FIRSTBANCSHARES
OF TEXAS, INC.

Second Quarter 2017 Shareholders' Report

Dear Shareholders

After a number of years living in a low interest rate environment, we saw the Fed begin to raise interest rates again. We have our balance sheet structured in a way to benefit from a rising interest rate environment. Beginning this quarter, we saw an increase in our net interest margin which enabled us to achieve our most profitable quarter to date. This followed a weaker than normal quarter in the first quarter, but put us back on track to exceed our budget for the first six months of 2017.

After slowing our growth the last two years due to the low oil price environment in Midland, we have seen a return to growth rates that we have become accustomed to for most of our history. The organization has grown from $957 million in total assets at year end to $1,047 billion in assets as of June 30, 2017. This increase of $90 million represents an annualized growth rate of approximately 19%.

The bank has entered into a contract to purchase a new bank branch in Marble Falls which is expected to close in the third quarter. This will add additional loans and deposits in our Hill Country market and will supplement our services in the Horseshoe Bay area.

We expect to open our second branch in Lubbock in the fourth quarter of the year. The new branch will expand our service offerings in the southwest Lubbock area where the city has seen significant growth.

Last year as we approached the $1 billion asset threshold, the board and management decided to consider an acquisition strategy to help us move past the threshold as quickly as possible. When a bank passes this threshold, it encounters new regulatory and accounting expenses. Growth is the remedy to assure that you maintain operating efficiencies. To support our organic growth and a possible acquisition, management is working on a $30 million stock offering. Much of this will be raised through institutional investors, but we expect some of our existing shareholders will have an interest as well. You will be hearing more about this in the near future.

As you can tell, we have many things in the works. Our trends all look good and we are excited about the prospects for operating performance for the rest of this year.

You will find a detailed report of operations of the Company for the second quarter of 2017 attached. Please give us a call if you have questions.

Sincerely,

Ken L. Burgess, Jr.
CEO & President

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	June 30, (Unaudited)	June 30, (Unaudited)	December 31, (Audited)
	2017	2016	2016
ASSETS			
Cash and due from banks	**$ 11,323**	$ 9,365	$ 12,014
Federal funds sold	**10,000**	8,655	10,000
Cash and cash equivalents	**21,323**	18,020	22,014
Interest bearing deposits in banks	**132,405**	59,306	72,057
Securities available for sale, at fair value	**39,016**	23,281	21,658
Securities held to maturity	**104,643**	129,190	117,040
Investment in First Bancshares of Texas Statutory Trust I	**93**	93	93
Investment in FirstCapital GP, LLC	**-**	833	801
Investments in partnerships	**1,926**	1,452	1,628
Restricted investment held at cost	**2,198**	2,193	2,195
Loans held for sale	**1,629**	2,001	791
Loans and leases receivable, net of allowance for loan and lease losses	**690,195**	690,169	680,802
Accrued interest receivable	**3,442**	3,326	3,419
Premises and equipment	**21,675**	21,614	21,567
Deferred tax asset, net	**4,456**	3,571	4,307
Foreclosed assets	**-**	33	-
Cash surrender value of life insurance	**23,613**	8,293	8,419
Prepaid FDIC assessment	**-**	-	
Other assets	**1,117**	773	1,044
TOTAL ASSETS	**$ 1,047,731**	$ 964,148	$ 957,835
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-interest bearing deposits	**$ 292,021**	$ 231,345	$ 257,066
Interest bearing deposits	**627,248**	584,860	562,877
Total deposits	**919,269**	816,205	819,943
Accrued expenses and other liabilities	**3,665**	2,510	3,783
Securities sold under agreement to repurchase	**12,475**	41,935	26,348
Subordinated debentures	**3,093**	3,093	3,093
Other borrowed funds	**5,099**	4,736	5,125
Total liabilities	**943,601**	868,479	858,292
SHAREHOLDERS' EQUITY			
Common stock	**9,589**	9,508	9,530
Preferred stock	**883**	883	883
Treasury stock, at cost	**-**	-	
Surplus			
Common	**33,023**	32,395	32,593
Preferred	**7,909**	7,909	7,909
Capital Surplus	**40,932**	40,304	40,502
Retained earnings	**52,333**	44,372	48,368
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**393**	602	260
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-	-
Total shareholders' equity	**104,130**	95,669	99,543
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,047,731**	$ 964,148	$ 957,835

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ended June 30

(Dollar amounts in thousands)

	(Unaudited) 2017	(Unaudited) 2016
Interest Income:		
Loans and leases, including fees	**$ 19,139**	$ 18,588
Debt Securities		
Taxable	**1,157**	1,402
Tax exempt	**622**	629
Federal funds sold	**37**	20
Deposits with banks	**715**	259
Other interest	**62**	271
TOTAL INTEREST INCOME	**21,732**	21,169
Interest Expense:		
Deposits	**1,765**	1,347
Other borrowed money	**76**	271
Subordinated debentures	**72**	54
TOTAL INTEREST EXPENSE	**1,913**	1,672
Net Interest Income (Loss)	**19,819**	19,497
Provision for loan and lease losses	**900**	1,225
Net Interest Income (Loss) After Provision	**18,919**	18,272
Non-Interest Income:		
Trust department income	**232**	167
Service charges on deposit accounts	**583**	479
Other service charges and fees	**333**	371
Net realized gain (loss) on sales of securities	**-**	-
Appreciation in cash surrender value of life insurance	**194**	124
Gain/Loss on sale of loans	**491**	530
Gain/Loss on sale of foreclosed assets	**5**	-
Gain/Loss on sale of fixed assets	**4**	10
TOTAL NON-INTEREST INCOME	**1,842**	1,681
Non-Interest Expenses:		
Salaries and employee benefits	**8,847**	8,121
Occupancy and equipment expense	**2,139**	2,062
Advertising	**307**	228
Community and philanthropic support	**156**	147
IT and data processing expense	**455**	431
Legal, professional, accounting, and exam fees	**550**	529
FDIC assessment	**276**	273
Reduction in value of foreclosed assets	**-**	-
Other expenses	**1,803**	1,715
TOTAL NON-INTEREST EXPENSES	**14,533**	13,506
Income Before Income Taxes	**6,228**	6,447
Income tax expense	**1,998**	2,037
NET INCOME	**$ 4,230**	$ 4,410

FIRST BANCSHARES OF TEXAS, INC.

SECOND QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary

For the Six Months Ended June 30		2017		2016
Interest Income	$	21,732	$	21,169
Interest Expense		1,913		1,672
Provision for Loan Losses		900		1,225
Net Income		4,230		4,410

Performance Ratios (annualized)

For the Six Months Ended June 30	2017	2016
Return on Average Assets	0.84%	0.90%
Return on Common Shareholders' Average Equity	8.85%	10.08%
Net Interest Margin	4.16%	4.24%

Period-End Data

As of June 30		2017		2016
Total Assets	$	1,047,731	$	964,148
YTD Average Assets		1,019,908		980,663
Investments*		280,281		216,348
Loans, net		691,824		692,170
Deposits		919,269		816,205
Shareholders' Equity				
Common		95,338		86,877
Preferred		8,792		8,792

Per Share Data

For the Six Months Ended June 30		2017		2016
Net Income	$	0.41	$	0.44
Book Value	$	9.94	$	9.13
Number of Shareholders				
Common		512		506
Preferred		85		83

**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) 2017			(Unaudited) 2016		
	Avg. Balance	*Interest Inc./Exp.*	*Yield/Cost*	*Avg. Balance*	*Interest Inc./Exp.*	*Yield/Cost*
ASSETS						
Interest-bearing deposits	$ 122,993	$ 715	1.17%	$ 62,399	$ 259	0.83%
Federal funds sold and resell agreements	7,728	37	0.98%	7,305	20	0.56%
Securities:						
Taxable	97,258	1,157	2.38%	121,471	1,402	2.31%
Tax-exempt	44,278	622	2.81%	45,074	629	2.79%
Total securities	141,536	1,779	2.51%	166,545	2,030	2.44%
Restricted investments held at cost	3,913	62	3.18%	3,531	271	15.44%
Loans, net of unearned discount	700,276	19,139	5.51%	701,008	18,588	5.33%
Total earning assets and average rate earned	976,446	21,732	4.49%	940,788	21,169	4.53%
Cash and due from banks	11,827			11,516		
Investments in subsidiaries	740			931		
Premises and equipment, net	21,613			21,541		
Accrued interest receivable and other assets	9,282			5,887		
Total assets	**$ 1,019,908**			$ 980,663		
LIABILITIES						
Interest-bearing deposits:						
NOW & MMA	$ 233,228	$ 299	0.26%	$ 227,296	$ 233	0.21%
Savings	50,498	67	0.27%	45,671	59	0.26%
COD	330,337	1,399	0.85%	300,942	1,055	0.71%
Total interest-bearing deposits	614,063	1,765	0.58%	573,909	1,347	0.47%
Non-interest bearing demand deposits	272,874			231,698		
Total deposits	886,937	1,765		805,607	1,347	
Securities sold under agreement to repurchase	18,718	42	0.45%	71,202	245	0.69%
Other borrowed funds	4,611	45	1.96%	3,424	26	1.52%
Subordindated debentures	3,093	61	4.00%	3,093	54	3.49%
Total interest-bearing liabilities and average rate paid	640,485	1,913	0.60%	651,628	1,672	0.52%
Accrued expenses and other liabilities	4,316			2,823		
Total liabilities	917,675			886,149		
Shareholders' equity	102,233			94,514		
Total liabilities and shareholders' equity	**$ 1,019,908**			$ 980,663		
Net interest income		$ 19,819			$ 19,497	
Net interest spread			3.89%			4.01%
Net interest margin			4.16%			4.24%

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, 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, 2017 troubled debt restructurings totaled $12.4 million with $80 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.

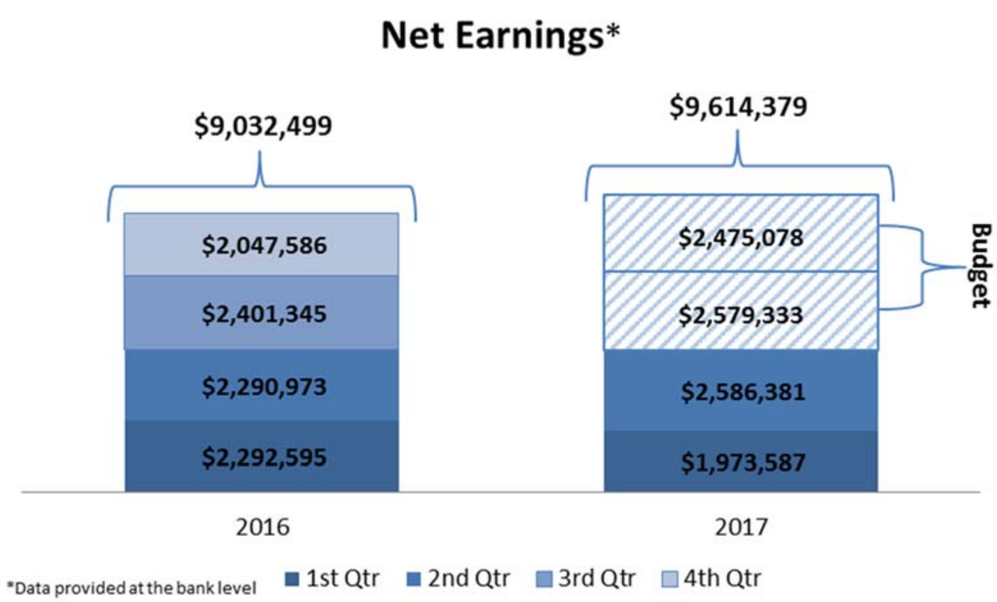
If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

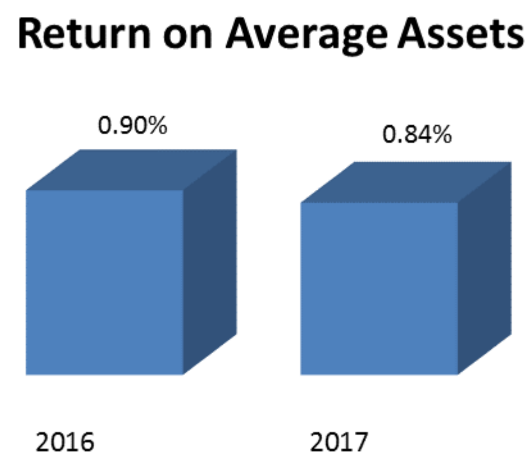
The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing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

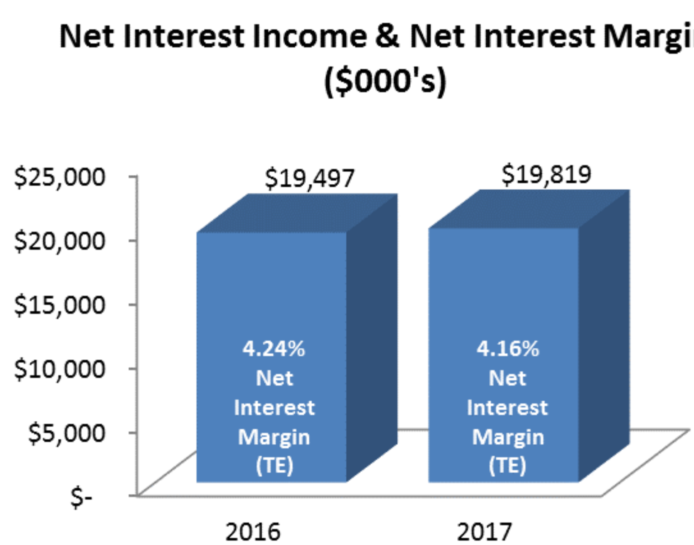
We ended the second quarter with net earnings at the consolidated level of $4.2 million, a slight decrease of approximately $180 thousand compared to the same period in 2016. During the first quarter of 2016, the bank recorded income of $209 thousand from Small Business Investment Company (SBIC) investments. Income of this nature is sporadic and was not repeated during either quarter of 2017. Return on average assets at the consolidated level as of June 30, 2017 and 2016 was 0.84% and 0.90%, respectively. The return on common shareholder's average equity for the same period was 8.85% and 10.08%. On a basic net earnings per share basis at the holding company level, net earnings were $0.41 as of June 30, 2017 compared to $0.44 for June 30, 2016.





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 $19.8 million for the quarter ended June 30, 2017 compared to $19.5 million for the same period in 2016. Our year-to-date net interest margin at June 30, 2017 was 4.16%, which was lower compared to 4.24% for the same period in 2016. Although net interest income increased period over period, the previously mentioned SBIC income of $209 thousand that was recorded during the first quarter of 2016 effectively inflated the net interest income figure for 2016, resulting in a higher net interest margin ratio in 2016. 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 quarter ended June 30, 2017 was $1.8 million, an increase of $161 thousand or 9.56% over the same period in 2016. The following schedule shows each of the major components of year-to-date non-interest income for the periods ended June 30, 2017 as compared to June 30, 2016.

Non-Interest Income	Year-to-Date June 30		Incr./ (Decr.)	% Change
	2017	2016		
Trust department income	$232,371	$166,568	$65,803	39.51 %
Service charges on deposit accounts	582,523	478,907	103,616	21.64 %
Other service charges and fees	333,254	370,918	(37,664)	(10.15)%
Appreciation in cash surrender value of life insurance	193,819	123,758	70,061	56.61 %
Gain/(Loss) on sale of securities	-	-	-	0.00 %
Gain/(Loss) on sale of loans	491,075	530,552	(39,477)	(7.44)%
Gain/(Loss) on sale of other real estate	4,638	2,300	2,338	101.65 %
Gain/(Loss) on sale of other assets	3,500	7,500	(4,000)	(53.33)%
Total Non-Interest Income	$1,841,180	$1,680,503	$160,677	9.56 %

Trust department income for the quarter ended June 30, 2017 was $232 thousand. This was an increase of $66 thousand from the same period in 2016. Assets managed by the Wealth Management and Trust Division totaled $77.2 million as of June 30, 2017, which is an increase of $31.3 million compared to the same period in 2016.

Service charges on deposit accounts increased by $104 thousand or 21.64% period over period. Major contributors to this increase are service charges relating to commercial analysis and non-sufficient funds charges (NSFs). Period over period these charges increased by $69 thousand and $32 thousand, respectively.

Other service charges and fees decreased by $38 thousand or 10.15%. These charges are mostly comprised of debit card interchange fees and fees collected from customers associated with the cost of doing business.

Income relating to the appreciation in cash surrender value of life insurance increased by $70 thousand or 56.61% period over period. This increase is attributable to an overall increase of bank-owned life insurance of approximately $15.3 million period over period.

Mortgage fee income (net of related processing costs) decreased from $531 thousand to $491 thousand, a decrease of $39 thousand or 7.44% from June 30, 2016 compared to June 30, 2017. Our volume of mortgage loans sold to the secondary market has decreased across our markets.

During the first quarter of 2017, the bank recorded a $7 thousand gain on the sale of bank-owned automobile and a $5 thousand gain on the sale other real estate owned. During the second quarter of 2017, the bank recorded a loss of $3 thousand on a repossessed automobile.

Non-Interest Expense:

Non-interest expense for the quarter ended June 30, 2017 was $14.5 million as compared to $13.5 million for the same period ended June 30, 2016. This represents an increase of $1 million or 7.62%.

Non-Interest Expense	Year-to-Date June 30			
	2017	2016	Incr./ (Decr.)	% Change
Salaries & employee benefits	$8,847,444	$8,120,766	$726,678	8.95 %
Occupancy & equipment expense	2,139,298	2,061,902	77,396	3.75 %
Advertising	306,794	227,973	78,821	34.57 %
Community and philanthropic support	156,447	146,992	9,455	6.43 %
IT & data processing	454,756	430,656	24,100	5.60 %
Legal, professional, accounting, and exam fees	550,189	529,151	21,038	3.98 %
FDIC assessments	276,000	273,000	3,000	1.10 %
Other expense	1,803,372	1,715,253	88,119	5.14 %
Total Non-Interest Expense	$14,534,300	$13,505,693	$1,028,607	7.62 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $727 thousand for the quarter ended June 30, 2017 as compared to June 30, 2016 and represented an increase of 8.95%. Of this increase, a rise in salaries of $430 thousand, a 7.31% increase, is the largest component, representing both an increase in staff and annual salary increases with commensurate increases in related employment taxes and annual incentive accruals. Other factors include a continuing increase in medical cost of $133 thousand, an 18% increase period over period.

Occupancy and equipment expense increased $77 thousand or 3.75% period over period. This increase is attributable to the addition of our branch in Horseshoe Bay in the third quarter of 2016. We anticipate a continued increase in this category in 2017 as we will be completing our new branch in Lubbock in the fourth quarter as well as acquiring a new branch in Marble Falls in the third quarter of this year.

Advertising costs increased $79 thousand or 34.57% from June 30, 2016 compared to the same period ended June 30, 2017. This increase is attributable to expenses relating to digital media and new commercials for the bank.

Community and philanthropic related expenses increased $9 thousand or 6.43% 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 $24 thousand or 5.60% period over period.

Legal, professional, accounting, and exam fees increased $21 thousand or 3.98% for the quarter ended June 30, 2017 compared to June 30, 2016. OCC assessment fees increased by $8 thousand period over period. The OCC assessments are based on the call report asset size as of December and June of each year. We anticipate an increase in this expense in 2017 due to our continued asset growth.

Audit expenses increased $62 thousand period over period. Legal fees increased by $22 thousand period over period. Other consulting and professional fees decreased by $71 thousand period over period.

The Bank experienced a small increase in FDIC assessments, or deposit insurance costs. The cost for 2016 was $273 thousand and for the same time period in 2017 increased to $276 thousand. This was an increase of 1.10%. The FDIC assessment is based primarily on the difference between average assets and average equity each calendar quarter-end period at the bank level.

All other expenses increased by $88 thousand or 5.14% period over period.

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, 2017, the Company had total net loans outstanding of $691.8 million as compared to $692.2 million for the same period in 2016, resulting in a decrease of $347 thousand or 0.05%. While gross loans increased $1.7 million, it was a $2.1 million increase in loan loss reserve that prompted the overall decline in net loans.

Composition of Loans ($ in 000's)	June 30 2017	June 30 2016	Incr./ (Decr.)	% Change
Real estate loans (held for investment)	$507,081,760	$472,061,301	$35,020,459	7.42 %
Real estate loans (held for sale)	1,628,606	2,001,049	(372,443)	(18.61)%
Loans to governmental entities	0	68,209	(68,209)	(100.00)%
Commercial & industrial loans	171,954,602	198,913,667	(26,959,065)	(13.55)%
Consumer loans	8,994,493	7,496,813	1,497,680	19.98 %
Other loans	15,161,021	22,545,297	(7,384,276)	(32.75)%
Total Loans before loan loss reserve	704,820,482	703,086,336	1,734,146	0.25 %
Less: Loan loss reserve	(12,996,837)	(10,915,953)	2,080,884	19.06 %
Total Loans	$691,823,645	$692,170,383	($346,738)	(0.05)%

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 $472.1 million at June 30, 2016 to $507.1 million as of June 30, 2017, an increase of $35 million or 7.42%. Real estate loans held for sale decreased by $372 thousand from June 30, 2016 to June 30, 2017. 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 $68 thousand period over period. As of June 30, 2017 the bank did not have any loans in this category. These loans generally produce tax free income much like a municipal bond.

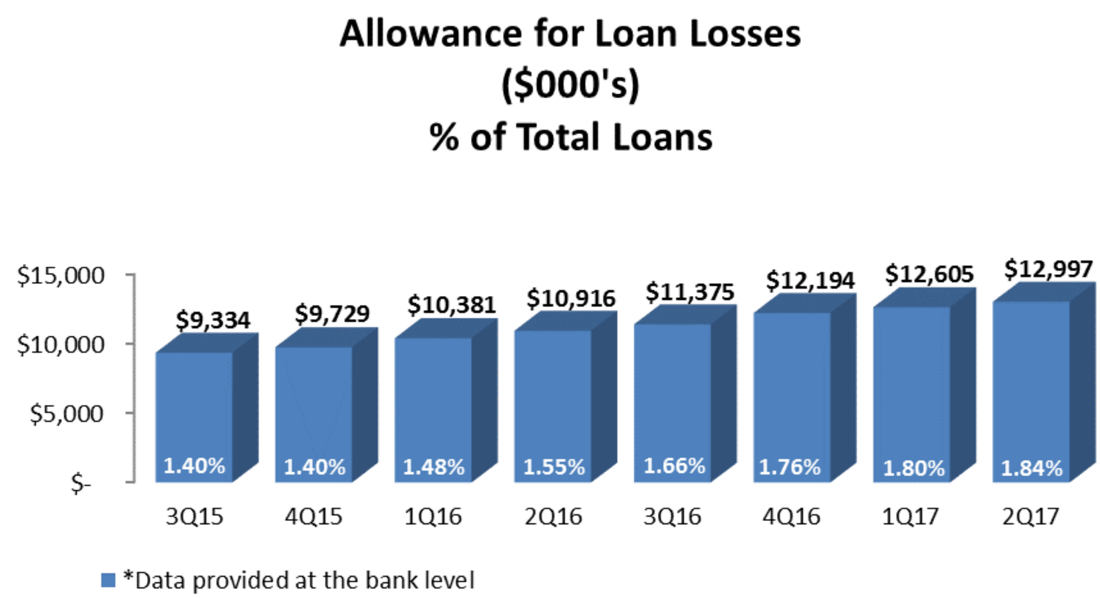
Commercial & industrial loans decreased from $199 million at June 30, 2016 to $172 million at June 30, 2017, a decrease of $27 million or 13.55%. Loans in this category include oil and gas production loans, loans to oil and gas service companies, and loans to manufacturing and wholesale supply companies and miscellaneous other commercial businesses.

Consumer loans increased by $1.5 million or 19.98% from June 30, 2016 to June 30, 2017. 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 $7.4 million from June 30, 2016 to June 30, 2017. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions.

Asset Quality:

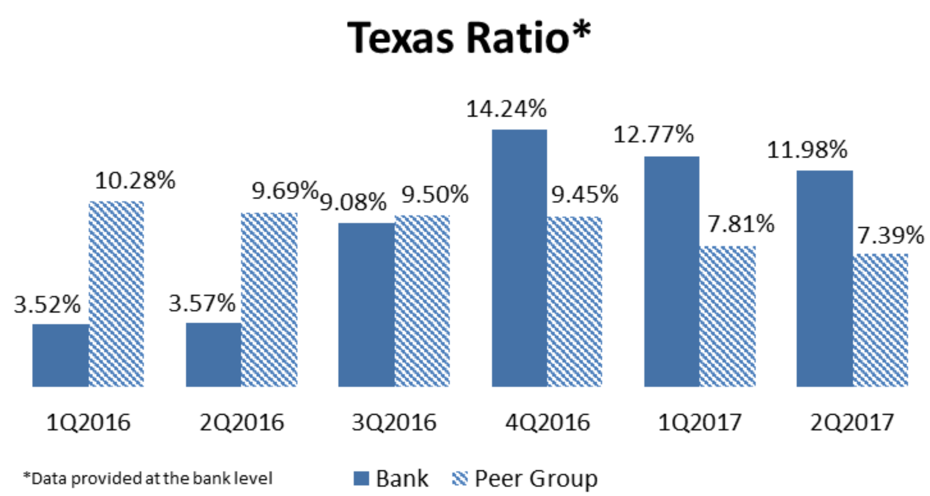
The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. The provision for loan loss expense was $900 thousand for the quarter ended June 30, 2017 as compared to $1.2 million for same period in 2016. Beginning in the third quarter of 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. Our allowance for loan losses as a percentage of our total loan portfolio was 1.84% as of June 30, 2017, as compared to 1.55% as of June 30, 2016. As a percent of average loans, net loan charge-offs were 0.03% as of June 30, 2017 and 0.01% for the same period in 2016. Comparatively, the peer group average was 0.07% for both periods.



As of June 30, 2017, past due loans over 90 days as a percentage of total loans were 0.00% compared to 0.00% for the same period in 2016.

Loans placed on non-accrual status as a percentage of total loans were 0.27% as of June 30, 2017 compared to 0.13% at June 30, 2016. Our peer group for the same time period was 0.62% and 0.70%, 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, 2017, the Bank’s Texas Ratio was 11.98% as compared to the peer group of 7.39%. For the same period in 2016 the Company had a Texas Ratio of 3.57% as compared to its peer group of 9.69%. This increase is attributable to restructured loans increasing by approximately $9.4 million period over period.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $132.4 million as of June 30, 2017, as compared to $59.3 million as of June, 2016. The average yield on these balances were 1.17% for the period in 2017 as compared to 0.84% for the same period in 2016. 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, 2017, available-for-sale securities had a fair value of $39 million and held-to-maturity securities had an amortized cost of $104.6 million. For the same period in 2016 these figures were $23.3 and $129.2 million, respectively. The increase in available-for-sale securities period over period is related to approximately $18 million in purchases that were recorded during the first two quarters of 2017. The decline in held-to-maturity securities is primarily attributable to several agencies in our portfolio maturing or being called.

As of June 30, 2017, the portion of the securities portfolio classified as available-for-sale had a market gain of approximately $595 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market gain of $427 thousand. For the same period in 2016, these amounts were a $912 thousand gain and a $2.6 million gain, respectively. The decline in market value gains in both the available for sale and the held to maturity portfolios are the result of deflation of bond prices as market rates rise. The market experienced three 25 basis point rate increases between June 30, 2016 and June 30, 2017. The Company did not hold any securities as of June 30, 2017 or 2016 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, 2017 was 2.94%. The overall tax-equivalent yield to maturity on our portfolio for the same period in 2016 was 2.88%. 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 $919.3 million as of June 30, 2017 compared to $816.2 million as of the same period in 2016.

Composition of Deposits ($ in 000's)	June 30 2017	June 30 2016	Incr./ (Decr.)	% Change
Non-interest bearing demand	$292,021,612	$231,344,617	$60,676,995	26.23 %
Interest-bearing demand	71,679,150	61,049,715	10,629,435	17.41 %
Money market and savings	222,916,827	182,464,630	40,452,197	22.17 %
Certificates of deposits ≥ $100,000	294,592,000	306,782,000	(12,190,000)	(3.97)%
Certificates of deposits < $100,000	38,059,000	34,564,000	3,495,000	10.11 %
Total Deposits	$919,268,589	$816,204,962	$103,063,627	12.63 %

The average cost of interest-bearing deposits as of June 30, 2017 was 0.41% which compares to 0.35% for the same period in 2016. Our peer group's ratios for the same period end were 0.47% and 0.48%, respectively.

Capital Resources:

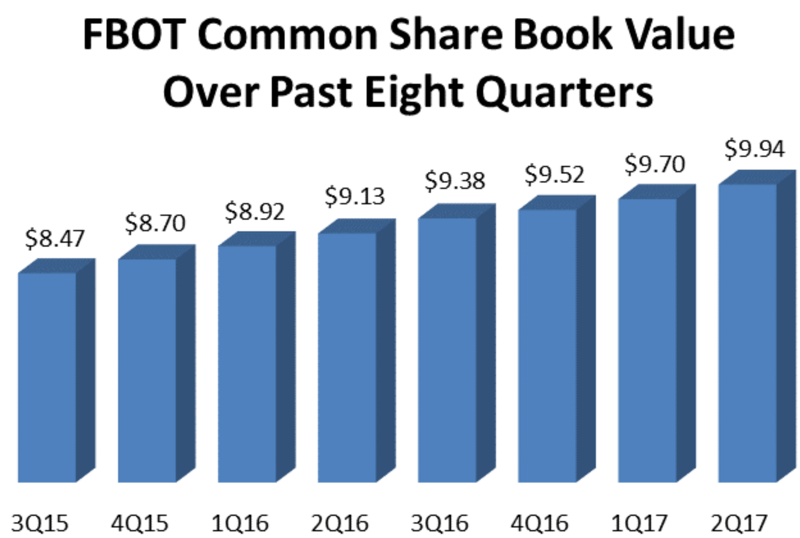
We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant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

	Actual		Minimum Capital Required - Basel III Buffer Phase-In		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, 2017								
Total Capital to Risk-Weighted Assets								
Consolidated	$ 116,781	14.592 %	$ 74,027	9.250 %	$ 84,031	10.500 %	$ 80,030	10.000 %
FirstCapital Bank of Texas, N.A.	115,402	14.423	74,010	9.250	84,011	10.500	80,011	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	106,737	13.337	58,021	7.250	68,025	8.500	64,024	8.000
FirstCapital Bank of Texas, N.A.	105,360	13.168	58,008	7.250	68,009	8.500	64,008	8.000
Common Equity Tier 1								
Consolidated	94,945	11.864	46,017	5.750	56,021	7.000	52,019	6.500
FirstCapital Bank of Texas, N.A.	105,360	13.168	46,006	5.750	56,007	7.000	52,007	6.500
Leverage Ratio								
Consolidated	106,737	10.327	41,342	4.000	41,342	4.000	51,678	5.000
FirstCapital Bank of Texas, N.A.	105,360	10.205	41,296	4.000	41,296	4.000	51,620	5.000
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

The Company and its bank subsidiary as of June 30, 2017, 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, 2017. 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, 2017.

	At June 30, 2017
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, 9,589,539 shares issued, 9,589,539 shares outstanding as of June 30, 2017	9,589,539
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, 2017	882,544
Surplus	
Common	33,023,337
Preferred	7,909,479
Surplus	40,932,816
Treasury stock	-
Retained earnings	52,332,623
Accumulated other comprehensive income	392,797
Total shareholders' equity	$ 104,130,319
Capital Ratios (Consolidated):	
Tier 1 leverage ratio	10.33%
Common Equity Tier 1 capital ratio	11.86%
Tier 1 risk-based capital ratio	13.34%
Total risk-based capital ratio	14.59%

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
3rd Quarter 2016	$ 13.82	$ 13.82	43,449	7	9.13	1.51	1.51
4th Quarter 2016	$ 14.16	$ 14.16	31,080	8	9.38	1.51	1.51
1st Quarter 2017	$ 14.25	$ 14.35	68,190	14	9.52	1.50	1.51
2nd Quarter 2017	$ 14.66	$ 14.66	9,778	5	9.70	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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MICHAEL J. CANON
Chairman - First Bancshares of Texas, Inc.
& General Counsel

KEN L. BURGESS, JR.
Chairman - FirstCapital Bank of Texas, N.A.

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Chief Executive Officer

JAY W. ISAACS
President

TRACY BACON
Chief Operating Officer

PHYLLIS BECHNER
Chief Financial Officer

J. GREG BURGESS
Chief Credit Officer

ELAINE LEE
Chief Compliance Officer

GEORGE H. REEVES
Chief Deposit & Technology Officer

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Market President, Midland

KATIE J. BOYD
Executive Vice President, Marketing & Training Manager

KENNETH TOMLINSON
Executive Vice President, Midland Lending Manager
& Senior Relationship Manager

JEREMY M. BISHOP
Branch President

BETHANY ETHEREDGE
Branch President

SHEA FERLAND
Senior Vice President & Team Resources Manager

BILL J. HILL
Senior Vice President & Trust Officer

CHRIS L. McGINNIS
Senior Vice President & IT Manager

RICK MITCHELL
Senior Vice President & Senior Relationship Manager

ROBIN RICHEY
Senior Vice President & Trust Administration

GRISELDA J. BUJANDA
Vice President & Loan Operations Manager

BLAKE SCOTT
Vice President, Accounting Department Manager
& Assistant Controller

LISA SHANKS
Vice President & Fraud Officer

CRYSTAL STURM
Vice President, Data Analytics & Project Manager
& Assistant Controller

MICHAEL J. CANON, JR.
Assistant Vice President & IT Specialist

LIZETT LEYVA
Assistant Vice President & Credit Administration Manager

SHERYL RYAN
Assistant Vice President & Information Security Officer

MARTA HERNANDEZ
Banking Officer & Branch Manager

SARAH JAMES
Banking Officer & Customer Experience Officer

KAMI LITTLE
Banking Officer & BSA Officer

MARY LOGAN
Banking Officer & Branch Manager

LESLIE MARISCAL
Banking Officer & Training Specialist II

EDGAR PAZ
Banking Officer & Loan Servicing Asst. I

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Market President, Amarillo

BRAD STUTEVILLE

Branch President

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BOWDEN JONES, JR.

Senior Vice President & Retail Banking Manager

LACIE McDOWELL

Senior Vice President & Treasury Management

RICKY RODRIGUEZ

Senior Vice President & Operations Officer

DONALD TAYLOR

Senior Vice President & Senior Relationship Manager

MURIELLE BARNES

Vice President & Mortgage Underwriter

CHRISTY CAMPBELL

Vice President & Branch Manager

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Vice President & Compliance Officer

ANITA K. FINK

Vice President & Assistant Operations Manager

TANYA SLUDER

Vice President, Assistant Credit Officer & CRA Officer

CARMELLA SMITH

Vice President & Wire Transfer Manager

MEREDITH STOVER

Vice President & Relationship Manager

DUSTIN DODGIN

Assistant Vice President & Credit Analyst Manager

JESSICA HUTCHENS

Assistant Vice President & Relationship Manager

NICK PHELPS

Assistant Vice President & IT Applications Analyst

BONNIE ALTMAN

Banking Officer & Mortgage Loan Originator

DELYNDA SELGER

Banking Officer & Wire Transfer Supervisor

BRITTANY TRUSTY

Banking Officer & Loan Review Analyst II

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TONY PENA

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Senior Vice President & Consumer Credit Underwriting Manager

DARRELL HILL

Senior Vice President & Senior Relationship Manager

TRAVIS HILLMAN

Senior Vice President & Senior Relationship Manager

CATHY COPPLE

Vice President & Loan Documentation Preparation Manager

RYAN HUNTER

Vice President & Relationship Manager

LISHA KING

Vice President & TellerConnect Manager

BARRETT POWER

Vice President & Branch Manager

YOLANDA BELGARA

Assistant Vice President & Consumer Credit Underwriter

BRADY GRAHAM

Banking Officer & Teller Supervisor

HORSESHOE BAY MARKET -

SCOTT STREIT

Market President, Horseshoe Bay

CALIB WILLIAMS

Vice President & Systems Administration Officer

CODY PETTY

Assistant Vice President & Branch Manager

TAMI RANDOLPH

Banking Officer & Mortgage Origination Manager

ADDISON MORTGAGE OPERATIONS OFFICE -

WILL WERU

Senior Vice President & Director of Mortgage Operations

KATIA JUAREZ

Vice President & Mortgage Operations Manager

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Physician

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Investments

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