Other service charges and fees	857,434	821,858
Appreciation in cash surrender value of life insurance	246,184	239,428
Gain on sales of loans	1,410,474	1,979,846
Gain on sales of securities	367,458	-
Gain on sales of fixed assets	10,839	18,037
	<hr/>	<hr/>
Total noninterest income	4,034,086	4,186,455
	<hr/>	<hr/>

FirstCapital Bank of Texas, N.A.
Statements of Income (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Noninterest Expense		
Salaries and employee benefits	\$ 15,728,756	\$ 14,039,788
Occupancy and equipment	4,286,982	3,373,012
Advertising	744,874	559,064
IT and data processing	824,925	727,461
Legal, accounting and exam fees	1,245,092	1,227,478
FDIC assessments	548,250	484,890
Loss on sales of foreclosed assets	4,590	14,676
Other expenses	3,332,788	3,323,530
	<hr/>	<hr/>
Total noninterest expense	26,716,257	23,749,899
	<hr/>	<hr/>
Income Before Income Taxes	10,501,765	9,754,995
	<hr/>	<hr/>
Provision for Income Taxes	3,164,942	2,892,712
	<hr/>	<hr/>
Net Income	\$ 7,336,823	\$ 6,862,283
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FirstCapital Bank of Texas, N.A.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
	<hr/>	<hr/>
Operating Activities		
Net income	\$ 7,336,823	\$ 6,862,283
Items not requiring (providing) cash:		
Provision for loan losses	2,395,000	1,320,000
Net amortization of securities	195,518	153,465
Depreciation	2,045,460	1,662,082
Net realized gains on available for sale securities	(367,458)	-
Gain on sales of loans	(1,410,474)	(1,979,846)
Appreciation in cash surrender value life insurance	(246,184)	(239,428)
Gain on disposition of fixed assets	(10,839)	(18,037)
Loss on sales of foreclosed assets	4,590	14,676
Reduction in value of foreclosed assets	27,725	-
Deferred income tax	(732,259)	(523,490)
Net change in:		
Loans held for sale	(1,401,626)	6,678,076
Accrued interest receivable	(452,528)	(668,284)
Other assets	38,340	(20,090)
Accrued expenses and other liabilities	175,284	439,245
	<hr/>	<hr/>
Net cash provided by operating activities	7,597,372	13,680,652
	<hr/>	<hr/>
Investing Activities		
Net change in interest-bearing deposits in banks	102,103,542	71,206,447
Activity in available-for-sale securities:		
Proceeds from sales	38,198,628	-
Maturities, prepayments and calls	244,951,583	203,286,434
Purchases	(270,386,876)	(202,554,264)
Activity in held-to-maturity securities:		
Maturities, prepayments and calls	21,669,509	7,049,486
Purchases	(93,914,628)	(14,416,326)
Activity in investment in partnerships:		
Purchases	(258,740)	(581,945)
Net change in restricted investments carried at cost	(114,800)	(151,400)
Loan originations and principal collections, net	(115,528,077)	(137,243,844)
Proceeds from sales of fixed assets	31,277	21,014
Proceeds from sales of foreclosed assets	21,185	36,476
Additions to premises and equipment	(2,020,201)	(4,201,290)
	<hr/>	<hr/>
Net cash used in investing activities	(75,247,598)	(77,549,212)
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FirstCapital Bank of Texas, N.A.
Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Financing Activities		
Capital contributions from parent company	\$ 3,000,000	\$ 2,000,000
Net increase in deposits	44,811,321	36,297,441
Net increase (decrease) in advances from Federal Home Loan Bank	(46,647)	1,159,301
Net change in securities sold under agreements to repurchase	18,126,236	14,570,860
Net cash provided by financing activities	65,890,910	54,027,602
Decrease in Cash and Cash Equivalents	(1,759,316)	(9,840,958)
Cash and Cash Equivalents, Beginning of Year	15,814,486	25,655,444
Cash and Cash Equivalents, End of Year	\$ 14,055,170	\$ 15,814,486