FIRSTBANCSHARES
OF TEXAS, INC.

Third Quarter 2015 Shareholders' Report

Dear Shareholders

Over the last several months, many of us in the banking industry and others on fixed incomes have watched and waited for the Federal Reserve to make the first move to raise short term interest rates. It appears that we came very close at the September meeting, but some weak economic indicators were presented just before the Fed meeting and they decided to hold off. Now as we approach the final Fed meeting in December, it looks like all of the signs are pointing toward that first increase. Short term bond yields have already risen in the last few weeks as the 2 year Treasury has risen from less than .60% to about .84% today. My prediction is that we will see an increase of .25% when the Fed meets again in December and then we will be on hold for several months to see what impact is created by the increase.

Due to the continued low interest rate environment, we saw continued margin contraction during the first half of the year. However, loan growth has been strong and we have been able to put much of our low yielding cash to work over the last few months. This is serving to improve our net interest margins and thus our bottom line performance. Our net interest margin through the first 9 months of the year was 3.81% but we expect the margin in the 4th quarter of the year to exceed 4.0%. This will have a significant positive impact on the bottom line.

During the 3rd quarter, management and the Board decided to increase our loan loss reserves to recognize the fact that we are currently operating in a higher risk environment due to lower oil prices. Increasing the loan loss reserve entails making a non-cash charge to earnings. This charge served to reduce our earnings for the quarter. The charge was not based on any losses or any expected losses. It was simply a conservative action we took to recognize increased risk. Our asset quality continues to be very strong and we have experienced almost zero loan losses this year.

Due to lower interest margins for much of the year and the aforementioned charge to build loss reserves, our Return on Assets through the first 9 months was .68%. This is below the level we wish to achieve. Our goal is to be at or above 1.0%. I am happy to tell you that we expect Return on Assets to be close to .95% for the 4th quarter due to our increased loan volume and expense controls we have been implementing much of the year. This bodes well for 2016.

As we enter this holiday and family time of the year, we hope everything is well with you and your family.

Sincerely,

Ken L. Burgess, Jr.
CEO & President

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	September 30, (Unaudited) 2015	September 30, (Unaudited) 2014	December 31, (Audited) 2014
ASSETS			
Cash and due from banks	**$ 8,818**	$ 14,858	$ 10,993
Federal funds sold	**11,000**	14,021	4,821
Cash and cash equivalents	**19,818**	28,879	15,814
Interest bearing deposits in banks	**52,146**	118,154	150,930
Securities available for sale, at fair value	**24,841**	35,016	36,716
Securities held to maturity	**158,575**	75,780	74,620
Investment in First Bancshares of Texas Statutory Trust I	**93**	93	93
Investment in FirstCapital GP, LLC	**840**	840	839
Investments in partnerships	**1,138**	624	1,084
Restricted investment held at cost	**1,956**	1,794	1,842
Loans held for sale	**5,342**	3,470	1,570
Loans and leases receivable, net of allowance for loan and lease losses	**652,580**	552,001	569,199
Accrued interest receivable	**2,856**	2,573	3,041
Premises and equipment	**21,445**	20,794	21,366
Deferred tax asset, net	**3,222**	2,592	2,788
Foreclosed assets	**73**	-	-
Cash surrender value of life insurance	**8,106**	7,862	7,923
Prepaid FDIC assessment	**-**	-	-
Other assets	**1,202**	1,128	1,074
TOTAL ASSETS	**$ 954,233**	$ 851,600	$ 888,899
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-interest bearing deposits	**$ 235,464**	$ 241,038	$ 252,770
Interest bearing deposits	**583,482**	512,325	520,434
Total deposits	**818,946**	753,363	773,204
Accrued expenses and other liabilities	**2,368**	2,120	2,182
Securities sold under agreement to repurchase	**39,108**	10,343	24,776
Subordinated debentures	**3,093**	3,093	3,093
Other borrowed funds	**1,125**	-	1,159
Total liabilities	**864,640**	768,919	804,414
SHAREHOLDERS' EQUITY			
Common stock	**9,466**	9,450	9,450
Preferred stock	**937**	937	937
Treasury stock, at cost	**-**	(15)	(16)
Surplus			
Common	**32,016**	31,749	31,774
Preferred	**8,400**	8,400	8,400
Capital Surplus	**40,416**	40,149	40,174
Retained earnings	**38,284**	31,890	33,639
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**490**	270	301
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-	-
Total shareholders' equity	**89,593**	82,681	84,485
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 954,233**	$ 851,600	$ 888,899

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Nine Months Ended September

(Dollar amounts in thousands)

	(Unaudited)	(Unaudited)
	2015	2014
Interest Income:		
Loans and leases, including fees	**$ 24,943**	$ 21,154
Debt Securities		
Taxable	**2,250**	1,739
Tax exempt	**851**	902
Federal funds sold	**25**	19
Deposits with banks	**584**	662
Other interest	**97**	73
TOTAL INTEREST INCOME	**28,750**	24,549
Interest Expense:		
Deposits	**2,340**	2,159
Other borrowed money	**280**	29
Subordinated debentures	**73**	72
TOTAL INTEREST EXPENSE	**2,693**	2,260
Net Interest Income (Loss)	**26,057**	22,289
Provision for loan and lease losses	**2,105**	920
Net Interest Income (Loss) After Provision	**23,952**	21,369
Non-Interest Income:		
Trust department income	**283**	345
Service charges on deposit accounts	**554**	487
Other service charges and fees	**627**	544
Net realized gain (loss) on sales of securities	**403**	-
Appreciation in cash surrender value of life insurance	**184**	179
Gain/Loss on sale of loans	**1,083**	1,722
Gain/Loss on sale of other real estate	**-**	-
Gain/Loss on sale of other assets	**7**	3
TOTAL NON-INTEREST INCOME	**3,141**	3,280
Non-Interest Expenses:		
Salaries and employee benefits	**11,892**	10,649
Occupancy and equipment expense	**3,127**	2,464
Advertising	**373**	224
Community and philanthropic support	**174**	169
IT and data processing expense	**606**	541
Legal, professional, accounting, and exam fees	**978**	954
FDIC assessment	**407**	359
Reduction in value of foreclosed assets	**-**	-
Other expenses	**2,458**	2,487
TOTAL NON-INTEREST EXPENSES	**20,015**	17,847
Income Before Income Taxes	**7,078**	6,802
Income tax expense	**2,153**	2,064
NET INCOME	**$ 4,925**	$ 4,738

FIRST BANCSHARES OF TEXAS, INC.

THIRD QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary

For the Nine Months Ended September 30	2015	2014
Interest Income	$ 28,750	$ 24,549
Interest Expense	2,693	2,260
Provision for loan losses	2,105	920
Net Income	4,925	4,738

Performance Ratios (annualized)

For the Nine Months Ended September 30	2015	2014
Return on Average Assets	0.68%	0.76%
Return on Common Shareholders' Average Equity	8.44%	8.90%
Net Interest Margin	3.81%	3.84%

Period-End Data

As of September 30	2015	2014
Total Assets	$ 954,233	$ 851,600
Average Assets	969,767	832,863
Investments*	239,589	232,301
Loans, net	657,922	555,471
Deposits	818,946	753,363
Shareholders' Equity		
Common	80,256	73,344
Preferred	9,337	9,337

Per Share Data

For the Nine Months Ended September 30	2015	2014
Net Income	$ 0.49	$ 0.46
Book Value	$ 8.47	$ 7.75
Number of Shareholders		
Common	495	492
Preferred	86	86

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

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED YIELD ANALYSIS

(Dollar amounts in thousands)

	September 30,					
	(Unaudited)			(Unaudited)		
	2015			2014		
	Avg. Balance	*Interest Inc./Exp.*	*Yield/Cost*	*Avg. Balance*	*Interest Inc./Exp.*	*Yield/Cost*
ASSETS						
Interest-bearing deposits	$ 129,832	$ 583	0.60%	$ 176,037	$ 662	0.50%
Federal funds sold and resell agreements	11,187	25	0.30%	8,190	19	0.30%
Securities:						
Taxable	132,651	2,250	2.26%	71,488	1,739	3.24%
Tax-exempt	40,304	851	2.82%	41,600	902	2.89%
Total securities	172,955	3,101	2.39%	113,088	2,641	3.11%
Restricted investments held at cost	3,044	97	4.28%	2,350	73	4.15%
Loans, net of unearned discount	612,116	24,943	5.45%	492,207	21,154	5.75%
Total earning assets and average rate earned	929,135	28,750	4.14%	791,872	24,549	4.14%
Cash and due from banks	10,796			12,415		
Investments in subsidiaries	932			953		
Premises and equipment, net	21,852			20,384		
Accrued interest receivable and other assets	7,052			7,240		
Total assets	**$ 969,767**			$ 832,863		
LIABILITIES						
Interest-bearing deposits:						
NOW & MMA	$ 183,691	$ 289	0.21%	$ 168,203	$ 224	0.18%
Savings	47,102	111	0.32%	35,961	87	0.32%
COD	347,144	1,940	0.75%	296,468	1,848	0.83%
Total interest-bearing deposits	577,936	2,340	0.54%	500,632	2,159	0.58%
Non-interest bearing demand deposits	241,565			235,904		
Total deposits	819,501	2,340		736,536	2,159	
Securities sold under agreement to repurchase	56,379	263	0.62%	10,822	29	0.36%
Other borrowed funds	1,143	17	2.04%	-	-	0.00%
Subordindated debentures	3,093	73	3.16%	3,093	72	3.13%
Total interest-bearing liabilities and average rate paid	638,551	2,693	0.56%	514,546	2,260	0.59%
Accrued expenses and other liabilities	2,287			1,930		
Total liabilities	882,403			752,381		
Shareholders' equity	87,364			80,483		
Total liabilities and shareholders' equity	**$ 969,767**			$ 832,863		
Net interest income		$ 26,057			$ 22,289	
Net interest spread			3.57%			3.56%
Net interest margin			3.81%			3.84%

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 September 30, 2015, troubled debt restructurings totaled $2.9 million, with $50 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.

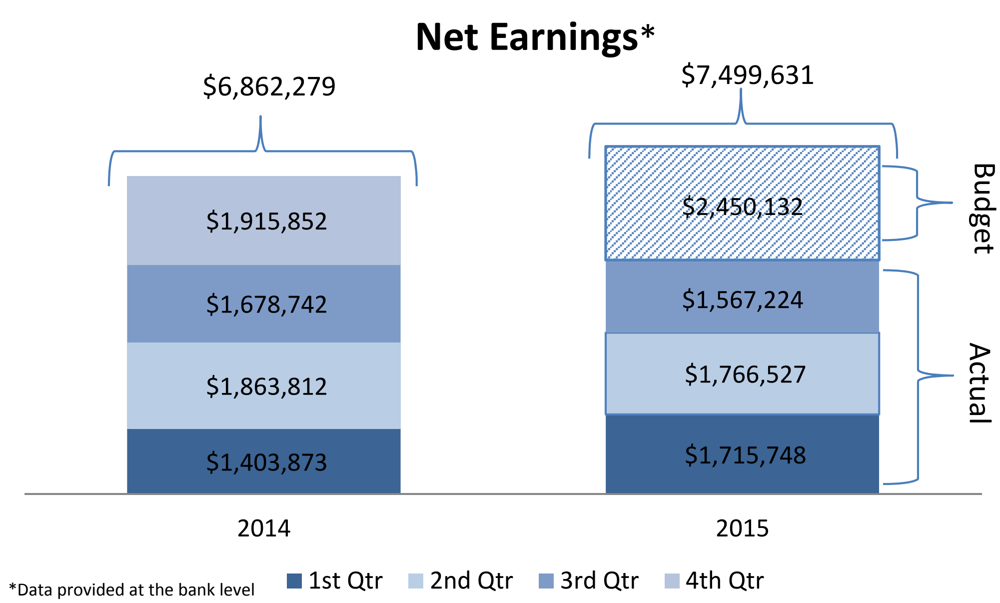
If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

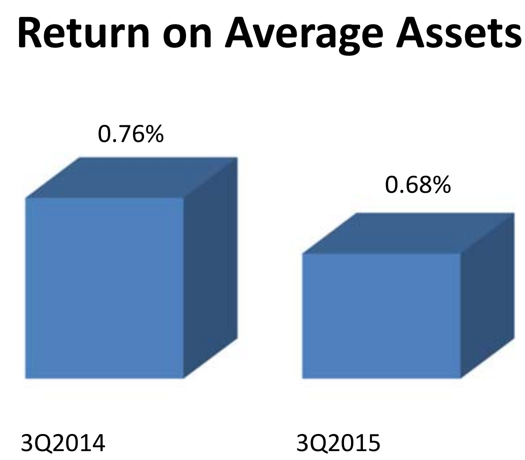
The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing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

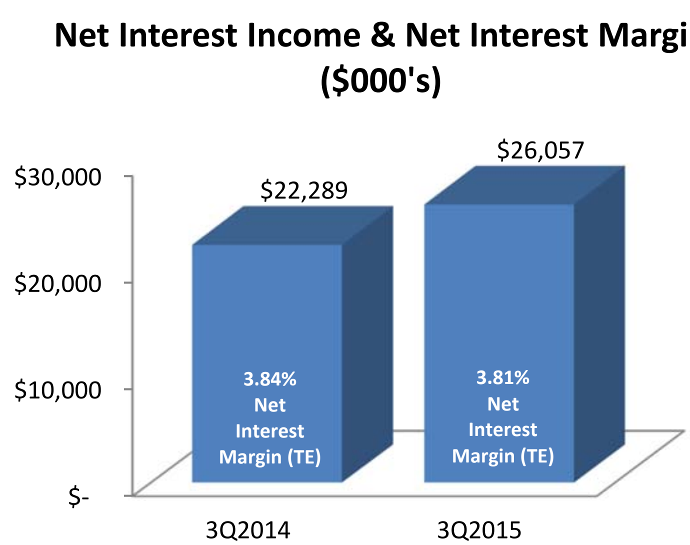
We ended the third quarter with net earnings at the consolidated level of $4.9 million, an increase of $187 thousand compared to the third quarter in 2014. Return on average assets at the consolidated level as of September 30, 2015 and 2014 was .68% and .76%, respectively. The return on common shareholder's average equity for the same period was 8.44% and 8.90%. On a basic net earnings per share basis at the holding company level, net earnings were $0.49 as of September 30, 2015 compared to $0.46 for September 30, 2014.





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 $26 million for the nine months ended September 30, 2015 compared to $22.3 million for the same period in 2014. Our net interest margin at September 30, 2015 was 3.81%, which was lower compared to 3.84% for the same period in 2014. 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 period ended September 30, 2015 was $3.1 million, a decrease of $139 thousand or 4.24% over the same period in 2014. The following schedule shows each of the major components of non-interest income for the periods ended September 30, 2015 as compared to September 30, 2014.

Non-Interest Income	For the periods ended September 30		Incr./	%
	2015	2014	(Decr.)	Change
Trust department income	$283,417	$344,544	($61,127)	(17.74)%
Service charges on deposit accounts	553,463	486,630	66,833	13.73 %
Other service charges and fees	626,471	545,004	81,468	14.95 %
Appreciation in cash surrender value of life insurance	183,716	178,794	4,922	2.75 %
Gain/(Loss) on sale of securities	403,953	-	403,953	0.00 %
Gain/(Loss) on sale of loans	1,083,217	1,721,799	(638,582)	(37.09)%
Gain/(Loss) on sale of other real estate	-	-	-	0.00 %
Gain/(Loss) on sale of other assets	6,843	3,493	3,350	95.90 %
Total Non-Interest Income	$3,141,080	$3,280,264	($139,183)	(4.24)%

Trust department income for the period ended September 30, 2015 was $283 thousand. This was a $61 thousand decrease from the same period in 2014. Many of the Trust client accounts hold oil and gas assets, thus receiving income from these assets. The Trust department budgeted for the decline in revenue as a result of the downturn in the oil and gas industry; however, the oil and gas revenues have been lower than anticipated, resulting in the decline in income. Assets managed by the trust department totaled $47.7 million as of September 30, 2015.

Service charges on deposit accounts increased by $67 thousand or 13.73% period over period. Although there are strict regulatory restrictions on overdrafts and debit card products, the company has experienced growth in this category due to a restructure of our deposit products in late 2014.

Other service charges and fees increased by $81 thousand or 14.95%. This is mostly attributable to debit card interchange fees and fees collected from customers associated with the cost of doing business.

The company recorded a gains of $361 thousand in the first quarter and $43 thousand in the third quarter of 2015 on the sale of investment securities.

Mortgage fee income (net of related processing costs) decreased from $1.7 million to $1.1 million, a decrease of $639 thousand or 37.09% from September 30, 2014 compared to September 30, 2015. There was a restructure of the mortgage department that occurred in the second and third quarters of 2014 that contributed to this decline. However, due to some staffing changes and the addition of our location in Horseshoe Bay, we expect to see improvement in this area.

Gains on the sale of other assets as of September 30, 2015 totaled $7 thousand. This was attributable to a gain recognized on the sale of a bank-owned vehicle in the first quarter of $11 thousand and a loss of $6 thousand on the sale of a repossessed asset in the second quarter. Also, the bank recognized a $2 thousand gain on the sale of equipment in the second quarter.

Non-Interest Expense:

Non-interest expense for the period ended September 30, 2015 was $20 million as compared to $17.8 million for the period ended September 30, 2014. This represents an increase of $2.2 million or 12.15%. The increase is primarily the result of our fast growth and the need to provide staffing and systems to support the growth.

Non-Interest Expense	For the periods ended September 30		Incr./	%
	2015	2014	(Decr.)	Change
Salaries & employee benefits	11,892,036	$10,650,263	$1,241,773	11.66 %
Occupancy & equipment expense	3,126,816	2,463,831	662,985	26.91 %
Advertising	373,080	224,491	148,589	66.19 %
Community and philanthropic support	173,500	168,477	5,023	2.98 %
IT & data processing	606,160	540,669	65,491	12.11 %
Legal, professional, accounting, and exam fees	977,506	953,578	23,928	2.51 %
FDIC assessments	407,250	358,890	48,360	13.47 %
Other expense	2,458,655	2,486,903	(28,248)	(1.14)%
Total Non-Interest Expense	$20,015,002	$17,847,102	$2,167,901	12.15 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $1.2 million for the period ended September 30, 2015 as compared to September 30, 2014 and represented an increase of 11.66%. As mentioned above, with the growth the Company has experienced year over year, the need to provide additional staffing and systems has become a priority. Benefits costs have continued to increase as well.

The increase in occupancy and equipment of $663 thousand was mostly related to the purchases of furniture, equipment, and software. The Bank also purchased a new building in Horseshoe Bay, Texas and will implement a full-service branch in early 2016. Also, various remodel projects in Midland have contributed to an increase in these costs. Furniture purchases are generally depreciated over seven years while equipment and software are generally amortized over a three year period.

Advertising costs increased $149 thousand or 66.19% from September 30, 2014 compared to September 30, 2015. This increase is attributable to the costs associated with the Company's rebranding initiative.

IT and data processing expenses increased $65 thousand period over period. Most of this increase relates to growth in the bank's number of deposit and loan accounts. We contract with a major national core processing vendor to provide our data processing services and their pricing primarily relates to transaction volume and account volume.

Legal, professional, accounting, and exam fees increased $24 thousand from the period ended September 30, 2015 compared to September 30, 2014. Consulting and professional fees decreased by $77 thousand. This decrease is attributable to a reduction in costs associated with a recruiting engagement in 2014 and a decrease in fees associated with human resources and administration. OCC assessment expenses increased by $24 thousand period over period. The OCC assessments are based on the call report data asset size as of December and June of each year. Audit expenses increased $88 thousand which is primarily attributable to growth and increased regulation. Legal fees decreased by $11 thousand period over period.

The Bank experienced an increase in FDIC assessments, or deposit insurance costs. The cost as of September 30, 2014 was $359 thousand and for the same time period in 2015 increased to $407 thousand. This was an increase of 13.47%. The FDIC assessment is based on the difference between average assets and average equity each calendar quarter-end period at the bank level. Total assets at the bank level increased $104 million from period to period which resulted in increased assessment costs.

All other expenses decreased by $28 thousand or 1.14% 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 September 30, 2015, the Company had total net loans outstanding of $657.9 million as compared to $555.5 million for the same period in 2014, resulting in growth of $102.5 million or 18.44%.

Composition of Loans ($ in 000's)	September 30 2015	September 30 2014	Incr./ (Decr.)	% change
Real estate loans (held for investment)	$452,086,734	$356,537,226	$95,549,507	26.80 %
Real estate loans (held for sale)	5,342,296	3,470,295	1,872,001	53.94 %
Loans to governmental entities	223,873	444,475	(220,602)	(49.63)%
Commercial & industrial loans	178,637,233	155,750,796	22,886,437	14.69 %
Consumer loans	8,091,571	7,862,887	228,684	2.91 %
Other loans	22,874,638	38,419,671	(15,545,034)	(40.46)%
Total Loans before loan loss reserve	$667,256,345	$562,485,350	$104,770,994	18.63 %
Less: Loan loss reserve	(9,334,189)	(7,013,513)	(2,320,676)	33.09 %
Total Loans	$657,922,156	$555,471,837	$102,450,318	18.44 %

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 $356.5 million at September 30, 2014 to $452.1 million as of September 30, 2015, an increase of $95.5 million or 26.8%.

Real estate loans held for sale represent loans originated for the purpose of purchasing or refinancing one-to-four family residential properties. These loans are originated by the bank with the intent to sell to secondary market investors. The loans are generally sold within 30 days after origination. Real estate loans held for sale increased by $1.9 million or 53.94% from September 30, 2014 to September 30, 2015.

Loans to governmental entities decreased by $221 thousand period over period. Loans in this category generally produce tax free income much like a municipal bond.

Commercial & industrial loans increased from $155.8 million at September 30, 2014 to $178.6 million at September 30, 2015, an increase of $22.9 million or 14.69%. 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 $229 thousand or 2.91% from September 30, 2014 to September 30, 2015. 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 $15.5 million from September 30, 2014 to September 30, 2015. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions.

Asset Quality:

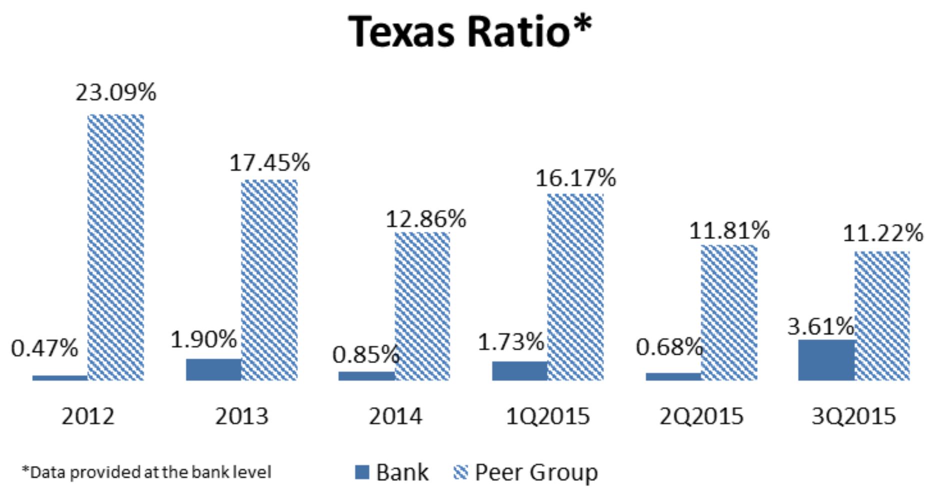
The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. The provision for loan loss expense was $2.1 million for the period ended September 30, 2015 as compared to $920 thousand for same period in 2014. 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. This ratio was 1.40% as of September 30, 2015, as compared to 1.25% as of September 30, 2014. As a percent of average loans, net loan charge-offs were .04% for the nine months ended in 2015 and .02% for the same period in 2014. Comparatively, the peer group averages for the same periods were 0.09% and 0.16%, respectively.

As of September 30, 2015, past due loans over 90 days as a percentage of total loans were 0.00%, the same can be said for the same period in 2014.

Loans placed on non-accrual status as a percentage of total loans were 0.08% as of September 30, 2015 compared to 0.06% at September 30, 2014. Our peer group for the same time period was 0.85% and 1.06%, 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 September 30, 2015, the Banks's Texas Ratio was 3.61% as compared to the peer group of 11.22%. For the same period in 2014, the Company had a Texas Ratio of 1.03% as compared to its peer group of 13.81%.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $52.1 million as of September 30, 2015, as compared to $118 million as of September 30, 2014. The average yield on these balances were 0.60% for the period in 2015 as compared to 0.50% for the same period in 2014. This decrease is attributable to a large portion of this money being used to fund a high volume of investment purchases during the first and second quarters of 2015. These balances were held with various regional banks located within the state of Texas. Management evaluates the financial strength of each bank it holds balances with on a quarterly basis to assure the safety of the investment in each bank.

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

At September 30, 2015, available-for-sale securities had a fair value of $24.8 million and held-to-maturity securities had an amortized cost of $158.6 million. As of September 30, 2015, the portion of the securities portfolio classified as available-for-sale had a market gain of approximately $742 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market gain of $1.3 million. The Company did not hold any securities as of September 30, 2015 or 2014 that would be classified as below investment grade or with any impairment.

As of September 30, 2015, the tax-equivalent yield to maturity on the portion of the securities portfolio classified as available-for-sale was 4.44%. The tax-equivalent yield to maturity on that portion of the portfolio classified as held-to-maturity was 2.57%.

Our overall tax-equivalent yield to maturity on our portfolio at September 30, 2015 was 2.82%. Comparatively, as of September 30, 2014, the tax-equivalent yield to maturity on the portion of the securities portfolio classified as available-for-sale was 4.50%. The tax-equivalent yield to maturity on that portion of the portfolio classified as held-to-maturity was 3.41%. The overall tax-equivalent yield to maturity on our portfolio at September 30, 2014 was 3.75%.

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 $818.9 million as of September 30, 2015 compared to $753.4 million as of the same period in 2014, an increase of $65.6 million or 8.71%. The growth was mostly attributed to increases in money market and savings deposits and certificates of deposits of greater than or equal to $100 thousand.

Composition of Deposits ($ in 000's)	September 30 2015	September 30 2014	Incr./ (Decr.)	% change
Non-interest bearing demand	$235,463,888	$241,037,104	($5,573,216)	(2.31)%
Interest-bearing demand	58,977,276	55,613,518	3,363,758	6.05 %
Money market and savings	168,251,931	158,366,658	9,885,274	6.24 %
Certificates of deposits ≥ $100,000	316,084,692	262,326,900	53,757,792	20.49 %
Certificates of deposits < $100,000	40,168,283	36,018,928	4,149,355	11.52 %
Total Deposits	$818,946,070	$753,363,107	$65,582,963	8.71 %

The average cost of interest-bearing deposits as of September 30, 2015 was .40% which compares to .41% for the same period in 2014. Our peer group's ratios for the same period end were .48% and .51%, respectively.

Capital Resources:

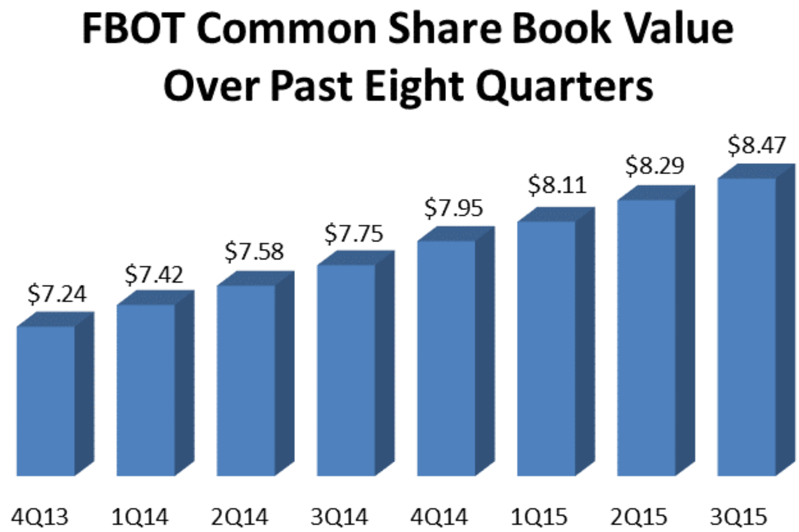
We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant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

(000's)	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
September 30, 2015						
Total Capital to Risk-Weighted Assets						
Consolidated	$ 101,522	13.48 %	$ 60,266	8.00 %	$ 75,332	10.00 %
FirstCapital Bank of Texas, N.A.	96,882	12.88	60,160	8.00	75,200	10.00
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	92,103	12.23	45,199	6.00	60,266	8.00
FirstCapital Bank of Texas, N.A.	87,480	11.63	45,120	6.00	60,160	8.00
Common Equity Tier 1						
Consolidated	79,766	10.59	33,899	4.50	48,966	6.50
FirstCapital Bank of Texas, N.A.	87,480	11.63	33,840	4.50	48,880	6.50
Leverage Ratio						
Consolidated	92,103	9.49	38,839	4.00	48,549	5.00
FirstCapital Bank of Texas, N.A.	87,480	9.04	38,724	4.00	48,405	5.00
September 30, 2014						
Total Capital to Risk-Weighted Assets						
Consolidated	92,708	14.52	51,083	8.00	63,853	10.00
FirstCapital Bank of Texas, N.A.	84,812	13.32	50,922	8.00	63,653	10.00
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	85,411	13.38	25,541	4.00	38,312	6.00
FirstCapital Bank of Texas, N.A.	77,515	12.18	25,461	4.00	38,192	6.00
Leverage Ratio						
Consolidated	85,411	10.00	34,148	4.00	42,685	5.00
FirstCapital Bank of Texas, N.A.	77,515	9.09	34,107	4.00	42,633	5.00

The Company and its bank subsidiary as of September 30, 2015, were “well capitalized” based on the ratios presented in the table above. Both the Company and its bank subsidiary are subject to regulatory capital requirements administered by the Federal Reserve and the Federal Deposit Insurance Corporation (“FDIC”). If we fail to meet the minimum capital requirements, regulatory agencies can initiate certain actions which could have a material effect on the financial statements. We believe by all measurements our capital ratios remain well above regulatory minimums.

Regulatory capital calculations set forth by the Federal Reserve allows the $3 million in trust preferred securities to be included in Tier 1 capital of First Bancshares of Texas, Inc. Also included in this figure is Non-Cumulative Perpetual Preferred Stock with a par value of $1.00 with 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of September 30, 2015.

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 September 30, 2015.

		At September 30, 2015
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, 9,465,866 shares issued, 9,465,866 shares outstanding as of September 30, 2015	$	9,465,866
Preferred stock, par value $1.00 per share, 5,000,000 shares authorized, 937,044 Series 2009 shares issued and outstanding as of September 30, 2015		937,044
Surplus		
Common		32,015,754
Preferred		8,399,979
Surplus		40,415,733
Treasury stock		-
Retained earnings		38,283,669
Accumulated other comprehensive income		489,594
Total shareholders' equity	$	89,591,906
Capital Ratios (Consolidated):		
Tier 1 leverage ratio		9.49%
Common Equity Tier 1 capital ratio		10.59%
Tier 1 risk-based capital ratio		12.23%
Total risk-based capital ratio		13.48%

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

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.

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Chairman - FirstCapital Bank of Texas, N.A.

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JAY W. ISAACS
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& Senior Relationship Manager

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Senior Vice President & Trust Officer

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TOBY D. PAYNE
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Assistant Vice President, Data Analytics & Project Manager

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Assistant Vice President & Branch Manager

CALIB WILLIAMS
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Banking Officer, Marketing & Corporate Communication

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KAMI LITTLE
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CODY PETTY
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BLAKE SCOTT
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Banking Officer & Mortgage Loan Officer

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TONY PENA

President, Lubbock Market

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Executive Vice President & Mortgage Division Manager

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Senior Vice President & Senior Relationship Manager

TRAVIS HILLMAN

Senior Vice President & Senior Relationship Manager

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CATHY COPPLE

Assistant Vice President & Loan Documentation Preparation Department Manager

OLGA AGUNDIZ

Banking Officer & Compliance Specialist

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Banking Officer & Mortgage Loan Officer

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