FIRSTBANCSHARES
OF TEXAS, INC.

Second Quarter 2016 Shareholders' Report

Dear Shareholders

With the first half of 2016 complete, I am happy to say that our operating performance has been solid. Given the weakness we are experiencing in our Midland market due to low oil and gas prices, some might expect that our earnings could be depressed from last year. However, our earnings are up $1.012 million over the same six month period of last year representing an increase of 29.8%.

We have seen some weakness, primarily in the oil field service sector. However, as of now, these weaknesses have not manifested into any losses. In fact, our losses through the first six months are close to $0. Out of an abundance of precaution, we increased our reserve for possible loan losses to recognize the weak environment we are currently operating in. A major source of strength for our bank vs. other banks in the Midland market though is the fact that we are diversified over three other markets and that diversification helps reduce the exposure we have to the oil and gas cycles that go with being a Permian Basin bank.

The primary impact we are feeling from low oil prices is reduced deposit growth. Since oil and gas cash flows have been greatly reduced, deposit growth has dropped as well. The Company's Total Assets have declined approximately $16 million from June 30, 2015. We are working hard to increase deposits in our other markets to help offset the deposit drops we have experienced in our Midland market. The silver lining to the slower asset growth is that our capital to assets ratio has increased as a result and that is a good thing in a weak economic environment.

We are very close to finishing construction of our Horseshoe Bay Branch. We partially opened for business during the quarter and already have over $13 million in deposits and over $7 million in loans as of June 30, 2016. Our Horseshoe Bay team has been working hard to involve the bank in the Horseshoe Bay and Marble Falls communities and we are seeing the fruits of that work.

You will find a detailed report on our Company Performance for the first six months of 2016 attached. Please give us a call if you would like to discuss anything you find in the report.

Sincerely,

Ken L. Burgess, Jr.

Ken L. Burgess, Jr.
CEO & President

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	June 30,		December 31,
	(Unaudited)	(Unaudited)	(Audited)
	2016	2015	2015
ASSETS			
Cash and due from banks	**$ 9,365**	$ 13,851	$ 10,541
Federal funds sold	**8,655**	9,438	3,514
Cash and cash equivalents	**18,020**	23,289	14,055
Interest bearing deposits in banks	**59,306**	75,380	48,828
Securities available for sale, at fair value	**23,281**	60,460	24,204
Securities held to maturity	**129,190**	160,479	147,049
Investment in First Bancshares of Texas Statutory Trust I	**93**	93	93
Investment in FirstCapital GP, LLC	**833**	846	846
Investments in partnerships	**1,452**	1,135	1,343
Restricted investment held at cost	**2,193**	1,956	1,957
Loans held for sale	**2,001**	6,346	4,382
Loans and leases receivable, net of allowance for loan and lease losses	**690,169**	613,078	680,975
Accrued interest receivable	**3,326**	3,167	3,491
Premises and equipment	**21,614**	22,198	21,320
Deferred tax asset, net	**3,571**	2,811	3,430
Foreclosed assets	**33**	-	-
Cash surrender value of life insurance	**8,293**	8,044	8,169
Prepaid FDIC assessment	**-**	-	-
Other assets	**773**	1,240	1,089
TOTAL ASSETS	**$ 964,148**	$ 980,522	$ 961,231
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-interest bearing deposits	**$ 231,345**	$ 239,568	$ 244,784
Interest bearing deposits	**584,860**	593,355	575,138
Total deposits	**816,205**	832,923	819,922
Accrued expenses and other liabilities	**2,510**	2,345	2,561
Securities sold under agreement to repurchase	**41,935**	53,260	42,902
Subordinated debentures	**3,093**	3,093	3,093
Other borrowed funds	**4,736**	1,138	1,113
Total liabilities	**868,479**	892,759	869,591
SHAREHOLDERS' EQUITY			
Common stock	**9,508**	9,454	9,477
Preferred stock	**883**	937	937
Treasury stock, at cost	**-**	-	-
Surplus			
Common	**32,395**	31,886	32,117
Preferred	**7,909**	8,400	8,400
Capital Surplus	**40,304**	40,286	40,517
Retained earnings	**44,372**	36,756	40,235
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**602**	330	474
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-	-
Total shareholders' equity	**95,669**	87,763	91,640
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 964,148**	$ 980,522	$ 961,231

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ended June

(Dollar amounts in thousands)

	(Unaudited) 2016	(Unaudited) 2015
Interest Income:		
Loans and leases, including fees	**$ 18,588**	$ 16,138
Debt Securities		
Taxable	**1,402**	1,376
Tax exempt	**629**	537
Federal funds sold	**20**	19
Deposits with banks	**259**	475
Other interest	**271**	65
TOTAL INTEREST INCOME	**21,169**	18,610
Interest Expense:		
Deposits	**1,347**	1,564
Other borrowed money	**271**	198
Subordinated debentures	**54**	48
TOTAL INTEREST EXPENSE	**1,672**	1,810
Net Interest Income (Loss)	**19,497**	16,800
Provision for loan and lease losses	**1,225**	850
Net Interest Income (Loss) After Provision	**18,272**	15,950
Non-Interest Income:		
Trust department income	**167**	194
Service charges on deposit accounts	**479**	347
Other service charges and fees	**371**	399
Net realized gain (loss) on sales of securities	**-**	361
Appreciation in cash surrender value of life insurance	**124**	121
Gain/Loss on sale of loans	**530**	749
Gain/Loss on sale of foreclosed assets	**-**	(4)
Gain/Loss on sale of fixed assets	**10**	11
TOTAL NON-INTEREST INCOME	**1,681**	2,178
Non-Interest Expenses:		
Salaries and employee benefits	**8,121**	7,937
Occupancy and equipment expense	**2,062**	2,037
Advertising	**228**	196
Community and philanthropic support	**147**	121
IT and data processing expense	**431**	400
Legal, professional, accounting, and exam fees	**529**	621
FDIC assessment	**273**	266
Reduction in value of foreclosed assets	**-**	-
Other expenses	**1,715**	1,641
TOTAL NON-INTEREST EXPENSES	**13,506**	13,219
Income Before Income Taxes	**6,447**	4,909
Income tax expense	**2,037**	1,511
NET INCOME	**$ 4,410**	$ 3,398

FIRST BANCSHARES OF TEXAS, INC.

SECOND QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary

For the Six Months Ended June 30		2016		2015
Interest Income	$	21,169	$	18,610
Interest Expense		1,672		1,810
Provision for loan losses		1,225		850
Net Income		4,410		3,398

Performance Ratios (annualized)

For the Six Months Ended June 30	2016	2015
Return on Average Assets	0.90%	0.71%
Return on Common Shareholders' Average Equity	9.77%	8.17%
Net Interest Margin	4.24%	3.71%

Period-End Data

As of June 30		2016		2015
Total Assets	$	964,148	$	980,522
Average Assets		980,663		968,955
Investments*		216,348		300,349
Loans, net		692,170		619,424
Deposits		816,205		832,923
Shareholders' Equity				
Common		86,877		78,426
Preferred		8,792		9,337

Per Share Data

For the Six Months Ended June 30		2016		2015
Net Income	$	0.44	$	0.33
Book Value	$	9.13	$	8.29
Number of Shareholders				
Common		506		487
Preferred		83		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)

	June 30,					
	(Unaudited) **2016**			(Unaudited) 2015		
	Avg. Balance	*Interest Inc./Exp.*	*Yield/Cost*	*Avg. Balance*	*Interest Inc./Exp.*	*Yield/Cost*
ASSETS						
Interest-bearing deposits	$ 62,399	$ 259	0.83%	$ 161,640	$ 476	0.59%
Federal funds sold and resell agreements	7,305	20	0.56%	12,881	19	0.30%
Securities:						
Taxable	121,471	1,402	2.31%	116,979	1,376	2.35%
Tax-exempt	45,074	629	2.79%	37,983	537	2.83%
Total securities	166,545	2,030	2.44%	154,963	1,913	2.47%
Restricted investments held at cost	3,531	271	15.44%	3,015	65	4.32%
Loans, net of unearned discount	701,008	18,588	5.33%	595,727	16,139	5.46%
Total earning assets and average rate earned	940,788	21,169	4.53%	928,225	18,612	4.04%
Cash and due from banks	11,516			10,681		
Investments in subsidiaries	931			933		
Premises and equipment, net	21,541			21,949		
Accrued interest receivable and other assets	5,887			7,167		
Total assets	**$ 980,663**			$ 968,955		
LIABILITIES						
Interest-bearing deposits:						
NOW & MMA	$ 227,296	$ 233	0.21%	$ 186,177	$ 195	0.21%
Savings	45,671	59	0.26%	45,616	75	0.33%
COD	300,942	1,055	0.71%	341,736	1,296	0.76%
Total interest-bearing deposits	573,909	1,347	0.47%	573,529	1,565	0.55%
Non-interest bearing demand deposits	231,698			242,011		
Total deposits	805,607	1,347		815,540	1,565	
Securities sold under agreement to repurchase	71,202	245	0.69%	60,623	187	0.62%
Other borrowed funds	3,424	26	1.52%	1,149	11	2.01%
Subordindated debentures	3,093	54	3.49%	3,093	48	3.15%
Total interest-bearing liabilities and average rate paid	651,628	1,672	0.52%	638,394	1,812	0.57%
Accrued expenses and other liabilities	2,823			2,027		
Total liabilities	886,149			882,432		
Shareholders' equity	94,514			86,523		
Total liabilities and shareholders' equity	**$ 980,663**			$ 968,955		
Net interest income		$ 19,497			$ 16,801	
Net interest spread			4.01%			3.47%
Net interest margin			4.24%			3.71%

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 June 30, 2016, troubled debt restructurings totaled $3 million with $104 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.

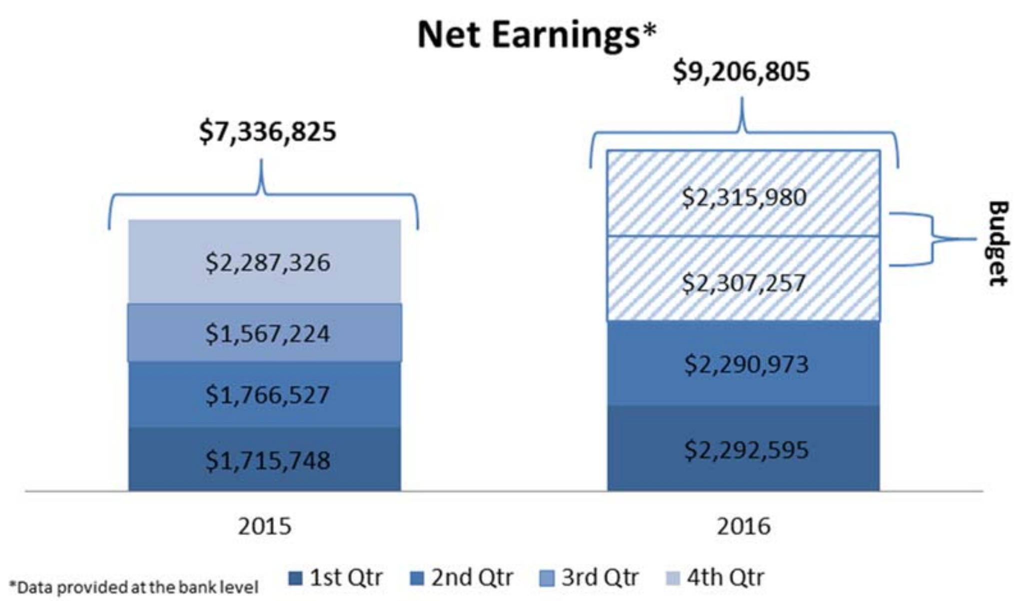
If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

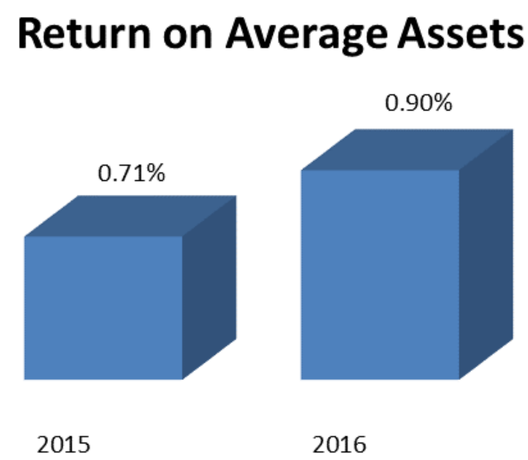
The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing 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:

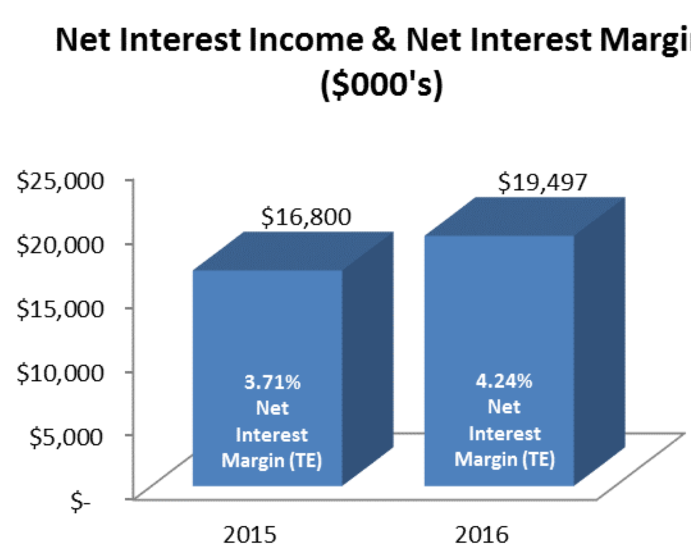
We ended the second quarter with year-to-date net earnings at the consolidated level of $4.4 million, an increase of approximately $1 million compared to earnings through the second quarter in 2015. Return on average assets at the consolidated level as of June 30, 2016 and 2015 was .90% and .71%, respectively. The return on common shareholder's average equity for the same period was 9.77% and 8.17%. On a basic net earnings per share basis at the holding company level, net earnings were $0.44 as of June 30, 2016 compared to $0.33 for June 30, 2015.





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 $19.5 million for the six months ended June 30, 2016 compared to $16.8 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 $72.7 million period over period resulting in interest income on loans (including fees) increasing by $2.4 million for the period ending June 30, 2016 compared to the same period in 2015. Our year-to-date net interest margin at June 30, 2016 was 4.24%, which was higher compared to 3.71% 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.



Non-Interest Income:

Non-interest income for the six month period ended June 30, 2016 was $1.7 million, a decrease of $497 thousand or 22.83% 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 June 30, 2016 as compared to June 30, 2015.

Non-Interest Income	Year-to-Date June 30		Incr./	%
	2016	2015	(Decr.)	Change
Trust department income	$166,568	$193,546	($26,978)	(13.94)%
Service charges on deposit accounts	478,907	347,144	131,763	37.96 %
Other service charges and fees	370,918	398,558	(27,640)	(6.94)%
Appreciation in cash surrender value of life insurance	123,758	121,248	2,510	2.07 %
Gain/(Loss) on sale of securities	-	361,366	(361,366)	0.00 %
Gain/(Loss) on sale of loans	530,552	748,933	(218,381)	(29.16)%
Gain/(Loss) on sale of other real estate	2,300	(4,590)	6,890	(150.11)%
Gain/(Loss) on sale of other assets	7,500	11,433	(3,933)	(34.40)%
Total Non-Interest Income	$1,680,503	$2,177,638	($497,135)	(22.83)%

Trust department income for the six month period ended June 30, 2016 was $166 thousand. This was a decrease of $27 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 $45.9 million as of June 30, 2016.

Service charges on deposit accounts increased by $132 thousand or 37.96% period over period. A major contributor to this increase are non-sufficient funds charges (NSFs). These charges increased by $79 thousand from June 30, 2015 to June 30, 2016.

Other service charges and fees decreased by $28 thousand or 6.94%. 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 have taken place in 2016.

Mortgage fee income (net of related processing costs) decreased from $749 thousand to $531 thousand, a decrease of $218 thousand or 29.16% from June 30, 2015 compared to June 30, 2016. Our volume of mortgage loans sold to the secondary market has decreased in part due to a restructure of our mortgage division in 2015.

During the second quarter of 2016, the bank recorded an $8 thousand gain on the sale of bank-owned automobile and a $2 thousand gain on the sale of a repossessed asset. The $11 thousand gain in 2015 is attributable to the gain recognized on the sale of a bank-owned vehicle during the first quarter.

Non-Interest Expense:

Non-interest expense for the six month period ended June 30, 2016 was $13.5 million as compared to $13.2 million for the same period ended June 30, 2015. This represents an increase of $287 thousand or 2.17%.

Non-Interest Expense	Year-to-Date June 30		Incr./	%
	2016	2015	(Decr.)	Change
Salaries & employee benefits	8,120,766	7,937,173	$183,593	2.31 %
Occupancy & equipment expense	2,061,902	2,037,381	24,521	1.20 %
Advertising	227,973	195,380	32,593	16.68 %
Community and philanthropic support	146,992	121,134	25,858	21.35 %
IT & data processing	430,656	399,905	30,751	7.69 %
Legal, professional, accounting, and exam fees	529,151	620,388	(91,237)	(14.71)%
FDIC assessments	273,000	266,250	6,750	2.54 %
Other expense	1,715,253	1,641,364	73,888	4.50 %
Total Non-Interest Expense	$13,505,693	$13,218,975	$286,717	2.17 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $184 thousand for the six month period ended June 30, 2016 as compared to June 30, 2015 and represented an increase of 2.31%. Benefit costs continue to rise, which is the primary reason for the increase.

The increase in occupancy and equipment of $25 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 $33 thousand or 16.68% from June 30, 2015 compared to the same period ended June 30, 2016. This increase is attributable to the continued costs associated with the Company's rebranding initiative.

Community and philanthropic supported related expenses increased $25.8 thousand or 21.35% year over year. We continue to focus on supporting the markets we serve through sponsorships and donations, which is the primary reason we have experienced increased expense in this category.

IT and data processing expenses increased $31 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 $91 thousand or 14.71% for the six month period ended June 30, 2016 compared to June 30, 2015. OCC assessment expenses decreased by $3 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 $92 thousand period over period. In 2015, the bank paid an audit firm a one-time fee to perform audit services related to the increased regulation the bank will face when it crosses $1 billion in assets. The bank did not incur this same expense in 2016. Legal fees decreased by $12 thousand period over period. Other consulting and professional fees increased by $15 thousand period over period.

The Bank experienced an increase in FDIC assessments, or deposit insurance costs. The cost for year-to-date 2015 was $266 thousand and for the same time period in 2016 increased to $273 thousand. This was an increase of 2.54%.

The FDIC assessment is based on the difference between average assets and average equity each calendar quarter-end period at the bank level. Total averages assets at the bank level increased $13.4 million from period to period which resulted in increased assessment costs.

All other expenses increased by $74 thousand or 4.50% 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 June 30, 2016, the Company had total net loans outstanding of $692.2 million as compared to $619.4 million for the same period in 2015, resulting in growth of $72.7 million or 11.74%.

Composition of Loans ($ in 000's)	June 30 2016	June 30 2015	Incr./ (Decr.)	% change
Real estate loans (held for sale)	2,001,049	6,346,218	(4,345,169)	(68.47)%
Loans to governmental entities	68,209	271,900	(203,691)	(74.91)%
Commercial & industrial loans	198,913,667	172,110,671	26,802,996	15.57 %
Consumer loans	7,496,813	7,954,842	(458,029)	(5.76)%
Other loans	22,545,297	21,964,105	581,192	2.65 %
Total Loans before loan loss reserve	$703,086,336	$627,412,887	$75,673,449	12.06 %
Less: Loan loss reserve	(10,915,953)	(7,989,192)	2,926,761	36.63 %
Total Loans	$692,170,383	$619,423,695	$78,600,210	12.69 %

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 $418.8 million at June 30, 2015 to $472 million as of June 30, 2016, an increase of $53.3 million or 12.73%. Real estate loans held for sale decreased by $4.3 million from June 30, 2015 to June 30, 2016. 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.

Loans to governmental entities decreased by $203.7 thousand period over period. Loans in this category generally produce tax free income much like a municipal bond.

Commercial & industrial loans increased from $172.1 million at June 30, 2015 to $198.9 million at June 30, 2016, an increase of $26.8 million or 15.57%.

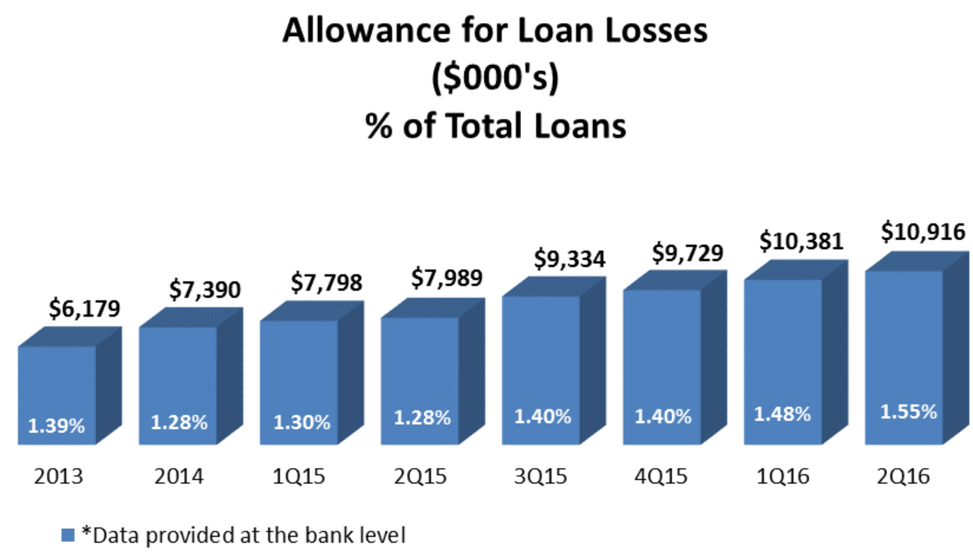
Loans in this category include oil and gas production loans, loans to oil and gas service companies, and loans to manufacturing and wholesale supply companies and miscellaneous other commercial businesses.

Consumer loans decreased by $458 thousand or 5.76% from June 30, 2015 to June 30, 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 $581 thousand from June 30, 2015 to June 30, 2016. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions.

Asset Quality:

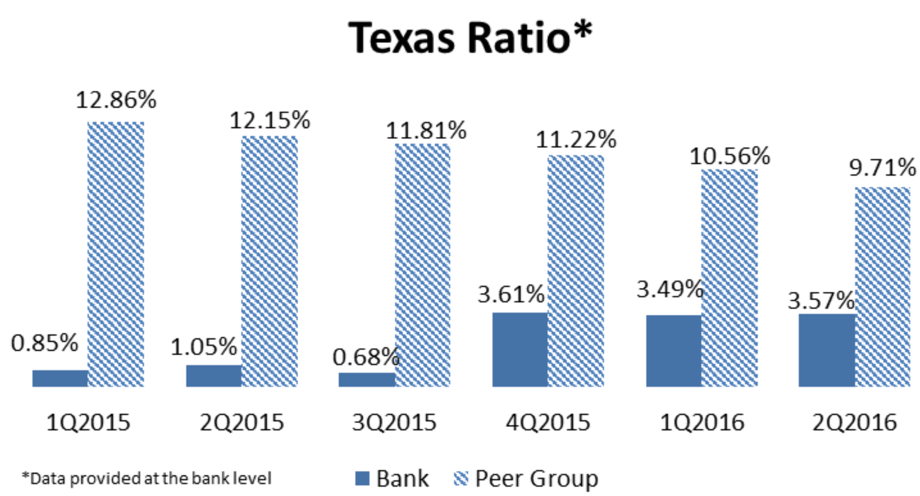
The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. The provision for loan loss expense was $1.2 million for the period ended June 30, 2016 as compared to $850 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 1.55% as of June 30, 2016, as compared to 1.28% as of June 30, 2015. As a percent of average loans, net loan charge-offs were 0.01% as of June 30, 2016 and 0.08% for the same period in 2015. Comparatively, the peer group averages for the same periods were 0.07% and 0.09%, respectively.



As of June 30, 2016, past due loans over 90 days as a percentage of total loans were 0.00%; the same can be said for June 30, 2015.

Loans placed on non-accrual status as a percentage of total loans were 0.13% as of June 30, 2016 compared to 0.02% at June 30, 2015. Our peer group for the same time period was 0.70% and 0.83%, 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 June 30, 2016, the Bank's Texas Ratio was 3.57% as compared to the peer group of 9.71%. For the same period in 2015 the Company had a Texas Ratio of 0.68% as compared to its peer group of 11.66%.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $59.3 million as of June 30, 2016, as compared to $75.4 million as of June 30, 2015. The average yield on these balances were 0.84% for the period in 2016 as compared to 0.59% for the same period in 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 June 30, 2016, available-for-sale securities had a fair value of $23.3 million and held-to-maturity securities had an amortized cost of $129.2 million. For the same period in 2015 these figures were $60.5 and $160.5 million, respectively. The decline in held-to-maturity securities is primarily attributable to several agencies in our portfolio maturing or being called.

As of June 30, 2016, the portion of the securities portfolio classified as available-for-sale had a market gain of approximately $912 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market gain of $2.6 million. For the same period in 2015, these amounts were $848 thousand and $2 million, respectively. The Company did not hold any securities as of June 30, 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 June 30, 2016 was 2.88%. The overall tax-equivalent yield to maturity on our portfolio for the same period in 2015 was 2.54%. 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 $816.2 million as of June 30, 2016 compared to $832.9 million as of the same period in 2015, a decrease of $16.7 million or 2.01%.

Composition of Deposits ($ in 000's)	June 30 2016	June 30 2015	Incr./ (Decr.)	% change
Money market and savings	182,464,630	161,496,774	20,967,856	12.98 %
Certificates of deposits ≥ $100,000	306,782,000	324,039,742	(17,257,742)	(5.33)%
Certificates of deposits < $100,000	34,564,000	41,360,667	(6,796,667)	(16.43)%

The average cost of interest-bearing deposits as of June 30, 2016 was 0.35% 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:

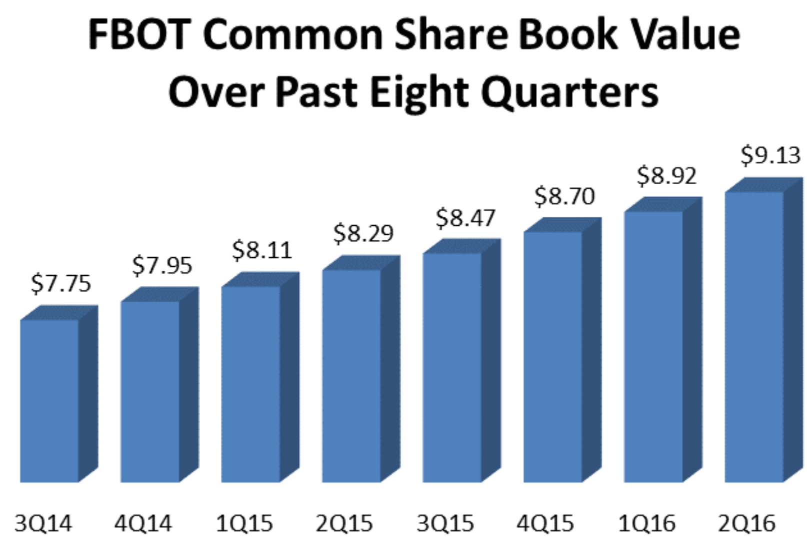
We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant 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)								
June 30, 2016								
Total Capital to Risk-Weighted Assets								
Consolidated	$ 107,678	14.033 %	$ 66,180	8.625 %	$ 80,567	10.500 %	$ 76,730	10.000 %
FirstCapital Bank of Texas, N.A.	105,950	13.825	66,097	8.625	80,466	10.500	76,634	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	98,067	12.781	50,834	6.625	65,221	8.500	61,384	8.000
FirstCapital Bank of Texas, N.A.	96,351	12.570	50,770	6.625	65,139	8.500	61,308	8.000
Common Equity Tier 1								
Consolidated	86,275	11.244	39,324	5.125	53,711	7.000	49,875	6.500
FirstCapital Bank of Texas, N.A.	96,351	12.570	39,275	5.125	53,644	7.000	49,812	6.500
Leverage Ratio								
Consolidated	98,067	10.037	39,083	4.000	39,083	4.000	48,854	5.000
FirstCapital Bank of Texas, N.A.	96,351	9.876	39,024	4.000	39,024	4.000	48,780	5.000
June 30, 2015								
Total Capital to Risk-Weighted Assets								
Consolidated	98,705	13.560	58,222	8.000	76,417	10.500	72,778	10.000
FirstCapital Bank of Texas, N.A.	94,185	12.990	58,023	8.000	76,155	10.500	72,529	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	90,433	12.430	43,667	6.000	61,861	8.500	58,222	8.000
FirstCapital Bank of Texas, N.A.	85,913	11.850	43,517	6.000	61,650	8.500	58,023	8.000
Common Equity Tier 1								
Consolidated	78,096	10.730	32,750	4.500	50,945	7.000	47,306	6.500
FirstCapital Bank of Texas, N.A.	85,913	11.850	32,638	4.500	50,770	7.000	47,144	6.500
Leverage Ratio								
Consolidated	90,433	9.190	39,362	4.000	39,362	4.000	49,202	5.000
FirstCapital Bank of Texas, N.A.	85,913	8.760	39,226	4.000	39,226	4.000	49,032	5.000

The Company and its bank subsidiary as of June 30, 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, 882,544 Series 2009 shares issued and outstanding as of June 30, 2016. During the second quarter of 2016, the bank retired 54,500 shares of preferred stock.

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 June 30, 2016.

		At June 30, 2016
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, 9,508,047 shares issued, 9,508,047 shares outstanding as of June 30, 2016	$	9,508,047
Preferred stock, par value $1.00 per share, 5,000,000 shares authorized, 882,544 Series 2009 shares issued and outstanding as of June 30, 2016		882,544
Surplus		
Common		32,394,669
Preferred		7,909,479
Surplus		40,304,148
Treasury stock		-
Retained earnings		44,371,964
Accumulated other comprehensive income		602,137
Total shareholders' equity	$	95,668,840
Capital Ratios (Consolidated):		
Tier 1 leverage ratio		10.04%
Common Equity Tier 1 capital ratio		11.24%
Tier 1 risk-based capital ratio		12.78%
Total risk-based capital ratio		14.03%

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
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
2nd Quarter 2016	$ 13.50	$ 13.50	122,586	17	8.92	1.51	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

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& 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

PHYLLIS BECHNER
Chief Financial Officer

BRAD D. BULLOCK
Chief Risk Officer

J. GREG BURGESS
Chief Credit Officer

GEORGE H. REEVES
Chief Deposit & Technology Officer

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& Senior Relationship Manager

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Vice President, Data Analytics & Project Manager
& Assistant Controller

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Assistant Vice President & Information Security Officer

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Banking Officer & Branch Manager

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Banking Officer & Credit Administration Manager

KAMI LITTLE
Banking Officer & BSA Officer

MARY LOGAN
Banking Officer, Branch Manager

TONI MABRY
Banking Officer & Branch Manager

CHAD MAXWELL
Banking Officer & Relationship Manager

EDGAR PAZ
Banking Officer & Loan Servicing Asst. I

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ABBY SNYDER
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MEREDITH STOVER
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JESSICA AMBURN
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BRITTANY TRUSTY
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TAMI RANDOLPH
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Chairman - First Bancshares of Texas, Inc.
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