

FIRSTBANCSHARES
OF TEXAS, INC.

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First Quarter 2016 Shareholders' Report

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Dear Shareholders

I continue to be astounded by this year's Presidential election campaign. It looks like trying to get the two political parties to work together is farther away than ever. On top of that, it looks like we are beginning to see fracturing within each of the two parties as well. Crazy times.

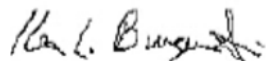
On a happier note, the first quarter of 2016 turned out to be our best ever. With earnings of \$2.208 million, we exceeded 2015 first quarter earnings of \$1.686 million representing an increase of almost 31%. Through most of last year, we worked on increasing our loans and capping our operating expenses. These two initiatives together starting paying dividends in the fourth quarter of last year and is continuing on into 2016. Our return on common equity for first quarter of 2016 was 10.56% compared to 9.74% for the first quarter of last year. Absent any unknown loan losses, we should see performance at this level or slightly higher for the remainder of the year.

As I mentioned in the last newsletter, we are seeing a few signs of weakness with a small number of borrowers in Midland due to the weak oil and gas market. These weaknesses have not progressed to any kind of loss recognition at this point. The recent increase in oil and gas prices should help some of these companies stabilize. As I also mentioned before, we are fortunate to have our business spread over three different markets providing us with good diversification. This diversification is serving us well in this downturn.

We are making good progress on our Horseshoe Bay branch and expect to be open no later than July 1st. We are already making loans in the area and have a number of people ready to open deposit accounts when we are able to provide service to them. We are very excited about the prospects in the hill country.

You will find a detailed financial analysis attached which outlines our performance for the first quarter. Please give us a call if you have any questions.

Sincerely,



Ken L. Burgess, Jr.
CEO & President

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	March 31,		December 31,
	(Unaudited)	(Unaudited)	(Audited)
	<u>2016</u>	<u>2015</u>	<u>2015</u>
ASSETS			
Cash and due from banks	\$ 18,110	\$ 12,911	\$ 10,541
Federal funds sold	7,813	21,734	3,514
Cash and cash equivalents	<u>25,923</u>	34,645	14,055
Interest bearing deposits in banks	62,622	153,887	48,828
Securities available for sale, at fair value	23,797	53,507	24,204
Securities held to maturity	142,993	95,243	147,049
Investment in First Bancshares of Texas Statutory Trust I	93	93	93
Investment in FirstCapital GP, LLC	830	839	846
Investments in partnerships	1,486	1,060	1,343
Restricted investment held at cost	2,164	1,932	1,957
Loans held for sale	5,485	6,987	4,382
Loans and leases receivable, net of allowance for loan and lease losses	685,599	587,209	680,975
Accrued interest receivable	3,090	2,711	3,491
Premises and equipment	21,414	22,089	21,320
Deferred tax asset, net	3,386	2,843	3,430
Foreclosed assets	33	-	-
Cash surrender value of life insurance	8,230	7,982	8,169
Prepaid FDIC assessment	-	-	-
Other assets	979	1,350	1,089
TOTAL ASSETS	<u>\$ 988,124</u>	<u>\$ 972,377</u>	<u>\$ 961,231</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-interest bearing deposits	\$ 223,291	\$ 255,030	\$ 244,784
Interest bearing deposits	560,001	561,615	575,138
Total deposits	<u>783,292</u>	816,645	819,922
Accrued expenses and other liabilities	2,428	1,942	2,561
Securities sold under agreement to repurchase	100,409	63,562	42,902
Subordinated debentures	3,093	3,093	3,093
Other borrowed funds	4,749	1,151	1,113
Total liabilities	<u>893,971</u>	886,393	869,591
SHAREHOLDERS' EQUITY			
Common stock	9,505	9,451	9,477
Preferred stock	937	937	937
Treasury stock, at cost	-	-	-
Surplus			
Common	32,308	31,818	32,117
Preferred	8,400	8,400	8,400
Capital Surplus	<u>40,708</u>	40,218	40,517
Retained earnings	42,443	35,184	40,235
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	560	194	474
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	-	-	-
Total shareholders' equity	<u>94,153</u>	85,984	91,640
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 988,124</u>	<u>\$ 972,377</u>	<u>\$ 961,231</u>

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Three Months Ended March

(Dollar amounts in thousands)

	(Unaudited)	(Unaudited)
	<u>2016</u>	<u>2015</u>
Interest Income:		
Loans and leases, including fees	\$ 9,326	\$ 7,799
Debt Securities		
Taxable	717	602
Tax exempt	315	270
Federal funds sold	10	7
Deposits with banks	133	261
Other interest	242	38
TOTAL INTEREST INCOME	<u>10,743</u>	<u>8,977</u>
Interest Expense:		
Deposits	655	764
Other borrowed money	161	101
Subordinated debentures	27	24
TOTAL INTEREST EXPENSE	<u>843</u>	<u>889</u>
Net Interest Income (Loss)	9,900	8,088
Provision for loan and lease losses	700	400
Net Interest Income (Loss) After Provision	9,200	7,688
Non-Interest Income:		
Trust department income	86	101
Service charges on deposit accounts	220	166
Other service charges and fees	179	195
Net realized gain (loss) on sales of securities	-	361
Appreciation in cash surrender value of life insurance	61	59
Gain/Loss on sale of loans	291	282
Gain/Loss on sale of foreclosed assets	-	-
Gain/Loss on sale of fixed assets	-	11
TOTAL NON-INTEREST INCOME	<u>837</u>	<u>1,175</u>
Non-Interest Expenses:		
Salaries and employee benefits	4,092	3,872
Occupancy and equipment expense	1,039	960
Advertising	108	73
Community and philanthropic support	68	63
IT and data processing expense	220	201
Legal, professional, accounting, and exam fees	253	295
FDIC assessment	141	132
Reduction in value of foreclosed assets	-	-
Other expenses	892	840
TOTAL NON-INTEREST EXPENSES	<u>6,813</u>	<u>6,436</u>
Income Before Income Taxes	3,224	2,427
Income tax expense	1,016	741
NET INCOME	\$ 2,208	\$ 1,686

FIRST BANCSHARES OF TEXAS, INC.

FIRST QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary

For the Three Months Ended March 31		<u>2016</u>		<u>2015</u>
Interest Income	\$	10,743	\$	8,977
Interest Expense		843		889
Provision for loan losses		700		400
Net Income		2,208		1,686

Performance Ratios (annualized)

For the Three Months Ended March 31		<u>2016</u>		<u>2015</u>
Return on Average Assets		0.90%		0.72%
Return on Common Shareholders' Average Equity		10.56%		9.74%
Net Interest Margin		4.29%		3.66%

Period-End Data

As of March 31		<u>2016</u>		<u>2015</u>
Total Assets	\$	988,124	\$	972,377
Average Assets		982,026		952,635
Investments*		233,985		306,561
Loans, net		691,084		594,196
Deposits		783,292		816,645
Shareholders' Equity				
Common		84,816		76,647
Preferred		9,337		9,337

Per Share Data

For the Three Months Ended March 31		<u>2016</u>		<u>2015</u>
Net Income	\$	0.23	\$	0.16
Book Value	\$	8.92	\$	8.11
Number of Shareholders				
Common		498		490
Preferred		86		86

*Includes interest-bearing deposits in banks, securities, investments in subsidiaries, investments in partnerships, and restricted investments held at cost

Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment.

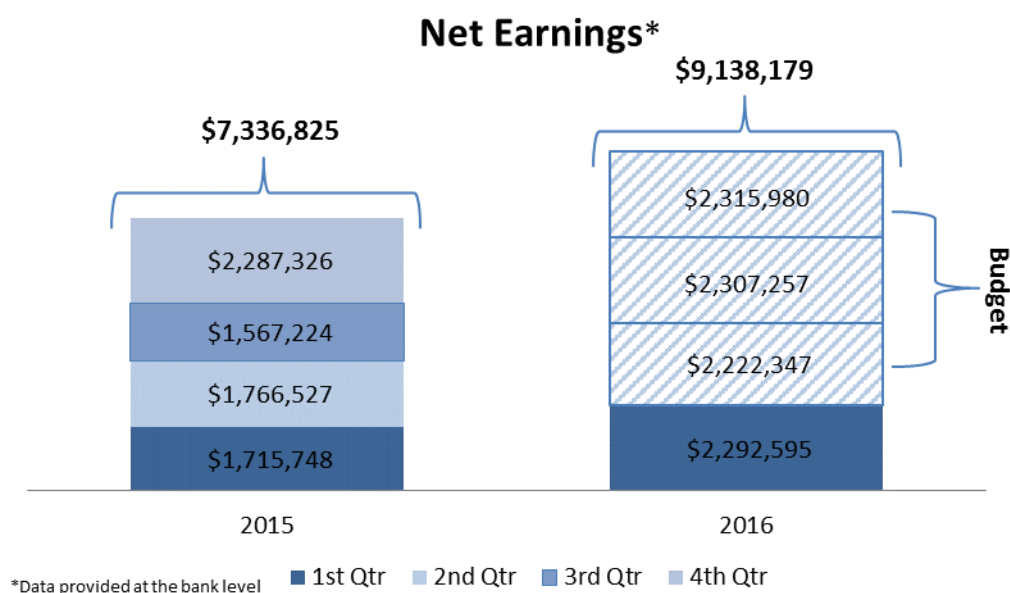
If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

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

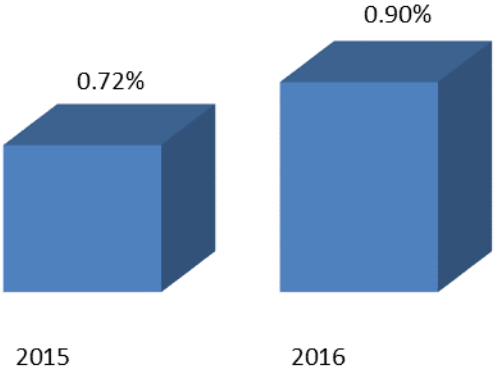
Results of Operations

Performance Summary:

We ended the first quarter with net earnings at the consolidated level of \$2.2 million, an increase of approximately \$522 thousand compared to the first quarter in 2015. Return on average assets at the consolidated level as of March 31, 2016 and 2015 was .90% and .72%, respectively. The return on common shareholder's average equity for the same period was 10.56% and 9.74%. On a basic net earnings per share basis at the holding company level, net earnings were \$0.23 as of March 31, 2016 compared to \$0.16 for March 31, 2015.



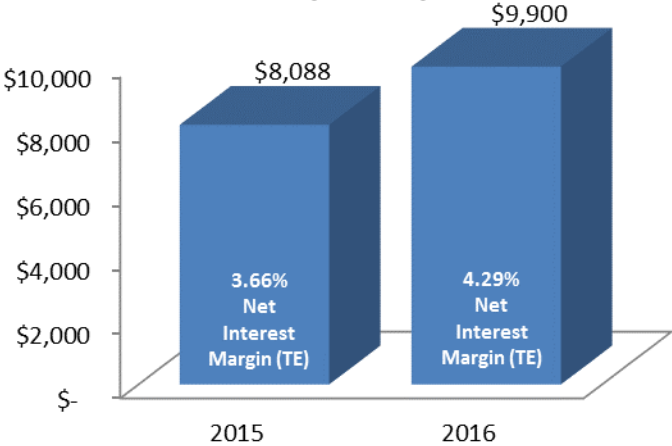
Return on Average Assets



Net Interest Income:

Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of non-interest bearing and interest-bearing deposits. Net interest income was \$9.9 million for the three months ended March 31, 2016 compared to \$8.1 million for the same period in 2015. This increase in net interest income period over period is primarily attributable to our loan growth. Loans grew by approximately \$96.9 million period over period resulting in interest income on loans (including fees) increasing by \$1.5 million for the period ending March 31, 2016 compared to the same period in 2015. Our year-to-date net interest margin at March 31, 2016 was 4.29%, which was higher compared to 3.66% for the same period in 2015. Net interest margin is calculated by dividing the Company’s net interest income by average earning assets for the period.

Net Interest Income & Net Interest Margin (\$000's)



Non-Interest Income:

Non-interest income for the three month period ended March 31, 2016 was \$837 thousand, a decrease of \$338 thousand or 28.77% over the same period in 2015. The following schedule shows each of the major components of year-to-date non-interest income for the periods ended March 31, 2016 as compared to March 31, 2015.

Non-Interest Income	Year-to-Date March 31		Incr./ (Decr.)	% Change
	2016	2015		
Trust department income	\$85,633	\$100,756	(\$15,124)	(15.01)%
Service charges on deposit accounts	219,990	166,128	53,862	32.42 %
Other service charges and fees	179,656	194,881	(15,224)	(7.81)%
Appreciation in cash surrender value of life insurance	60,728	58,896	1,832	3.11 %
Gain/(Loss) on sale of securities	-	361,366	(361,366)	0.00 %
Gain/(Loss) on sale of loans	291,132	281,772	9,360	3.32 %
Gain/(Loss) on sale of other real estate	-	-	-	0.00 %
Gain/(Loss) on sale of other assets	-	11,433	(11,433)	(100.00)%
Total Non-Interest Income	\$837,139	\$1,175,232	(\$338,094)	(28.77)%

Trust department income for the three month period ended March 31, 2016 was \$86 thousand. This was a decrease of \$15 thousand from the same period in 2015. The oil and gas revenues have been lower than anticipated, resulting in the decline in income. Assets managed by the Wealth Management and Trust Division totaled \$44.7 million as of March 31, 2016.

Service charges on deposit accounts increased by \$54 thousand or 32.42% period over period. A major contributor to this increase are non-sufficient funds charges (NSFs). These charges increased by \$47 thousand from March 31, 2015 to March 31, 2016.

Other service charges and fees decreased by \$15 thousand or 7.81%. These charges are mostly comprised of debit card interchange fees and fees collected from customers associated with the cost of doing business.

The company recorded a gain of \$361 thousand in the first quarter of 2015 on the sale of investment securities. No sales of investment securities took place in the first quarter of 2016.

Mortgage fee income (net of related processing costs) increased from \$282 thousand to \$291 thousand, an increase of \$9 thousand or 3.32% from March 31, 2015 compared to March 31, 2016. We expect to see continued improvement in production for 2016.

As of March 31, 2016, the company had no gains or losses on the sale of other assets. The \$11 thousand gain recorded in the first quarter of 2015 is attributable to the gain recognized on the sale of a bank-owned vehicle.

Non-Interest Expense:

Non-interest expense for the three month period ended March 31, 2016 was \$6.8 million as compared to \$6.4 million for the same period ended March 31, 2015. This represents an increase of \$377 thousand or 5.85%.

Non-Interest Expense	Year-to-Date March 31		Incr./ (Decr.)	% Change
	2016	2015		
Salaries & employee benefits	4,091,781	3,872,418	\$219,362	5.66 %
Occupancy & equipment expense	1,039,125	959,554	79,571	8.29 %
Advertising	107,867	73,324	34,543	47.11 %
Community and philanthropic support	67,989	62,781	5,208	8.30 %
IT & data processing	220,347	201,108	19,239	9.57 %
Legal, professional, accounting, and exam fees	253,549	295,106	(41,558)	(14.08)%
FDIC assessments	141,000	132,000	9,000	6.82 %
Other expense	891,460	840,010	51,450	6.12 %
Total Non-Interest Expense	\$6,813,118	\$6,436,301	\$376,816	5.85 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by \$219 thousand for the three month period ended March 31, 2016 as compared to March 31, 2015 and represented an increase of 5.66%. Benefit costs continue to rise, which is the primary reason for the increase.

The increase in occupancy and equipment of \$80 thousand was mostly related to the purchases of furniture, equipment, and software. We expect to see expenses in this category to increase throughout the year as our new location in Horseshoe Bay is expected to open in the third quarter.

Advertising costs increased \$35 thousand or 47.11% from March 31, 2015 compared to the same period ended March 31, 2016. This increase is attributable to the continued costs associated with the Company's rebranding initiative.

IT and data processing expenses increased \$19 thousand period over period. Most of this increase relates to core services necessary for maintaining data processing. We contract with a major national core processing vendor to provide our data processing services and their pricing primarily relates to transaction volume and account volume.

Legal, professional, accounting, and exam fees decreased \$42 thousand or 14.08% from the three month period ended March 31, 2016 compared to March 31, 2015. OCC assessment expenses increased by \$4 thousand period over period. The OCC assessments are based on the call report data asset size as of

December and June of each year. Audit expenses decreased \$42 thousand period over period. Legal fees decreased by \$3 thousand period over period.

The Bank experienced an increase in FDIC assessments, or deposit insurance costs. The cost for year-to-date 2015 was \$132 thousand and for the same time period in 2016 increased to \$141 thousand. This was an increase of 6.82%.

The FDIC assessment is based on the difference between average assets and average equity each calendar quarter-end period at the bank level. Total assets at the bank level increased \$18.2 million from period to period which resulted in increased assessment costs.

All other expenses increased by \$51 thousand or 6.12% period over period. This increase is attributable to an increase in fraud related expenses in the first quarter of 2016.

Balance Sheet Review

Our portfolio is comprised of loans made to businesses, professionals, and individuals located in the primary trade areas served by our bank. As of March 31, 2016, the Company had total net loans outstanding of \$691.1 million as compared to \$594.2 million for the same period in 2015, resulting in growth of \$96.9 million or 16.31%.

Composition of Loans (\$ in 000's)	March 31 2016	March 31 2015	Incr./ (Decr.)	% change
Loans to governmental entities	114,694	326,257	(211,563)	(64.85)%
Commercial & industrial loans	192,379,413	170,318,793	22,060,620	12.95 %
Consumer loans	7,615,925	7,675,624	(59,699)	(0.78)%
Other loans	21,998,754	21,651,074	347,679	1.61 %
Total Loans before loan loss reserve	\$701,465,120	\$601,994,364	\$99,470,755	16.52 %
Less: Loan loss reserve	(10,381,348)	(7,798,129)	(2,583,219)	33.13 %
Total Loans	\$691,083,771	\$594,196,235	\$96,887,536	16.31 %

Real estate loans represent loans primarily for new home construction, home ownership and investment, and commercial real estate. Real estate loans held for investment represent construction and development loans for both residential and commercial real estate projects. This category also includes longer-term loans for the purpose of financing residential and commercial real estate. Real estate loans held for investment increased from \$395 million at March 31, 2015 to \$473.9 million as of March 31, 2016, an increase of \$78.8 million or 19.96%. Real estate loans held for sale represent loans originated for the purpose of purchasing or refinancing one-to-four family residential properties. These loans are originated by the bank with the intent to sell to secondary market investors. The loans are generally sold within 30 days after origination. Real estate loans held for sale decreased by \$1.5 million from March 31, 2015 to March 31, 2016.

Loans to governmental entities decreased by \$212 thousand period over period. Loans in this category generally produce tax free income much like a municipal bond.

Commercial & industrial loans increased from \$170.3 million at March 31, 2015 to \$192.4 million at March 31, 2016, an increase of \$22.1 million or 12.95%. Loans in this category include oil and gas production loans, loans to oil and gas service companies, and loans to manufacturing and wholesale supply companies and miscellaneous other commercial businesses.

Consumer loans decreased by \$60 thousand or 0.78% from March 31, 2015 to March 31, 2016. The Company is interested in making consumer loans of all types, but consumer lending is not its primary focus. The Company currently has consumer credit underwriting software and a seasoned consumer credit underwriting manager. Management anticipates that our consumer loan portfolio will increase over the next several years.

All other loans increased by \$348 thousand from March 31, 2015 to March 31, 2016. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions.

Asset Quality:

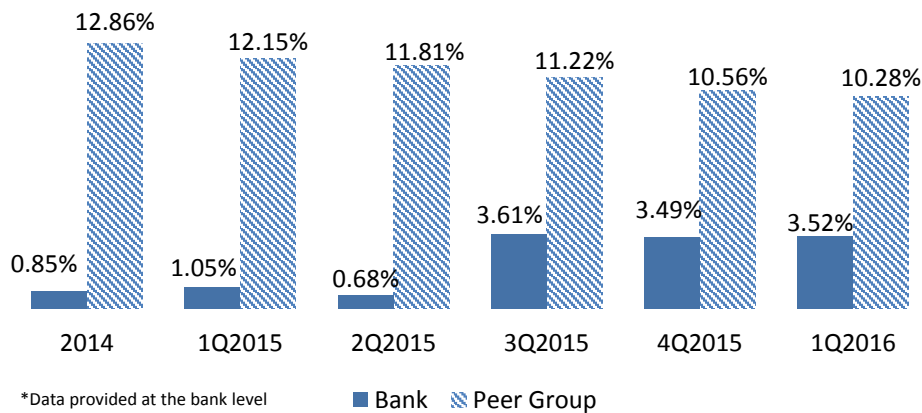
The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. The provision for loan loss expense was \$700 thousand for the period ended March 31, 2016 as compared to \$400 thousand for same period in 2015. Management and the Board decided to increase our loan loss reserves to recognize the fact that we are operating in a higher risk environment due to lower oil prices. This increase to reserves was not based on any known losses. Our allowance for loan losses as a percentage of our total loan portfolio was 1.48% as of March 31, 2016, as compared to 1.30% as of March 31, 2015. As a percent of average loans, net loan charge-offs were 0.03% as of March 31, 2016 and -0.01% for the same period in 2015. Comparatively, the peer group averages for the same periods were 0.06% and 0.07%, respectively.

As of March 31, 2016, past due loans over 90 days as a percentage of total loans were 0.00%, the same can be said for the same period in 2015.

Loans placed on non-accrual status as a percentage of total loans were 0.10% as of March 31, 2016 compared to 0.07% at March 31, 2015. Our peer group for the same time period was 0.79% and 0.94%, respectively.

Another common measure of asset quality is the Texas Ratio. The Texas Ratio is calculated as the sum of restructured loans plus non-accrual loans plus real estate acquired in foreclosure divided by the sum of equity capital plus the allowance for loan losses. As of March 31, 2016, the Bank's Texas Ratio was 3.52% as compared to the peer group of 10.28%. For the same period in 2015 the Company had a Texas Ratio of 1.05% as compared to its peer group of 12.15%.

Texas Ratio*



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of \$62.6 million as of March 31, 2016, as compared to \$153.9 million as of March 31, 2015. The average yield on these balances were 0.83% for the period in 2016 as compared to 0.58% for the same period in 2015. This decrease is attributable to a large portion of this money being used to fund a high volume of investment purchases during the first and second quarters of 2015. These balances were held with various regional banks located within the state of Texas. Management evaluates the financial strength of each bank it holds balances with on a quarterly basis to assure the safety of the investment in each bank.

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

At March 31, 2016, available-for-sale securities had a fair value of \$23.8 million and held-to-maturity securities had an amortized cost of \$143 million. As of March 31, 2016, the portion of the securities portfolio classified as available-for-sale had a market gain of approximately \$848 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market gain of \$2 million. The Company did not hold any securities as of March 31, 2016 or 2015 that would be classified as below investment grade or with any impairment. Our overall tax-equivalent yield to maturity on our portfolio at March 31, 2016 was 2.79%. The overall tax-equivalent yield to maturity on our portfolio at March 31, 2015 was 2.89%. All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 34.00%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

Deposits:

Deposits represent our primary source of funding. Total deposits were \$783.3 million as of March 31, 2016 compared to \$816.6 million as of the same period in 2015, a decrease of \$33.4 million or 4.08%.

Composition of Deposits (\$ in 000's)	March 31 2016	March 31 2015	Incr./ (Decr.)	% change
Non-interest bearing demand	\$223,291,466	\$255,030,265	(\$31,738,798)	(12.45)%
Interest-bearing demand	61,854,319	64,023,729	(2,169,410)	(3.39)%
Money market and savings	217,045,458	173,241,183	43,804,275	25.29 %
Certificates of deposits ≥ \$100,000	249,554,000	284,548,083	(34,994,083)	(12.30)%
Certificates of deposits < \$100,000	31,547,000	39,801,818	(8,254,818)	(20.74)%
Total Deposits	\$783,292,244	\$816,645,078	(\$33,352,834)	(4.08)%

The average cost of interest-bearing deposits as of March 31, 2016 was 0.34% which compares to .40% for the same period in 2015. Our peer group's ratios for the same period end were .48% and .48%, respectively.

Capital Resources:

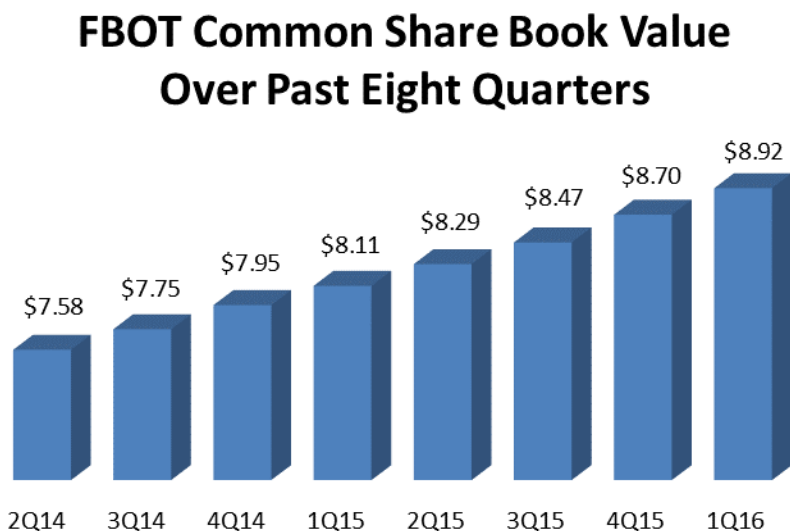
We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant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

	Actual		Minimum Capital Required - Basel III Buffer Phase-In (2016)		Minimum Capital Required - Basel III Buffer Fully Phased-In (2019)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(000's)								
March 31, 2016								
Total Capital to Risk-Weighted Assets								
Consolidated	\$ 106,331	13.66 %	\$ 62,253	8.00 %	\$ 81,707	10.50 %	\$ 77,816	10.00 %
FirstCapital Bank of Texas, N.A.	103,787	13.35	62,177	8.00	81,607	10.50	77,721	10.00
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	96,593	12.41	46,690	6.00	66,144	8.50	62,253	8.00
FirstCapital Bank of Texas, N.A.	94,060	12.10	46,633	6.00	66,063	8.50	62,177	8.00
Common Equity Tier 1								
Consolidated	84,256	10.83	35,017	4.50	54,471	7.00	50,581	6.50
FirstCapital Bank of Texas, N.A.	94,060	12.10	34,974	4.50	54,405	7.00	50,519	6.50
Leverage Ratio								
Consolidated	96,593	9.84	39,281	4.00	39,281	4.00	49,101	5.00
FirstCapital Bank of Texas, N.A.	94,060	9.60	39,206	4.00	39,206	4.00	49,008	5.00
March 31, 2015								
Total Capital to Risk-Weighted Assets								
Consolidated	96,871	13.92	55,691	8.00	73,094	10.50	69,613	10.00
FirstCapital Bank of Texas, N.A.	92,227	13.30	55,490	8.00	72,831	10.50	69,363	10.00
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	88,790	12.75	41,768	6.00	59,171	8.50	55,691	8.00
FirstCapital Bank of Texas, N.A.	84,146	12.13	41,618	6.00	58,958	8.50	55,490	8.00
Common Equity Tier 1								
Consolidated	76,453	10.98	31,326	4.50	48,729	7.00	45,249	6.50
FirstCapital Bank of Texas, N.A.	84,146	12.13	31,213	4.50	48,554	7.00	45,086	6.50
Leverage Ratio								
Consolidated	88,790	9.32	38,105	4.00	38,105	4.00	47,632	5.00
FirstCapital Bank of Texas, N.A.	84,146	8.86	37,969	4.00	37,969	4.00	47,461	5.00

The Company and its bank subsidiary as of March 31, 2016, were “well capitalized” based on the ratios presented in the table above. Both the Company and its bank subsidiary are subject to regulatory capital requirements administered by the Federal Reserve and the Federal Deposit Insurance Corporation (“FDIC”). If we fail to meet the minimum capital requirements, regulatory agencies can initiate certain actions which could have a material effect on the financial statements. We believe by all measurements our capital ratios remain well above regulatory minimums.

Regulatory capital calculations set forth by the Federal Reserve allows the \$3 million in trust preferred securities to be included in Tier 1 capital of First Bancshares of Texas, Inc. Also included in this figure is Non-Cumulative Perpetual Preferred Stock with a par value of \$1.00 with 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of March 31, 2016.

The graph below illustrates at the holding company level, the increases in book value on common shares over an eight quarter period timeframe. Included on page 19 is a table of historical trades and valuations on our common stock.



Dividend Policy:

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

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

CAPITALIZATION

The following table represents, on a consolidated basis, the capitalization of the Company as of March 31, 2016.

	At March 31, 2016
Long-Term Indebtedness:	
Junior subordinated debentures - trust preferred securities	<u>\$ 3,093,000</u>
Total indebtedness	<u>\$ 3,093,000</u>
Shareholders' Equity:	
Common stock, par value \$1.00 per share, 15,000,000 shares authorized, 9,504,902 shares issued, 9,504,902 shares outstanding as of March 31, 2016	\$ 9,504,902
Preferred stock, par value \$1.00 per share, 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of March 31, 2016	937,044
Surplus	
Common	32,307,706
Preferred	<u>8,399,979</u>
Surplus	<u>40,707,685</u>
Treasury stock	-
Retained earnings	42,443,189
Accumulated other comprehensive income	<u>559,488</u>
Total shareholders' equity	<u>\$ 94,152,308</u>
Capital Ratios (Consolidated):	
Tier 1 leverage ratio	9.84%
Common Equity Tier 1 capital ratio	10.83%
Tier 1 risk-based capital ratio	12.41%
Total risk-based capital ratio	13.66%

HISTORICAL TRADES AND VALUATIONS

There have been very few trades in our common stock. The following table presents the low and high per share prices, number of shares traded and the number of trades per quarter for trades in our common stock of which we are aware since January 1, 2009:

<u>Quarter</u>	<u>Low</u>	<u>High</u>	<u>Number of Shares Traded</u>	<u>Number of Trades</u>	<u>Book Value as of Prior Quarter end</u>	<u>Multiple of Price to Book Value</u>	
						<u>Low</u>	<u>High</u>
1st Quarter 2009	\$ 6.00	\$ 6.00	43,133	9	3.95	1.52	1.52
2nd Quarter 2009	\$ 6.00	\$ 6.15	119,151	13	4.05	1.48	1.52
3rd Quarter 2009	\$ 6.00	\$ 6.15	45,850	9	4.12	1.46	1.49
4th Quarter 2009	\$ 6.15	\$ 6.35	43,337	9	4.24	1.45	1.50
1st Quarter 2010	\$ -	\$ -	0	0	4.32	0.00	0.00
2nd Quarter 2010	\$ 6.35	\$ 7.04	149,870	11	4.68	1.36	1.50
3rd Quarter 2010	\$ 7.08	\$ 7.25	160,570	21	4.79	1.48	1.51
4th Quarter 2010	\$ 7.25	\$ 7.34	77,000	9	4.89	1.48	1.50
1st Quarter 2011	\$ 7.50	\$ 7.50	22,500	7	5.01	1.50	1.50
2nd Quarter 2011	\$ 6.35	\$ 7.68	35,386	7	5.12	1.24	1.50
3rd Quarter 2011	\$ 7.86	\$ 8.16	70,306	15	5.30	1.48	1.54
4th Quarter 2011	\$ 8.16	\$ 8.43	140,730	31	5.51	1.48	1.53
1st Quarter 2012	\$ 8.50	\$ 8.51	16,194	9	5.68	1.50	1.50
2nd Quarter 2012	\$ 8.50	\$ 9.46	1,446,285	140	5.85	1.45	1.62
3rd Quarter 2012	\$ 8.77	\$ 9.62	40,160	22	6.41	1.37	1.50
4th Quarter 2012	\$ 9.62	\$ 9.91	21,751	7	6.61	1.46	1.50
1st Quarter 2013	\$ 9.56	\$ 10.06	35,334	4	6.71	1.42	1.50
2nd Quarter 2013	\$ 9.25	\$ 10.41	59,876	12	6.87	1.35	1.52
3rd Quarter 2013	\$ 9.76	\$ 10.55	58,932	10	6.93	1.41	1.52
4th Quarter 2013	\$ 10.00	\$ 10.82	135,149	11	7.10	1.41	1.52
1st Quarter 2014	\$ 10.87	\$ 11.01	89,103	5	7.24	1.50	1.52
2nd Quarter 2014	\$ 11.03	\$ 11.14	9,234	3	7.42	1.49	1.50
3rd Quarter 2014	\$ 11.24	\$ 11.54	30,632	8	7.58	1.48	1.52
4th Quarter 2014	\$ 11.54	\$ 11.81	79,783	8	7.75	1.49	1.52
1st Quarter 2015	\$ 11.81	\$ 12.10	51,216	8	7.95	1.49	1.52
2nd Quarter 2015	\$ 12.31	\$ 12.31	71,073	7	8.11	1.52	1.52
3rd Quarter 2015	\$ 12.55	\$ 12.59	94,568	13	8.29	1.51	1.52
4th Quarter 2015	\$ 12.55	\$ 12.93	67,134	17	8.47	1.48	1.53
1st Quarter 2016	\$ 13.04	\$ 13.18	37,432	9	8.70	1.50	1.51

The prices given are the result of limited trading and may not be representative of the actual value of our common stock. Trades between related parties are not included. As is evidenced in the table above, our stock has generally traded at a multiple of 1.5 times book value, as is reflected in the far right columns. We are not obligated to register our common stock or preferred stock with the SEC or, upon any registration, to create a market for our shares. Thus, a holder of our common stock may be unable to liquidate his investment and must be able to bear the economic risk of such investment indefinitely.

OFFICERS

OF FIRSTCAPITAL BANK OF TEXAS, N.A.

MICHAEL J. CANON

Chairman - First Bancshares of Texas, Inc.
& General Counsel

KENNETH L. BURGESS, JR.

Chairman - FirstCapital Bank of Texas, N.A.

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JAY W. ISAACS

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TRACY BACON

Chief Operating Officer

PHYLLIS BECHNER

Chief Financial Officer

BRAD D. BULLOCK

Chief Risk Officer

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GEORGE H. REEVES

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Branch President

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STEPHANIE HILL

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Assistant Vice President & Personal Banker III

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Banking Officer & Branch Manager

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Banking Officer & Credit Administration Manager

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CHAD MAXWELL

Banking Officer, Relationship Manager

EDGAR PAZ

Banking Officer, Loan Servicing Asst. I

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[CATHY COPPLE](#)

Assistant Vice President & Loan Documentation Preparation

Department Manager

[OLGA AGUNDIZ](#)

Banking Officer & Compliance Specialist

[SAVANNA HOLTON](#)

Banking Officer & Mortgage Loan Originator

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[SCOTT STREIT](#)

Market President, Horseshoe Bay

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