FIRSTBANCSHARES
OF TEXAS, INC.

Fourth Quarter 2014 Shareholders' Report

Dear Shareholders

The theme of the day for the last six months has been oil prices. Where will they go and what will the impact be? The discussion around this price correction seems to be much more intense than in past corrections. I remember when we started the Bank in 1998, oil prices quickly collapsed to about $11 per barrel, but by December of 1999 it had more than doubled to about $26 per barrel. In 2008 and 2009, the price of WTI dropped from about $140 per barrel in July of 2008 to about $39 per barrel in February of 2009. It climbed back to about $75 per barrel by the end of 2009. This time, prices have fallen from a high of about $106 per barrel in June of 2014 to a low of about $44 per barrel in February of this year. In the 1998 correction and the 2008 correction, I don't remember the same amount of national discussion about oil prices and concern about its impact.

The fact is, if you do business in the oil patch, price corrections are a fact of life and you better learn how to deal with the cycles. Some businesses do and some don't. We have done what we always do when the inevitable cycle starts, we have been visiting with all of our customers who will be directly affected by the price swing to gauge how things are going. I am pleased to say that so far, we have seen very little concern and manageable financial impact to our customers. I probably feel better about our overall situation entering this correction than the past ones we have experienced. I think this speaks well to our credit underwriting and our management of concentration levels.

One thing is for sure, oil production will begin declining this year as producers cut back drilling budgets. The economy will begin to react positively as consumers start spending the extra money they have in their pockets as a result of lower gasoline prices. These two facts serve as a self-correcting mechanism that will cause prices to rise again at some point in the future.

As for our financial performance, the Bank's assets grew from $826 million at the end of 2013 to $889 million at the end of 2014. This represents a growth rate of 7.62%. Our primary source if interest income is loans and loans grew from $430 million at the end of 2013 to $569 million at year-end 2014, an increase of $139 million or 32.3%. This loan growth helped mitigate some of the impact of a slowdown in our mortgage operation.

Net income for 2014 was $6.628 million as compared to $6.321 million in 2013. Although earnings increased, they increased less than we had hoped due to the restructure of our mortgage operation. We have hired Dave Swecker out of Birmingham, Alabama to head our mortgage division and to help us grow the operation back to where it was and hopefully much beyond. Dave brings over 35 years' experience in all aspects of mortgage operations and we are very excited about the prospects he brings to the table.

Since the end of 2014, the Bank has increased its asset size from $889 million at year end to about $950 million at the end of January. This brings the very likely prospect that the Bank will cross the $1 billion dollar threshold in 2015. With this passage brings increased regulatory requirements and management is already taking steps to prepare for the new world we will face.

You will find attached to this letter a detailed analysis of our financial performance for 2014. Please give me a call with any questions you may have.

Sincerely,

Ken L. Burgess, Jr.
CEO & President

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	December 31, (Unaudited) 2014	December 31, (Audited) 2013
ASSETS		
Cash and due from banks	**$ 10,993**	$ 15,655
Federal funds sold	**4,821**	10,000
Cash and cash equivalents	**15,814**	25,655
Interest bearing deposits in banks	**150,930**	222,134
Securities available for sale, at fair value	**36,716**	37,222
Securities held to maturity	**74,620**	66,868
Investment in First Bancshares of Texas Statutory Trust I	**93**	93
Investment in FirstCapital GP, LLC	**840**	905
Investments in partnerships	**1,084**	502
Restricted investment held at cost	**1,842**	1,690
Loans held for sale	**1,570**	8,248
Loans and leases receivable, net of allowance for loan and lease losses	**569,199**	430,129
Accrued interest receivable	**3,041**	2,370
Premises and equipment	**21,366**	18,881
Deferred tax asset, net	**2,788**	2,524
Foreclosed assets	**-**	-
Cash surrender value of life insurance	**7,923**	7,683
Prepaid FDIC assessment	**-**	-
Other assets	**1,074**	1,109
TOTAL ASSETS	**$ 888,900**	$ 826,013
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-interest bearing deposits	**$ 252,770**	$ 232,801
Interest bearing deposits	**520,434**	500,545
Total deposits	**773,204**	733,346
Accrued expenses and other liabilities	**2,183**	1,649
Securities sold under agreement to repurchase	**24,776**	10,205
Subordinated debentures	**3,093**	3,093
Other borrowed funds	**1,159**	-
Total liabilities	**804,415**	748,293
SHAREHOLDERS' EQUITY		
Common stock	**9,450**	9,440
Preferred stock	**937**	937
Treasury stock, at cost	**(16)**	(44)
Surplus		
Common	**31,774**	31,618
Preferred	**8,400**	8,400
Capital Surplus	**40,174**	40,018
Retained earnings	**33,639**	27,574
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**301**	(205)
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-
Total shareholders' equity	**84,485**	77,720
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 888,900**	$ 826,013

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Twelve Months Ended December

(Dollar amounts in thousands)

	(Unaudited)	(Audited)
	2014	2013
Interest Income:		
Loans and leases, including fees	**$ 29,178**	$ 25,946
Debt Securities		
Taxable	**2,289**	1,044
Tax exempt	**1,203**	1,073
Federal funds sold	**28**	24
Deposits with banks	**857**	872
Other interest	**89**	118
TOTAL INTEREST INCOME	**33,644**	29,077
Interest Expense:		
Deposits	**2,893**	2,446
Other borrowed money	**52**	24
Subordinated debentures	**97**	98
TOTAL INTEREST EXPENSE	**3,042**	2,568
Net Interest Income (Loss)	**30,602**	26,509
Provision for loan and lease losses	**1,320**	1,240
Net Interest Income (Loss) After Provision	**29,282**	25,269
Non-Interest Income:		
Trust department income	**455**	421
Service charges on deposit accounts	**672**	648
Other service charges and fees	**761**	678
Net realized gain (loss) on sales of available for sale securities	**-**	-
Appreciation in cash surrender value of life insurance	**239**	236
Gain/Loss on sale of loans	**1,980**	4,309
Gain/Loss on sale of foreclosed assets	**(15)**	86
Gain/Loss on sale of fixed assets	**18**	25
TOTAL NON-INTEREST INCOME	**4,110**	6,403
Non-Interest Expenses:		
Salaries and employee benefits	**14,144**	13,729
Occupancy and equipment expense	**3,373**	2,779
Advertising	**351**	365
Community and philanthropic support	**211**	196
IT and data processing expense	**727**	536
Legal, professional, accounting, and exam fees	**1,251**	1,183
FDIC assessment	**485**	376
Reduction in value of foreclosed assets	**-**	-
Other expenses	**3,329**	3,375
TOTAL NON-INTEREST EXPENSES	**23,871**	22,539
Income Before Income Taxes	**9,521**	9,133
Income tax expense	**2,893**	2,812
NET INCOME	**$ 6,628**	$ 6,321

FIRST BANCSHARES OF TEXAS, INC.

FOURTH QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary				
For the Twelve Months Ended December 31		2014		2013
Interest Income	$	33,644	$	29,077
Interest Expense		3,042		2,568
Provision for loan losses		1,320		1,240
Net Income		6,628		6,321

Performance Ratios (annualized)		
For the Twelve Months Ended December 31	2014	2013
Return on Average Assets	0.78%	0.85%
Return on Common Shareholders' Average Equity	9.20%	9.56%
Net Interest Margin	3.88%	3.83%

Period-End Data				
As of December 31		2014		2013
Total Assets	$	888,900	$	826,013
Average Assets		847,096		740,350
Investments*		266,125		329,414
Loans, net		570,769		438,377
Deposits		773,204		733,346
Shareholders' Equity				
Common		75,148		68,383
Preferred		9,337		9,337

Per Share Data				
For the Twelve Months Ended December 31		2014		2013
Net Income	$	0.64	$	0.61
Book Value	$	7.95	$	7.24
Number of Shareholders				
Common		488		486
Preferred		86		86

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

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED YIELD ANALYSIS

(Dollar amounts in thousands)

	December 31,					
	(Unaudited) 2014			(Audited) 2013		
	Avg. Balance	*Interest Inc./Exp.*	*Yield/Cost*	*Avg. Balance*	*Interest Inc./Exp.*	*Yield/Cost*
ASSETS						
Interest-bearing deposits	$ 169,082	$ 859	0.51%	$ 173,210	$ 873	0.50%
Federal funds sold and resell agreements	9,220	28	0.30%	7,938	24	0.30%
Securities:						
Taxable	71,542	2,289	3.20%	38,673	1,044	2.70%
Tax-exempt	41,844	1,203	2.88%	36,672	1,073	2.92%
Total securities	113,386	3,493	3.08%	75,345	2,117	2.81%
Restricted investments held at cost	2,395	89	3.74%	2,097	118	5.62%
Loans, net of unearned discount	512,090	29,184	5.70%	449,366	25,947	5.77%
Total earning assets and average rate earned	806,172	33,653	4.17%	707,957	29,079	4.11%
Cash and due from banks	12,287			10,594		
Investments in subsidiaries	948			1,035		
Premises and equipment, net	20,466			13,760		
Accrued interest receivable and other assets	7,223			7,004		
Total assets	**$ 847,096**			$ 740,350		
LIABILITIES						
Interest-bearing deposits:						
NOW & MMA	$ 173,005	$ 327	0.25%	$ 160,547	$ 268	0.17%
Savings	36,577	118	0.43%	28,180	89	0.32%
COD	296,305	2,449	0.83%	256,917	2,089	0.81%
Total interest-bearing deposits	505,887	2,894	0.57%	445,645	2,446	0.55%
Non-interest bearing demand deposits	240,787			207,266		
Total deposits	746,674	2,894		652,911	2,446	
Securities sold under agreement to repurchase	13,845	51	0.37%	6,644	24	0.36%
Other borrowed funds	40	1	1.68%	438	0	0.08%
Subordindated debentures	3,093	97	3.13%	3,093	98	3.17%
Total interest-bearing liabilities and average rate paid	522,865	3,042	0.58%	455,820	2,568	0.56%
Accrued expenses and other liabilities	2,075			1,793		
Total liabilities	765,727			664,880		
Shareholders' equity	81,369			75,470		
Total liabilities and shareholders' equity	**$ 847,096**			$ 740,350		
Net interest income		$ 30,611			$ 26,510	
Net interest spread			3.59%			3.54%
Net interest margin			3.88%			3.83%

For these computations:
(i) average balances are presented on a daily average basis,
(ii) information is shown on a tax-equivalent basis assuming a 34% tax rate,
(iii) average loans include loans on non-accrual status, and
(iv) average securities include unrealized gains and losses on securities available for sale, while yields are based on average amortized cost

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

Introduction

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

Critical Accounting Policies

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

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

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

Allowance for Loan Losses:

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

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

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

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

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

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

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of December 31, 2014, troubled debt restructurings totaled $594 thousand, with $61 thousand of the total also being classified as non-accrual.

Valuation of Securities:

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

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

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

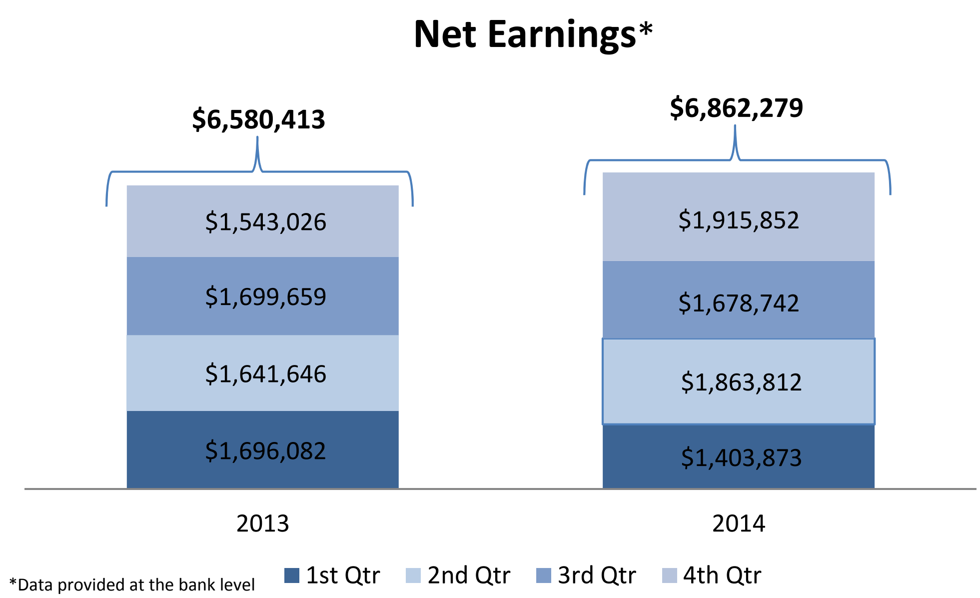
If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

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

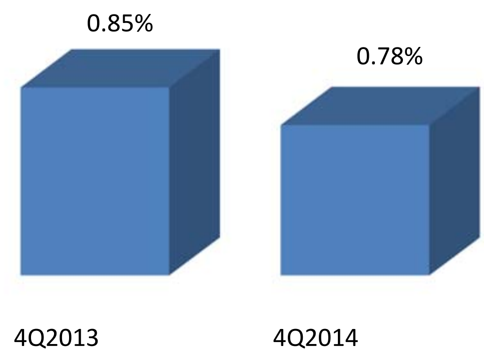
Results of Operations

Performance Summary:

We ended the year with net earnings at the consolidated level of $6.63 million, an increase of $306 thousand compared to year end in 2013. Return on average assets at the consolidated level as of December 31, 2014 and 2013 was .78% and .85%, respectively. The return on common shareholder's average equity for the same period was 9.20% and 9.56%. On a basic net earnings per share basis at the holding company level, net earnings were $0.64 as of December 31, 2014 compared to $0.61 for December 31, 2013. Our deposits have grown $40 million period over period, and a good portion of that money has been reinvested at 50 basis points, impacting our return on assets and our net interest margin.



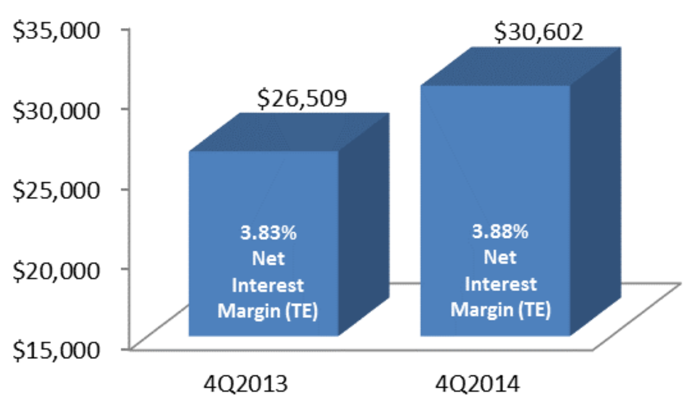
Return on Average Assets



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 $30.6 million for the quarter ended December 31, 2014 compared to $26.5 million for the same period in 2013. In accompaniment to our increase in net interest income, our net interest margin at December 31, 2014 was 3.88%, which was higher compared to 3.83% for the same period in 2013. 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 period ended December 31, 2014 was $4.1 million, a decrease of $2.3 million or 35.8% over the same period in 2013. This decrease is primarily attributable to a decline in the amount of the mortgage fee income (net of related processing costs) between the two periods. The following schedule shows each of the major components of non-interest income for the periods ended December 31, 2014 as compared to December 31, 2013.

Non-Interest Income	For the periods ended December 31		Incr./	%
	2014	2013	(Decr.)	Change
Trust department income	$454,808	$421,330	$33,478	7.95 %
Service charges on deposit accounts	671,479	648,477	23,002	3.55 %
Other service charges and fees	761,499	677,632	83,867	12.38 %
Appreciation in cash surrender value of life insurance	239,428	235,799	3,629	1.54 %
Gain/(Loss) on sale of available for sale securities	-	-	-	0.00 %
Gain/(Loss) on sale of loans	1,979,846	4,309,202	(2,329,356)	(54.06)%
Gain/(Loss) on sale of foreclosed assets	(14,676)	86,451	(101,127)	(116.98)%
Gain/(Loss) on sale of fixed assets	18,037	24,460	(6,424)	(26.26)%
Total Non-Interest Income	$4,110,420	$6,403,351	($2,292,931)	(35.81)%

Trust department income for the period ended December 31, 2014 was $455 thousand. This was a $33 thousand increase from the same period in 2013. Assets managed by the trust department totaled $54 million as of December 31, 2014.

Other services charges and fees increased by $84 thousand or 12.38%. This is mostly attributable to the amount of fees collected on loans due to the significant increase in loan volume.

Mortgage fee income (net of related processing costs) decreased from $4.3 million to $2 million, a decrease of $2.3 million or 54.06% from December 31, 2013 compared to December 31, 2014. There was a restructure of the mortgage department that occurred in the second and third quarters of 2014 that contributed to this decline. A new mortgage division manager has been hired, and the bank expects this to have a significant impact on mortgage income for 2015. We experienced a decline in the volume of refinancing activity in 2014 as rates started to rise and an overall decrease in volume across the markets we serve.

Losses on the sale of foreclosed assets increased by $101 thousand from 2013 to 2014. We recognized losses on the sales of repossessed vehicles and inventory taken into other assets. In the fourth quarter of 2013, we recognized gains on the sale of other real estate owned, a repossessed asset, and a bank-owned vehicle.

Non-Interest Expense:

Non-interest expense for the period ended December 31, 2014 was $23.9 million as compared to $22.5 million for the period ended December 31, 2013. This represents an increase of $1.3 million or 5.91%. The increase is primarily the result of our fast growth and the need to provide staffing and systems to support the growth.

Non-Interest Expense	For the periods ended December 31		Incr./	%
	2014	2013	(Decr.)	Change
Salaries & employee benefits	14,143,697.35	13,729,467.19	$414,230	3.02 %
Occupancy & equipment expense	3,373,010	2,778,557	594,453	21.39 %
Advertising	350,932	365,326	(14,394)	(3.94)%
Community and philanthropic support	210,626	196,313	14,313	7.29 %
IT & data processing	727,460	536,075	191,385	35.70 %
Legal, professional, accounting, and exam fees	1,251,442	1,182,988	68,454	5.79 %
FDIC assessments	484,890	375,902	108,988	28.99 %
Other expense	3,329,056	3,374,858	(45,803)	(1.36)%
Total Non-Interest Expense	$23,871,114	$22,539,486	$1,331,627	5.91 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $414 thousand for the period ended December 31, 2014 as compared to December 31, 2013 and represented an increase of 3.02%. As mentioned above, with the growth the Company has experienced year over year, the need to provide additional staffing and systems has become a priority. Benefits costs have continued to increase as well.

The increase in occupancy and equipment of $594 thousand was mostly related to the purchases of furniture, equipment, and software. We completed the addition of our new branch located at 3900 South Soncy in Amarillo and capitalized the various projects at other locations. Included in these projects were the additions of our new TellerConnect machines. Furniture purchases are generally depreciated over seven years and equipment and software is generally amortized over a three year period.

Advertising costs decreased $14 thousand or 3.94% from December 31, 2013 compared to December 31, 2014. We engaged an advertising firm in the latter part of 2013 to work on rebranding the Company. We rolled out our new rebranding campaign in the fourth quarter of 2014.

IT and data processing expenses increased $191 thousand period over period. Most of this increase relates to growth in the bank's number of deposit and loan accounts. We contract with a major national core processing vendor to provide our data processing services and their pricing primarily relates to transaction volume and account volume.

Legal, professional, accounting, and exam fees increased $68 thousand from the period ended December 31, 2014 compared to December 31, 2013. Consulting and professional fees increased by $93 thousand, which includes additional or increased services provided for advisory on investments, risk management, and organizational development. OCC assessment expenses increased by $28 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 increased $30 thousand which is primarily attributable to growth and increased regulation. These expense increases were partially offset by a decrease of $83 thousand in legal fees period over period.

The Bank experienced an increase in FDIC assessments, or deposit insurance costs. The cost as of December 31, for 2013 was $376 thousand and for the same time period in 2014, increased to $485 thousand. This was an increase of 29%. 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 $62 million for the period which resulted in increased assessment costs.

All other expenses decreased by $46 thousand or 1.36%. This decrease is primarily attributable to decreases in other employee expenses such as travel, training, meals, entertainment, dues, subscriptions, and memberships.

Balance Sheet Review

Our portfolio is comprised of loans made to businesses, professionals, and individuals located in the primary trade areas served by our bank. As of December 31, 2014, the Company had total net loans outstanding of $570.8 million as compared to $438.4 million for the same period in 2013, resulting in an increase of $132.4 million or 30.20%.

Composition of Loans ($ in 000's)	December 31 2014	December 31 2013	Incr./ (Decr.)	% change
Real estate loans (held for investment)	$377,250,806	$279,738,567	$97,512,239	34.86 %
Real estate Loans (held for sale)	1,570,003	8,248,079	(6,678,076)	(80.97)%
Loans to governmental entities	385,388	619,340	(233,952)	(37.77)%
Commercial & industrial loans	174,535,161	128,502,394	46,032,767	35.82 %
Consumer loans	7,138,039	7,495,316	(357,276)	(4.77)%
Other loans	17,279,349	19,952,380	(2,673,031)	(13.40)%
Total Loans before loan loss reserve	$578,158,746	$444,556,077	$133,602,669	30.05 %
Less: Loan loss reserve	(7,390,027)	(6,178,514)	(1,211,512)	19.61 %
Total Loans	$570,768,719	$438,377,562	$132,391,157	30.20 %

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 $279.7 million at December 31, 2013 to $377.3 million as of December 31, 2014, an increase of $97.5 million or 34.86%.

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 $6.7 million or 80.97% from December 31, 2013 to December 31, 2014. The volume of loans held for sale has slowed from the previous year due to a restructure of our mortgage department and the increase of rates resulting in fewer refinances.

Loans to governmental entities decreased by $234 thousand period over period. Loans in this category generally produce tax free income much like a municipal bond.

Commercial & industrial loans increased from $128.5 million at December 31, 2013 to $174.5 million at December 31, 2014, an increase of $46 million or 35.8%. 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 $357 thousand or 4.77% from December 31, 2013 to December 31, 2014. The decline was mostly the result of regular monthly payments on installment loan contracts. The Company had previously financed car loans for a car dealer in one of our markets. The amount of volume under this relationship has declined over the last two years so that monthly payments exceed the amount of new volume being placed on the books. The Company is interested in making consumer loans of all types, but consumer lending is not its primary focus. The Company 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 decreased by $2.7 million from December 31, 2013 to December 31, 2014. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions.

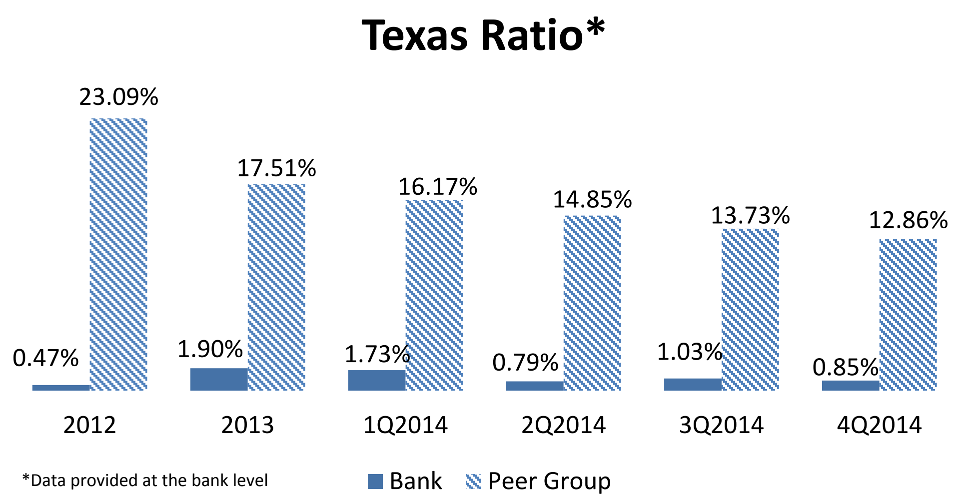
Asset Quality:

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 $1.32 million for the period ended December 31, 2014 as compared to $1.24 million for same period in 2013. As a percent of average loans, net loan charge-offs were 0.02% at December 31, 2014 and 0.06% at December 31, 2013. Comparatively, the peer group averages for the same periods were 0.18% and 0.29%, respectively.

Our allowance for loan loss as a percent of loans was 1.28% as of December 31, 2014, as compared to 1.39% as of December 31, 2013.

As of December 31, 2014, 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 2013. Loans placed on non-accrual status as a percentage of total loans were 0.04% as of December 31, 2014 compared to 0.23% at December 31, 2013. Our peer group for the same time period was 1.06% and 1.47%, respectively.

Another common measure of asset quality is the Texas Ratio. The Texas Ratio is calculated as the sum of restructured loans plus non-accrual loans plus real estate acquired in foreclosure divided by the sum of equity capital plus the allowance for loan losses. As of December 31, 2014, the Company's Texas Ratio was 0.85% as compared to the peer group of 12.86%. For the same period in 2013, the Company had a Texas Ratio of 1.90% as compared to its peer group of 17.51%.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $150.9 million as of December 31, 2014, as compared to $222.1 million as of December 31, 2013. The average yield on these balances was 0.51% for the period in 2014 as compared to 0.50% for the same period in 2013. These balances were held with various regional banks located within the state of Texas. The company established new correspondent relationships with two new banks in Texas. Each bank is paying 75 basis points on our deposits. Management evaluates the financial strength of each bank it holds balances with on a quarterly basis to assure the safety of the investment in each bank.

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

At December 31, 2014, available-for-sale securities had a fair value of $37 million and held-to-maturity securities had an amortized cost of $74.6 million. As of December 31, 2014, the portion of the securities portfolio classified as available-for-sale had a market gain of approximately $455 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market gain of $1.3 million. The Company did not hold any securities as of December 31, 2014 or 2013 that would be classified as below investment grade or with any impairment.

As of December 31, 2014, the tax-equivalent yield to maturity on the portion of the securities portfolio classified as available-for-sale was 4.29%. The tax-equivalent yield to maturity on that portion of the portfolio classified as held-to-maturity was 3.41%. Our overall tax-equivalent yield to maturity on our portfolio at December 31, 2014 was 3.70%. Comparatively, as of December 31, 2013, the tax-equivalent yield to maturity on the portion of the securities portfolio classified as available-for-sale was 3.51%.

The tax-equivalent yield to maturity on that portion of the portfolio classified as held-to-maturity was 4.68%. The overall tax-equivalent yield to maturity on our portfolio at December 31, 2013 was 4.01%.

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 $773.2 million as of December 31, 2014 compared to $733.3 million as of the same period in 2013, an increase of $39.9 million or 5.44%. The growth was mostly attributed to increases in non-interest bearing demand deposits and money market and savings deposits.

Composition of Deposits ($ in 000's)	December 31 2014	December 31 2013	Incr./ (Decr.)	% change
Non-interest bearing demand	$252,770,126	$232,800,815	$19,969,311	8.58 %
Interest-bearing demand	61,005,585	56,486,731	4,518,853	8.00 %
Money market and savings	166,774,591	149,731,190	17,043,401	11.38 %
Certificates of deposits ≥ $100,000	256,135,066	256,555,375	(420,309)	(0.16)%
Certificates of deposits < $100,000	36,518,807	37,771,500	(1,252,693)	(3.32)%
Total Deposits	$773,204,175	$733,345,612	$39,858,563	5.44 %

The average cost of interest-bearing deposits as of December 31, 2014 was .40% which compares to .39% for the same period in 2013. Our peer group's ratios for the same period end were .51% and .58%, respectively.

Capital Resources:

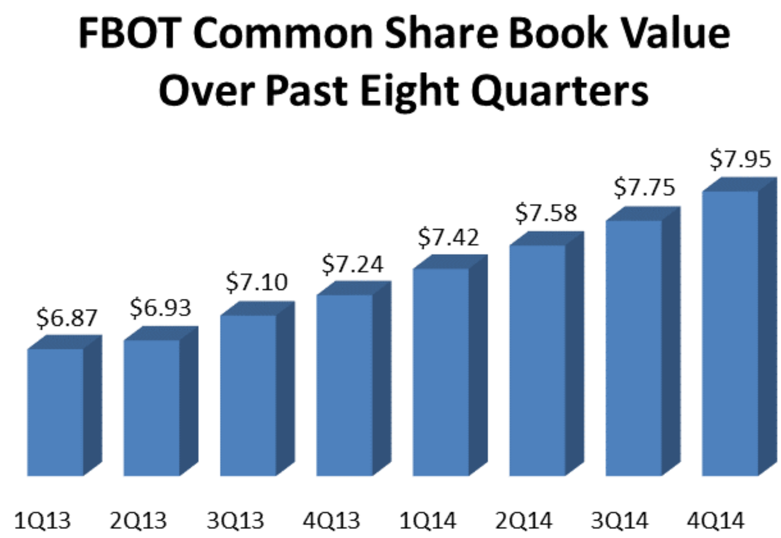
We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant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

(000's)	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Considered Well Capitalized	
	Captial Amount	Ratio	Captial Amount	Ratio	Captial Amount	Ratio
December 31, 2014						
Total Capital to Risk-Weighted Assets						
First Bancshares of Texas, Inc.	$ 94,857	14.50 %	$ 52,351	8.00 %	$ 65,438	10.00 %
FirstCapital Bank of Texas, N.A.	89,104	13.66	52,196	8.00	65,245	10.00
Tier 1 Capital to Risk-Weighted Assets						
First Bancshares of Texas, Inc.	87,184	13.32	26,175	4.00	39,263	6.00
FirstCapital Bank of Texas, N.A.	81,431	12.48	26,098	4.00	39,147	6.00
Leverage Ratio						
First Bancshares of Texas, Inc.	87,184	9.81	35,562	4.00	44,452	5.00
FirstCapital Bank of Texas, N.A.	81,431	9.19	35,424	4.00	44,280	5.00
December 31, 2013						
Total Capital to Risk-Weighted Assets						
First Bancshares of Texas, Inc.	$ 87,104	16.67 %	$ 41,791	8.00 %	$ 52,238	10.00 %
FirstCapital Bank of Texas, N.A.	78,747	15.12	41,674	8.00	52,092	10.00
Tier 1 Capital to Risk-Weighted Assets						
First Bancshares of Texas, Inc.	80,925	15.49	20,895	4.00	31,343	6.00
FirstCapital Bank of Texas, N.A.	72,568	13.93	20,837	4.00	31,255	6.00
Leverage Ratio						
First Bancshares of Texas, Inc.	80,925	9.86	32,825	4.00	41,032	5.00
FirstCapital Bank of Texas, N.A.	72,568	8.87	32,732	4.00	40,915	5.00

The Company and its bank subsidiary as of December 31, 2014, 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 December 31, 2014.

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 December 31, 2014.

		At December 31, 2014
Long-Term Indebtedness:		
Junior subordinated debentures - trust preferred securities	$	3,093,000
Total indebtedness	$	3,093,000
Shareholders' Equity:		
Common stock, par value $1.00 per share, 15,000,000 shares authorized, 9,449,992 shares issued, 9,448,477 shares outstanding as of December 31, 2014	$	9,449,992
Preferred stock, par value $1.00 per share, 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of December 31, 2014		937,044
Surplus		
Common		31,774,045
Preferred		8,399,979
Surplus		40,174,024
Treasury stock		(15,953)
Retained earnings		33,638,931
Accumulated other comprehensive income		300,510
Total shareholders' equity	$	84,484,548
Capital Ratios (Consolidated):		
Tier 1 to average assets capital ratio		9.81%
Tier 1 risk-based capital ratio		13.32%
Total risk-based capital ratio		14.50%

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:

Quarter	Low	High	Number of Shares Traded	Number of Trades	Book Value as of Prior Quarter end	Multiple of Price to Book Value Low	Multiple of Price to Book Value High
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

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

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

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Chairman - FirstCapital Bank of Texas, N.A.

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JAY W. ISAACS
President

TRACY BACON
Chief Operating Officer

TED AWERKAMP
Chief Retail Officer

PHYLLIS BECHNER
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Chief Credit Officer

GEORGE H. REEVES
Chief Deposit & Technology Officer

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& Senior Relationship Manager

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Vice President & BSA Officer

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Assistant Vice President & Information Security Officer

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Assistant Vice President, Data Analytics & Project Manager

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CALIB WILLIAMS
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Banking Officer & Branch Manager

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Banking Officer & Team Resources Representative II

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Banking Officer, Marketing & Corporate Communication

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Banking Officer & Project Analyst

KAMI LITTLE
Banking Officer & BSA Analyst II

CODY PETTY
Banking Officer & Branch Manager

BLAKE SCOTT
Banking Officer & Staff Accountant II

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President, Amarillo Market

BOWDEN JONES, JR.

Senior Vice President & Retail Banking Manager

LACIE McDOWELL

Senior Vice President & Treasury Management

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Senior Vice President & Operations Officer

BRAD STUTEVILLE

Senior Vice President & Relationship Manager

DONALD TAYLOR

Senior Vice President & Relationship Manager

MURIELLE BARNES

Vice President & Mortgage Underwriter

KENNETH L. BURGESS, III

Vice President & Loan Review Manager

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Vice President & Assistant Operations Manager

M. KAY KUHN

Vice President & Amarillo Mortgage Manager

LANCE GREEN

Assistant Vice President & Relationship Manager

CARMELLA SMITH

Assistant Vice President & Wire Transfer Manager

ABBY SNYDER

Assistant Vice President & Branch Manager

MEREDITH STOVER

Assistant Vice President & Relationship Manager

MICHAEL KNOWLES

Banking Officer & Assistant Branch Manager

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TONY PENA

President, Lubbock Market

DAVE SWECKER

Executive Vice President & Mortgage Division Manager

MARILANDA CRISTAN

Senior Vice President & Consumer Credit Underwriting Manager

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Senior Vice President & Senior Relationship Manager

TRAVIS HILLMAN

Senior Vice President & Relationship Manager

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Senior Vice President & Compliance Officer

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CATHY COPPLE

Assistant Vice President & Loan Documentation Preparation Department Manager

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Assistant Vice President & Relationship Manager

DWAINNA WULFJEN

Assistant Vice President & Mortgage Operations Analyst

OLGA AGUNDIZ

Banking Officer & Compliance Specialist

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Banking Officer & Mortgage Loan Officer

SAVANNA STEVENS

Banking Officer & Mortgage Loan Officer

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Independent Petroleum Engineer

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Chief Credit Officer

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Physician

TERRY D. WILKINSON
Investments

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