FIRSTBANCSHARES
OF TEXAS, INC.

Fourth Quarter 2016 Shareholders' Report

Dear Shareholders

I am excited to announce a year of record earnings for First Bancshares. We ended the year with earnings of $8.67 million up from $7.16 million in 2015. This represented an increase of 21.1%. The increased earnings came despite the continued weak economic climate in our Midland market due to low oil prices. We are seeing oil prices begin to firm and this is having a positive impact for many of our customers. If we continue to see oil prices remain in the mid 50's, we will see continued improvement in the Midland economy.

Total assets for the company ended the year at $957.8 million. This was down slightly from $961.2 million at year end 2015. The weak economy in Midland resulted in reduced deposit growth during the year, but as mentioned above, with improved oil prices we are now seeing signs of renewed growth. As of the time of this writing, the Company's total assets sit at $1.007 billion.

The billion dollar threshold brings with it increased regulatory and audit costs. It makes sense for us to move past this threshold quickly to improve efficiency. The board has decided to pursue an acquisition to improve economies of scale. We are working on an offering document in an effort to raise approximately $20 million in new equity to support this acquisition strategy. You will be seeing more from us in the near future regarding this offering.

Our entry into the Horseshoe Bay market is going very well. We opened our doors on September 29th of last year and already have deposits in excess of $17 million and loans in excess of $15 million. We are very happy with this amount of growth in the short period of time we have been open.

You will find attached to this letter a complete analysis of last year's performance. Please review it and give us a call with any questions you may have. We hope to see you at the annual shareholders meeting in April.

Sincerely,

Ken L. Burgess, Jr.
CEO & President

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	December 31,	
	(Unaudited)	(Audited)
	2016	2015
ASSETS		
Cash and due from banks	**$ 12,014**	$ 10,541
Federal funds sold	**10,000**	3,514
Cash and cash equivalents	**22,014**	14,055
Interest bearing deposits in banks	**72,057**	48,828
Securities available for sale, at fair value	**21,658**	24,204
Securities held to maturity	**117,040**	147,049
Investment in First Bancshares of Texas Statutory Trust I	**93**	93
Investment in FirstCapital GP, LLC	**801**	846
Investments in partnerships	**1,628**	1,343
Restricted investment held at cost	**2,195**	1,957
Loans held for sale	**791**	4,382
Loans and leases receivable, net of allowance for loan and lease losses	**680,802**	680,975
Accrued interest receivable	**3,419**	3,491
Premises and equipment	**21,567**	21,320
Deferred tax asset, net	**4,307**	3,430
Foreclosed assets	**33**	-
Cash surrender value of life insurance	**8,419**	8,169
Prepaid FDIC assessment	**-**	-
Other assets	**1,011**	1,089
TOTAL ASSETS	**$ 957,835**	$ 961,231
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-interest bearing deposits	**$ 257,067**	$ 244,784
Interest bearing deposits	**562,877**	575,138
Total deposits	**819,944**	819,922
Accrued expenses and other liabilities	**3,783**	2,561
Securities sold under agreement to repurchase	**26,348**	42,902
Subordinated debentures	**3,093**	3,093
Other borrowed funds	**5,125**	1,113
Total liabilities	**858,293**	869,591
SHAREHOLDERS' EQUITY		
Common stock	**9,530**	9,477
Preferred stock	**883**	937
Treasury stock, at cost	**-**	-
Surplus		
Common	**32,592**	32,117
Preferred	**7,909**	8,400
Capital Surplus	**40,501**	40,517
Retained earnings	**48,368**	40,235
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**260**	474
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-
Total shareholders' equity	**99,542**	91,640
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 957,835**	$ 961,231

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31

(Dollar amounts in thousands)

	(Unaudited)	(Audited)
	2016	2015
Interest Income:		
Loans and leases, including fees	**$ 37,277**	$ 34,053
Debt Securities		
Taxable	**2,617**	3,021
Tax exempt	**1,251**	1,166
Federal funds sold	**43**	33
Deposits with banks	**647**	680
Other interest	**328**	127
TOTAL INTEREST INCOME	**42,163**	39,080
Interest Expense:		
Deposits	**2,847**	3,077
Other borrowed money	**440**	351
Subordinated debentures	**112**	98
TOTAL INTEREST EXPENSE	**3,399**	3,526
Net Interest Income (Loss)	**38,764**	35,554
Provision for loan and lease losses	**2,548**	2,395
Net Interest Income (Loss) After Provision	**36,216**	33,159
Non-Interest Income:		
Trust department income	**392**	374
Service charges on deposit accounts	**1,096**	768
Other service charges and fees	**748**	867
Net realized gain (loss) on sales of securities	**-**	367
Appreciation in cash surrender value of life insurance	**250**	246
Gain/Loss on sale of loans	**1,280**	1,411
Gain/Loss on sale of foreclosed assets	**-**	-
Gain/Loss on sale of fixed assets	**10**	11
TOTAL NON-INTEREST INCOME	**3,776**	4,044
Non-Interest Expenses:		
Salaries and employee benefits	**16,420**	15,861
Occupancy and equipment expense	**4,130**	4,287
Advertising	**536**	542
Community and philanthropic support	**252**	211
IT and data processing expense	**927**	825
Legal, professional, accounting, and exam fees	**1,166**	1,263
FDIC assessment	**502**	548
Reduction in value of foreclosed assets	**-**	5
Other expenses	**3,369**	3,338
TOTAL NON-INTEREST EXPENSES	**27,302**	26,880
Income Before Income Taxes	**12,690**	10,323
Income tax expense	**4,020**	3,165
NET INCOME	**$ 8,670**	$ 7,158

FIRST BANCSHARES OF TEXAS, INC.

FOURTH QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary

For the Year Ended December 31		2016		2015
Interest Income	$	42,163	$	39,080
Interest Expense		3,399		3,526
Provision for loan losses		2,548		2,395
Net Income		8,670		7,158

Performance Ratios (annualized)

For the Year Ended December 31	2016	2015
Return on Average Assets	0.88%	0.74%
Return on Common Shareholders' Average Equity	9.32%	8.35%
Net Interest Margin	4.19%	3.88%

Period-End Data

As of December 31		2016		2015
Total Assets	$	957,835	$	961,231
Average Assets		980,763		971,740
Investments*		215,472		224,320
Loans, net		681,593		685,357
Deposits		819,944		819,922
Shareholders' Equity				
Common		90,750		82,303
Preferred		8,792		9,337

Per Share Data

For the Year Ended December 31		2016		2015
Net Income	$	0.86	$	0.70
Book Value	$	9.52	$	8.70
Number of Shareholders				
Common		510		495
Preferred		83		86

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

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED YIELD ANALYSIS

(Dollar amounts in thousands)

	December 31,					
	(Unaudited)			(Unaudited)		
	2016			2015		
	Avg. Balance	*Interest Inc./Exp.*	*Yield/Cost*	*Avg. Balance*	*Interest Inc./Exp.*	*Yield/Cost*
ASSETS						
Interest-bearing deposits	$ 77,336	$ 647	0.84%	$ 113,262	$ 678	0.60%
Federal funds sold and resell agreements	7,522	43	0.57%	10,615	33	0.31%
Securities:						
Taxable	112,402	2,617	2.33%	133,725	3,021	2.26%
Tax-exempt	44,911	1,251	2.79%	41,550	1,166	2.81%
Total securities	157,314	3,868	2.46%	175,275	4,187	2.39%
Restricted investments held at cost	3,668	328	8.93%	3,090	127	4.12%
Loans, net of unearned discount	695,540	37,277	5.36%	629,048	34,052	5.41%
Total earning assets and average rate earned	941,380	42,163	4.48%	931,290	39,077	4.20%
Cash and due from banks	11,452			10,891		
Investments in subsidiaries	918			932		
Premises and equipment, net	21,622			21,744		
Accrued interest receivable and other assets	5,391			6,883		
Total assets	**$ 980,763**			$ 971,740		
LIABILITIES						
Interest-bearing deposits:						
NOW & MMA	$ 226,393	$ 487	0.22%	$ 185,012	$ 386	0.21%
Savings	46,446	121	0.26%	48,001	145	0.30%
COD	307,280	2,239	0.73%	348,231	2,546	0.73%
Total interest-bearing deposits	580,119	2,847	0.49%	581,244	3,078	0.53%
Non-interest bearing demand deposits	237,464			241,954		
Total deposits	817,583	2,847		823,197	3,078	
Securities sold under agreement to repurchase	56,215	370	0.66%	53,549	328	0.61%
Other borrowed funds	4,073	70	1.72%	1,136	23	2.04%
Subordindated debentures	3,093	112	3.61%	3,093	98	3.18%
Total interest-bearing liabilities and average rate paid	643,500	3,399	0.53%	639,022	3,527	0.55%
Accrued expenses and other liabilities	3,348			2,467		
Total liabilities	884,312			883,443		
Shareholders' equity	96,451			88,298		
Total liabilities and shareholders' equity	**$ 980,763**			$ 971,740		
Net interest income		$ 38,764			$ 35,550	
Net interest spread			3.95%			3.64%
Net interest margin			4.19%			3.88%

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

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

Introduction

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

Critical Accounting Policies

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

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

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

Allowance for Loan Losses:

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

The allowance is an amount management believes is appropriate to absorb estimated inherent losses on existing loans that are deemed uncollectible based upon management's review and evaluation of the loan portfolio. The allowance for loan losses is comprised of three elements: (i) specific reserves determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans; (ii) general reserves determined in accordance with current authoritative accounting guidance that consider historical loss rates; and (iii) qualitative reserves determined in accordance with current authoritative accounting guidance based upon general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company's historical loss rate. The Company's methodology is constructed so that specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase in risk of loss. In addition, the Company adjusts our allowance for qualitative factors such as current local economic conditions and trends, including unemployment, lending staff, policies and procedures, credit concentrations, trends and severity of problem loans and trends in volume and terms of loans. This additional allocation based on qualitative factors serves to compensate for additional areas of uncertainty inherent in our portfolio that are not reflected in our historic loss factors.

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

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

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

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

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of December 31, 2016, troubled debt restructurings totaled $13.9 million with $88 thousand of the total also being classified as non-accrual.

Valuation of Securities:

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

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

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

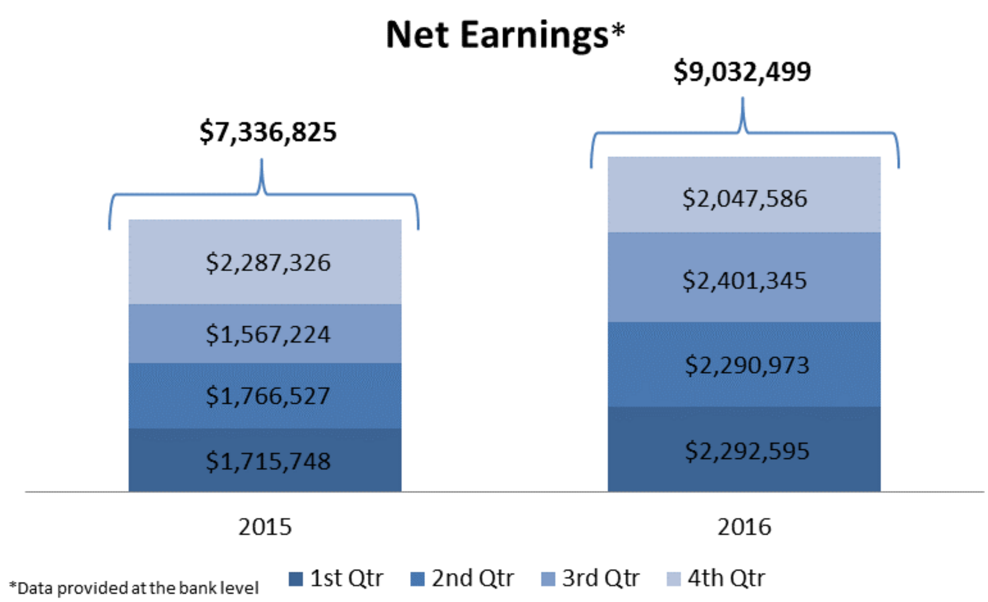
If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

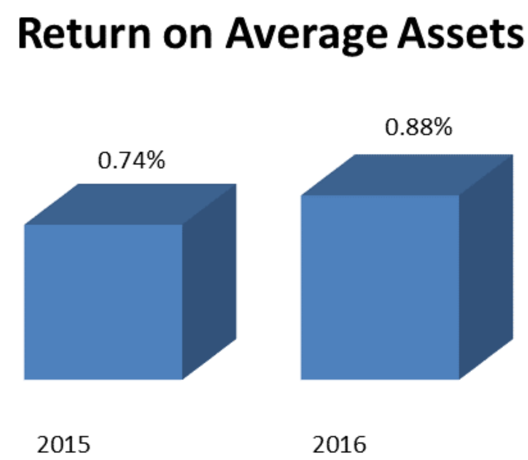
The Company utilizes independent third party pricing services to value its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing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

Results of Operations

Performance Summary:

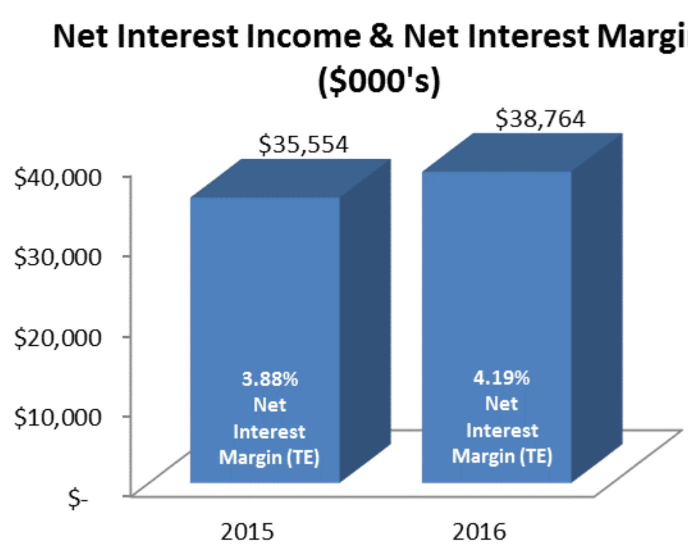
We ended the year with net earnings at the consolidated level of $8.7 million, an increase of approximately $1.5 million compared to year-end earnings in 2015. Return on average assets at the consolidated level as of December 31, 2016 and 2015 was .88% and .74%, respectively. The return on common shareholder's average equity for the same period was 9.32% and 8.35%. On a basic net earnings per share basis at the holding company level, net earnings were $0.86 as of December 31, 2016 compared to $0.70 for December 31, 2015.





Net Interest Income:

Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of non-interest bearing and interest-bearing deposits. Net interest income was $38.8 million for the year ended December 31, 2016 compared to $35.6 million for the same period in 2015. This increase in net interest income period over period is primarily attributable to our loan interest income. Loan interest income increased from $34.1 million as of December 31, 2015 to $37.3 million as of December 31, 2016. Our year-to-date net interest margin at December 31, 2016 was 4.19%, which was higher compared to 3.88% for the same period in 2015. Net interest margin is calculated by dividing the Company's net interest income by average earning assets for the period.



Non-Interest Income:

Non-interest income for the year ended December 31, 2016 was $3.8 million, a decrease of $266 thousand or 6.57% over the same period in 2015. The following schedule shows each of the major components of year-to-date non-interest income for the periods ended December 31, 2016 as compared to December 31, 2015.

Non-Interest Income	Year-to-Date December 31		Incr./	%
	2016	2015	(Decr.)	Change
Trust department income	$392,107	$373,672	$18,434	4.93 %
Service charges on deposit accounts	1,096,199	768,025	328,174	42.73 %
Other service charges and fees	747,731	832,687	(84,956)	(10.20)%
Appreciation in cash surrender value of life insurance	250,309	246,184	4,124	1.68 %
Gain/(Loss) on sale of securities	-	402,953	(402,953)	0.00 %
Gain/(Loss) on sale of loans	1,279,503	1,411,474	(131,971)	(9.35)%
Gain/(Loss) on sale of other real estate	-	-	-	0.00 %
Gain/(Loss) on sale of other assets	9,801	6,249	3,552	56.85 %
Total Non-Interest Income	$3,775,650	$4,041,244	($265,594)	(6.57)%

Trust department income for the year ended December 31, 2016 was $392 thousand. This was an increase of $18 thousand from the same period in 2015. Assets managed by the Wealth Management and Trust Division totaled $54.3 million as of December 31, 2016.

Service charges on deposit accounts increased by $328 thousand or 42.73% period over period. A major contributor to this increase are non-sufficient funds charges (NSFs). These charges increased by $137 thousand from December 31, 2015 to December 31, 2016.

Other service charges and fees decreased by $85 thousand or 10.20%. These charges are mostly comprised of debit card interchange fees and fees collected from customers associated with the cost of doing business.

The company recorded a gains of $403 thousand in 2015 on the sales of investment securities. No sales of investment securities took place in 2016.

Mortgage fee income (net of related processing costs) decreased from $1.4 million to $1.3 million, a decrease of $132 thousand or 9.35% from December 31, 2015 compared to December 31, 2016. Our volume of mortgage loans sold to the secondary market has decreased in part due to a decrease in refinance volume due to an increase in rates.

During the second quarter of 2016, the bank recorded an $8 thousand gain on the sale of bank-owned automobile and a $2 thousand gain on the sale of a repossessed asset. The $7 thousand gain in 2015 is attributable to a gain recognized on the sale of a bank-owned vehicle and a loss on a repossessed asset during the first quarter.

Non-Interest Expense:

Non-interest expense for the year ended December 31, 2016 was $27.3 million as compared to $26.9 million for the same period ended December 31, 2015. This represents an increase of $430 thousand or 1.57%.

Non-Interest Expense	Year-to-Date December 31		Incr./ (Decr.)	% Change
	2016	2015		
Salaries & employee benefits	16,420,754	15,860,616	$560,138	3.53 %
Occupancy & equipment expense	4,129,523	4,286,982	(157,459)	(3.67)%
Advertising	535,561	541,605	(6,044)	(1.12)%
Community and philanthropic support	252,353	211,266	41,087	19.45 %
IT & data processing	927,102	824,925	102,177	12.39 %
Legal, professional, accounting, and exam fees	1,165,911	1,262,698	(96,787)	(7.67)%
Reduction in value of foreclosed assets	-	5,000	(5,000)	(100.00)%
FDIC assessments	501,752	548,250	(46,498)	(8.48)%
Other expense	3,369,483	3,338,340	31,143	0.93 %
Total Non-Interest Expense	$27,302,439	$26,879,682	$422,758	1.57 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $560 thousand for the year ended December 31, 2016 as compared to December 31, 2015 and represented an increase of 3.53%. The increase represents annual salary increases for our team members and increases in benefit costs.

Occupancy and equipment expense decreased $157 thousand or 3.67% period over period. This decrease is attributable to various assets fully depreciating. We expect this category to rise going forward as our Horseshoe Bay location opened during the third quarter of 2016.

Advertising costs decreased $6 thousand or 1.12% from December 31, 2015 compared to the same period ended December 31, 2016.

Community and philanthropic related expenses increased $41 thousand or 19.45% 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 $102 thousand period over period. Most of this increase relates to core services necessary for maintaining data processing. We contract with a major national core processing vendor to provide our data processing services and their pricing primarily relates to transaction volume and account volume.

Legal, professional, accounting, and exam fees decreased $97 thousand or 7.67% for the year ended December 31, 2016 compared to December 31, 2015. OCC assessment fees decreased by $10 thousand period over period. The OCC assessments are based on the call report asset size as of December and June of each year. Audit expenses decreased $66 thousand period over period.

In 2015, the bank paid an audit firm a one-time fee to perform audit services related to the increased regulation the bank will face when it crosses $1 billion in assets. The bank did not incur this same expense in 2016. Legal fees decreased by $9 thousand period over period. Other consulting and professional fees decreased by $12 thousand period over period.

The Bank experienced a decrease in FDIC assessments, or deposit insurance costs. The cost for 2015 was $548 thousand and for the same time period in 2016 decreased to $502 thousand. This was a decrease of 8.48%. The FDIC assessment is based on the difference between average assets and average equity each calendar quarter-end period at the bank level.

All other expenses increased by $33 thousand or 0.99% period over period. This increase is attributable to an increase in fraud related expenses in the first quarter of 2016.

Balance Sheet Review

Our portfolio is comprised of loans made to businesses, professionals, and individuals located in the primary trade areas served by our bank. As of December 31, 2016, the Company had total net loans outstanding of $681.6 million as compared to $685.4 million for the same period in 2015, resulting in a decrease of $3.8 million or 0.55%.

Composition of Loans ($ in 000's)	December 31 2016	December 31 2015	Incr./ (Decr.)	% change
Real estate loans (held for investment)	$485,684,111	$464,643,100	$21,041,011	4.53 %
Real estate loans (held for sale)	790,844	4,382,103	(3,591,259)	(81.95)%
Loans to governmental entities	-	167,405	(167,405)	(100.00)%
Commercial & industrial loans	177,545,955	194,081,597	(16,535,642)	(8.52)%
Consumer loans	7,511,445	7,803,329	(291,883)	(3.74)%
Other loans	22,254,672	24,008,526	(1,753,855)	(7.31)%
Total Loans before loan loss reserve	$693,787,027	$695,086,060	($1,299,034)	(0.19)%
Less: Loan loss reserve	(12,194,447)	(9,728,929)	2,465,518	25.34 %
Total Loans	$681,592,580	$685,357,131	($3,764,552)	(0.55)%

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 $464.6 million at December 31, 2015 to $485.7 million as of December 31, 2016, an increase of $21 million or 4.53%. Real estate loans held for sale decreased by $3.6 million from December 31, 2015 to December 31, 2016. Real estate loans held for sale represent loans originated for the purpose of purchasing or refinancing one-to-four family residential properties. These loans are originated by the bank with the intent to sell to secondary market investors. The loans are generally sold within 30 days after origination.

Loans to governmental entities decreased by $167 thousand period over period. Loans in this category generally produce tax free income much like a municipal bond.

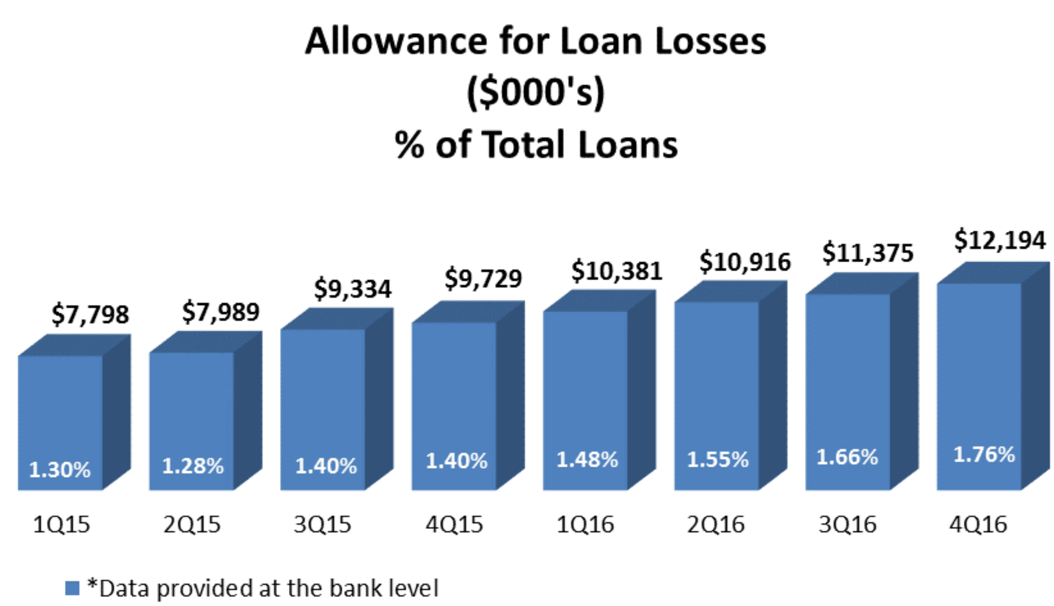
Commercial & industrial loans decreased from $194.1 million at December 31, 2015 to $177.5 million at December 31, 2016, a decrease of $16.5 million or 8.52%. Loans in this category include oil and gas production loans, loans to oil and gas service companies, and loans to manufacturing and wholesale supply companies and miscellaneous other commercial businesses.

Consumer loans decreased by $292 thousand or 3.74% from December 31, 2015 to December 31, 2016. The Company is interested in making consumer loans of all types, but consumer lending is not its primary focus. The Company currently has consumer credit underwriting software and a seasoned consumer credit underwriting manager. Management anticipates that our consumer loan portfolio will increase over the next several years.

All other loans decreased by $1.8 million from December 31, 2015 to December 31, 2016. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions.

Asset Quality:

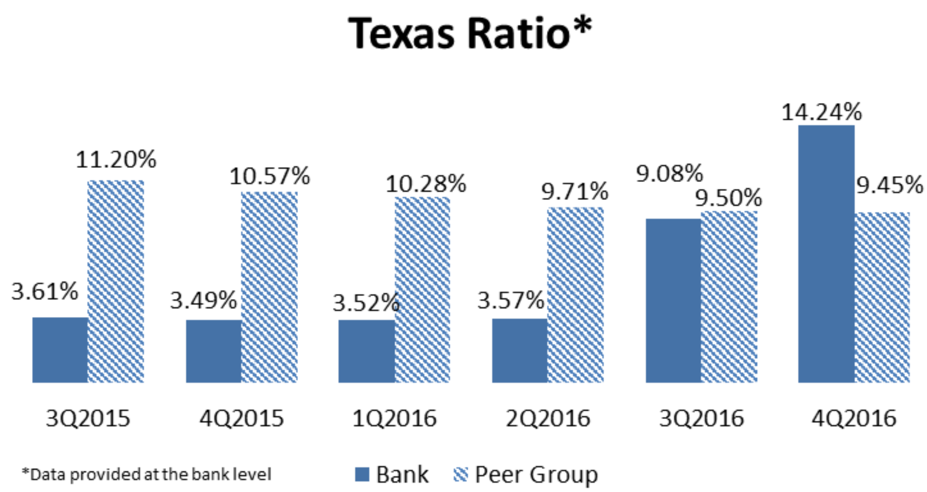
The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. The provision for loan loss expense was $2.5 million for the year ended December 31, 2016 as compared to $2.4 million for same period in 2015. 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 1.76% as of December 31, 2016, as compared to 1.40% as of December 31, 2015. As a percent of average loans, net loan charge-offs were 0.01% as of December 31, 2016 and 0.01% for the same period in 2015. Comparatively, the peer group averages for the same periods were 0.10% and 0.12%, respectively.



As of December 31, 2016, past due loans over 90 days as a percentage of total loans were 0.33% compared to 0.06% for the same period in 2015.

Loans placed on non-accrual status as a percentage of total loans were 0.33% as of December 31, 2016 compared to 0.06% at December 31, 2015. Our peer group for the same time period was 0.66% and 0.78%, respectively.

Another common measure of asset quality is the Texas Ratio. The Texas Ratio is calculated as the sum of restructured loans plus non-accrual loans plus real estate acquired in foreclosure divided by the sum of equity capital plus the allowance for loan losses. As of December 31, 2016, the Bank's Texas Ratio was 14.24% as compared to the peer group of 9.45%. For the same period in 2015 the Company had a Texas Ratio of 3.49% as compared to its peer group of 10.57%. This increase is attributable to restructured loans increasing by approximately $10.6 million period over period.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $72 million as of December 31, 2016, as compared to $48.8 million as of December 31, 2015. The average yield on these balances were 0.84% for the period in 2016 as compared to 0.60% for the same period in 2015. These balances were held with various regional banks located within the state of Texas. Management evaluates the financial strength of each bank it holds balances with on a quarterly basis to assure the safety of the investment in each bank.

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

At December 31, 2016, available-for-sale securities had a fair value of $21.7 million and held-to-maturity securities had an amortized cost of $117 million. For the same period in 2015 these figures were $24.2 and $147 million, respectively. The decline in held-to-maturity securities is primarily attributable to several agencies in our portfolio maturing or being called.

As of December 31, 2016, the portion of the securities portfolio classified as available-for-sale had a market gain of approximately $395 thousand and the portion of the portfolio classified as held-to-maturity had an approximate market loss of $631 thousand. For the same period in 2015, these amounts were $719 thousand and a $393 thousand gain, respectively. The Company did not hold any securities as of December 31, 2016 or 2015 that would be classified as below investment grade or with any impairment. Our overall tax-equivalent yield to maturity on our portfolio at December 31, 2016 was 2.95%. The overall tax-equivalent yield to maturity on our portfolio for the same period in 2015 was 2.79%. 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 $820 million as of December 31, 2016 compared to $820 million as of the same period in 2015.

Composition of Deposits ($ in 000's)	December 31 2016	December 31 2015	Incr./ (Decr.)	% change
Non-interest bearing demand	$257,066,629	$244,785,462	$12,281,168	5.02 %
Interest-bearing demand	73,474,580	64,233,878	9,240,703	14.39 %
Money market and savings	180,356,677	168,952,679	11,403,998	6.75 %
Certificates of deposits ≥ $100,000	273,398,000	304,754,000	(31,356,000)	(10.29)%
Certificates of deposits < $100,000	35,648,000	37,197,000	(1,549,000)	(4.16)%
Total Deposits	$819,943,887	$819,923,019	$20,868	0.00 %

The average cost of interest-bearing deposits as of December 31, 2016 was 0.36% which compares to .39% for the same period in 2015. Our peer group's ratios for the same period end were .49% and .48%, respectively.

Capital Resources:

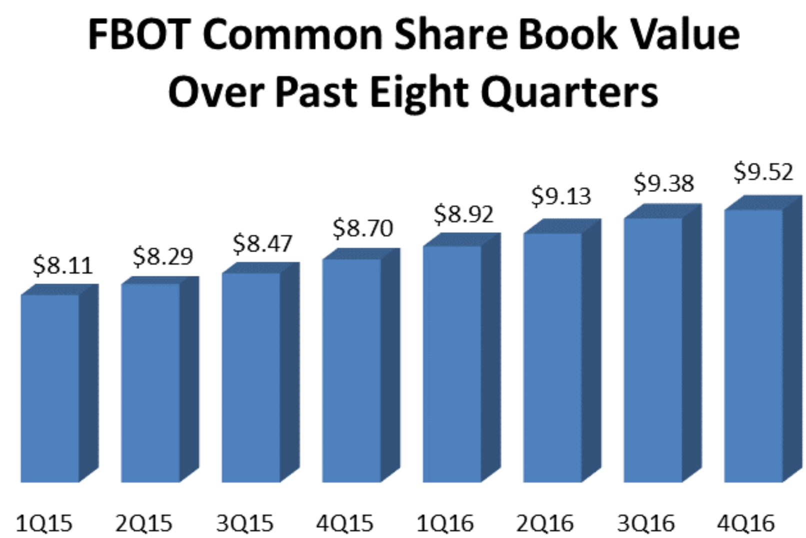
We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate exceeding the rate of growth in our earnings or if we experience significant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

	Actual		Minimum Capital Required - Basel III Buffer Phase-In (2016)		Minimum Capital Required - Basel III Buffer Fully Phased-In (2019)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(000's)								
December 31, 2016								
Total Capital to Risk-Weighted Assets								
Consolidated	$ 111,772	14.781 %	$ 65,222	8.625 %	$ 79,401	10.500 %	$ 75,620	10.000 %
FirstCapital Bank of Texas, N.A.	110,278	14.601	65,142	8.625	79,303	10.500	75,527	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	102,282	13.526	50,098	6.625	64,277	8.500	60,496	8.000
FirstCapital Bank of Texas, N.A.	100,800	13.346	50,037	6.625	64,198	8.500	60,422	8.000
Common Equity Tier 1								
Consolidated	90,490	11.967	38,755	5.125	52,934	7.000	49,153	6.500
FirstCapital Bank of Texas, N.A.	100,800	13.346	38,708	5.125	52,869	7.000	49,093	6.500
Leverage Ratio								
Consolidated	102,282	10.319	39,647	4.000	39,647	4.000	49,559	5.000
FirstCapital Bank of Texas, N.A.	100,800	10.185	39,588	4.000	39,588	4.000	49,486	5.000
December 31, 2015								
Total Capital to Risk-Weighted Assets								
Consolidated	103,773	13.510	61,454	8.000	80,658	10.500	76,817	10.000
FirstCapital Bank of Texas, N.A.	101,359	13.220	61,348	8.000	80,520	10.500	76,686	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	94,166	12.260	46,090	6.000	65,295	8.500	61,454	8.000
FirstCapital Bank of Texas, N.A.	91,768	11.970	46,011	6.000	65,183	8.500	61,348	8.000
Common Equity Tier 1								
Consolidated	81,829	10.650	34,568	4.500	53,772	7.000	49,931	6.500
FirstCapital Bank of Texas, N.A.	91,768	11.970	34,508	4.500	53,680	7.000	49,846	6.500
Leverage Ratio								
Consolidated	94,166	9.640	39,079	4.000	39,079	4.000	48,848	5.000
FirstCapital Bank of Texas, N.A.	91,768	9.410	38,991	4.000	38,991	4.000	48,739	5.000

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

Regulatory capital calculations set forth by the Federal Reserve allows the $3 million in trust preferred securities to be included in Tier 1 capital of First Bancshares of Texas, Inc. Also included in this figure is Non-Cumulative Perpetual Preferred Stock with a par value of $1.00 with 5,000,000 shares authorized, 882,544 Series 2009 shares issued and outstanding as of December 31, 2016. During the second quarter of 2016, the bank retired 54,500 shares of preferred stock.

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



Dividend Policy:

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

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

CAPITALIZATION

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

	At December 31, 2016
Long-Term Indebtedness:	
Junior subordinated debentures - trust preferred securities	$ 3,093,000
Total indebtedness	$ 3,093,000
Shareholders' Equity:	
Common stock, par value $1.00 per share, 15,000,000 shares authorized, 9,530,029 shares issued, 9,530,029 shares outstanding as of December 31, 2016	$ 9,530,029
Preferred stock, par value $1.00 per share, 5,000,000 shares authorized, 882,544 Series 2009 shares issued and outstanding as of December 31, 2016	882,544
Surplus	
Common	32,592,307
Preferred	7,909,479
Surplus	40,501,786
Treasury stock	-
Retained earnings	48,367,740
Accumulated other comprehensive income	260,481
Total shareholders' equity	$ 99,542,580
Capital Ratios (Consolidated):	
Tier 1 leverage ratio	10.32%
Common Equity Tier 1 capital ratio	11.97%
Tier 1 risk-based capital ratio	13.53%
Total risk-based capital ratio	14.78%

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

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

OFFICERS

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

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Chairman - FirstCapital Bank of Texas, N.A.

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Chief Executive Officer

JAY W. ISAACS
President

TRACY BACON
Chief Operating Officer

PHYLLIS BECHNER
Chief Financial Officer

J. GREG BURGESS
Chief Credit Officer

GEORGE H. REEVES
Chief Deposit & Technology Officer

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Executive Vice President, Marketing & Training Manager

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

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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

BRADY ROSS
Senior Vice President & Senior Relationship Manager

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Vice President & Loan Operations Manager

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Vice President, Accounting Department Manager
& Assistant Controller

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Vice President & Fraud Officer

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

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Assistant Vice President & IT Specialist

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Assistant Vice President & Credit Administration Manager

CHAD MAXWELL
Assistant Vice President & Relationship Manager

SHERYL RYAN
Assistant Vice President & Information Security Officer

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Banking Officer & Branch Manager

SARAH JAMES
Banking Officer & Customer Experience Officer

KAMI LITTLE
Banking Officer & BSA Officer

MARY LOGAN
Banking Officer & Branch Manager

TONI MABRY
Banking Officer & Branch Manager

LESLIE MARISCAL
Banking Officer & Training Specialist II

EDGAR PAZ
Banking Officer & Loan Servicing Asst. I

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Branch President

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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

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Vice President & Branch Manager

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Vice President & Assistant Operations Manager

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Vice President, Assistant Credit Officer & CRA Officer

CARMELLA SMITH
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MEREDITH STOVER
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NICK PHELPS
Assistant Vice President & IT Applications Analyst

ABBY SNYDER
Assistant Vice President & Branch Manager

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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TRAVIS HILLMAN
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BARRETT POWER
Vice President & Branch Manager

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Market President, Horseshoe Bay

CALIB WILLIAMS
Vice President & Systems Administration Officer

CODY PETTY
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TAMI RANDOLPH
Banking Officer & Mortgage Loan Originator

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Chairman - First Bancshares of Texas, Inc.
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