FIRSTBANCSHARES
OF TEXAS, INC.

Second Quarter 2018 Shareholders' Report

Amarillo · Dallas · Hill Country · Lubbock · Midland · fcbtexas.com

Dear Shareholders

I hope everyone's summer is going well and you are staying out of the heat!

The Company continues to produce strong results. Earnings for the first 6 months are the strongest in the Company's history. As of June 30th, YTD earnings were $6.4 million vs. $4.2 million in the prior year, which represents an increase of 52%. The increase was driven by improved interest margins as interest rates have begun to increase after 10 years. It was also driven by the lower tax rates passed by our government at year end.

We are seeing solid asset growth as well. Assets at June 30, 2018 were $1.119 billion vs. $1.048 billion on the same date last year. This represents growth of 6.77%. Improved economic conditions in all markets and especially in Midland are driving deposit and loan growth.

Growth Plans

We always have and always will focus on organic growth in each of our markets. As previously discussed though, we are proactively looking for an acquisition opportunity within Texas. We continue to explore interesting targets and will move on those expeditiously as the opportunity presents. The benefits we expect to derive are improved operating efficiencies and acquisition of talent. Today's banking environment rewards size due to the cost of regulation. As we look at growth opportunities, our over-riding focus is on increasing shareholder value.

Fredericksburg Branch Location

We previously announced that we were working to open a new branch in Fredericksburg. The opening to this branch is currently scheduled for early September. Our City President, Marcus Vidrine, has been working for us for several months and has had good success in bringing new business to the Company. We are excited about our opportunity there.

Dallas Branch Location

We have recently hired a team of commercial lenders in the Dallas market. They are already on the ground in Dallas serving as a loan production office (LPO) while we complete negotiations on a leased building to serve as a full service branch. We will be working on gaining regulatory approval for a full service branch, but will continue to operate as an LPO until approval is received. All of these lenders have a number of years of experience in the Dallas market in the area of the new branch location.

A more detailed explanation of the Company's performance is attached. Please review and give us a call if you have any questions. We very much appreciate your support.

Sincerely,

Ken L. Burgess, Jr.
CEO

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(Dollar amounts in thousands)

	June 30, (Unaudited) 2018	June 30, (Unaudited) 2017	December 31, (Audited) 2017
ASSETS			
Cash and due from banks	**$ 22,638**	$ 11,323	$ 20,794
Federal funds sold	**7,421**	10,000	7,838
Cash and cash equivalents	**30,059**	21,323	28,632
Interest bearing deposits in banks	**72,717**	132,405	91,484
Securities available for sale, at fair value	**64,481**	39,016	68,968
Securities held to maturity	**88,923**	104,643	96,419
Investment in First Bancshares of Texas Statutory Trust I	**93**	93	93
Investments in partnerships	**2,594**	1,926	1,970
Restricted investment held at cost	**2,246**	2,198	2,202
Loans held for sale	**2,375**	1,629	828
Loans and leases receivable, net of allowance for loan and lease losses	**799,671**	690,195	763,865
Accrued interest receivable	**4,360**	3,442	4,054
Premises and equipment	**22,114**	21,675	22,730
Deferred tax asset, net	**3,398**	4,456	3,205
Cash surrender value of life insurance	**24,338**	23,613	23,981
Core Deposit Intangible	**375**	-	406
Other assets	**1,523**	1,117	1,567
TOTAL ASSETS	**$ 1,119,267**	$ 1,047,731	$ 1,110,404
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-interest bearing deposits	**$ 342,288**	$ 292,021	$ 308,913
Interest bearing deposits	**604,758**	627,248	630,608
Total deposits	**947,046**	919,269	939,521
Accrued expenses and other liabilities	**3,687**	3,665	3,977
Securities sold under agreement to repurchase	**13,300**	12,475	17,614
Subordinated debentures	**3,093**	3,093	3,093
Other borrowed funds	**4,502**	5,099	4,529
Total liabilities	**971,628**	943,601	968,734
SHAREHOLDERS' EQUITY			
Common stock	**12,615**	9,589	12,599
Preferred stock	**-**	883	-
Treasury stock, at cost	**-**	-	(19)
Surplus			
Common	**73,462**	33,023	73,198
Preferred	**-**	7,909	-
Capital Surplus	**73,462**	40,932	73,198
Retained earnings	**63,066**	52,333	56,670
Accumulated other comprehensive income - unrealized gain on available for sale securities, net of tax	**(1,504)**	393	(778)
Accumulated other comprehensive income - unrealized loss on securities transferred from available for sale to held to maturity, net of tax	**-**	-	
Total shareholders' equity	**147,639**	104,130	141,670
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,119,267**	$ 1,047,731	$ 1,110,404

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED STATEMENT OF INCOME

For the Six Months Ended June 30

(Dollar amounts in thousands)

	(Unaudited) 2018	(Unaudited) 2017
Interest Income:		
Loans and leases, including fees	**$ 22,461**	$ 19,139
Debt Securities		
Taxable	**1,434**	1,157
Tax exempt	**596**	622
Federal funds sold	**65**	37
Deposits with banks	**697**	715
Other interest	**63**	62
TOTAL INTEREST INCOME	**25,316**	21,732
Interest Expense:		
Deposits	**2,185**	1,765
Other borrowed money	**82**	76
Subordinated debentures	**75**	72
TOTAL INTEREST EXPENSE	**2,342**	1,913
Net Interest Income (Loss)	**22,974**	19,819
Provision for loan and lease losses	**350**	900
Net Interest Income (Loss) After Provision	**22,624**	18,919
Non-Interest Income:		
Trust department income	**252**	232
Service charges on deposit accounts	**739**	583
Other service charges and fees	**579**	333
Net realized gain (loss) on sales of securities	**-**	-
Appreciation in cash surrender value of life insurance	**357**	194
Gain/Loss on sale of loans	**449**	491
Gain/Loss on sale of foreclosed assets	**-**	5
Gain/Loss on sale of fixed assets	**289**	4
TOTAL NON-INTEREST INCOME	**2,665**	1,842
Non-Interest Expenses:		
Salaries and employee benefits	**10,464**	8,847
Occupancy and equipment expense	**2,586**	2,139
Advertising	**291**	307
Community and philanthropic support	**184**	156
IT and data processing expense	**571**	455
Legal, professional, accounting, and exam fees	**817**	550
FDIC assessment	**264**	276
Reduction in value of foreclosed assets	**-**	-
Core Deposit Intangible Amortization Expense	**30**	-
Other expenses	**2,194**	1,803
TOTAL NON-INTEREST EXPENSES	**17,401**	14,533
Income Before Income Taxes	**7,888**	6,228
Income tax expense	**1,492**	1,998
NET INCOME	**$ 6,396**	$ 4,230

FIRST BANCSHARES OF TEXAS, INC.

SECOND QUARTER CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands)

Earnings Summary		
For the Six Months Ended June 30	2018	2017
Interest Income	$25,316	$21,732
Interest Expense	2,342	1,913
Provision for Loan Losses	350	900
Net Income	6,396	4,230

Performance Ratios (annualized)		
For the Six Months Ended June 30	2018	2017
Return on Average Assets	1.17%	0.84%
Return on Common Shareholders' Average Tangible Equity	8.84%	8.87%
Net Interest Margin	4.51%	4.16%

Period-End Data		
As of June 30	2018	2017
Total Assets	$1,119,267	$1,047,731
YTD Average Assets	1,101,090	1,019,908
Investments*	231,054	280,281
Loans, net	802,046	691,824
Deposits	947,046	919,269
Shareholders' Equity		
Common	147,639	95,338
Preferred	0	8,792

Per Share Data		
For the Six Months Ended June 30	2018	2017
Net Income	$0.51	$0.41
Book Value	$11.67	$9.94
Number of Shareholders		
Common	548	512
Preferred	0	85

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

FIRST BANCSHARES OF TEXAS, INC.

CONSOLIDATED YIELD ANALYSIS

(Dollar amounts in thousands)

	June 30,					
	(Unaudited) 2018			(Unaudited) 2017		
	YTD Avg. Balance	*Interest Inc./Exp.*	*Yield/Cost*	*YTD Avg. Balance*	*Interest Inc./Exp.*	*Yield/Cost*
ASSETS						
Interest-bearing deposits	$ 73,222	$ 697	1.92%	$ 122,993	$ 715	1.17%
Federal funds sold and resell agreements	7,632	65	1.72%	7,728	37	0.97%
Securities:						
Taxable	117,414	1,434	2.44%	97,258	1,157	2.38%
Tax-exempt	42,248	596	2.82%	44,278	622	2.81%
Total securities	159,662	2,030	2.54%	141,536	1,779	2.51%
Restricted investments held at cost	4,628	63	2.75%	3,913	62	3.20%
Loans, net of unearned discount	795,431	22,461	5.69%	700,276	19,139	5.51%
Total earning assets and average rate earned	1,040,575	25,316	4.91%	976,446	21,732	4.49%
Cash and due from banks	17,739			11,827		
Investments in subsidiaries	93			740		
Premises and equipment, net	22,109			21,613		
Accrued interest receivable and other assets	20,574			9,282		
Total assets	**$ 1,101,090**			$ 1,019,908		
LIABILITIES						
Interest-bearing deposits:						
NOW & MMA	$ 239,055	$ 422	0.36%	$ 233,228	$ 299	0.26%
Savings	60,366	82	0.27%	50,498	67	0.27%
COD	300,795	1,681	1.13%	330,337	1,399	0.85%
Total interest-bearing deposits	600,216	2,185	0.73%	614,063	1,765	0.58%
Non-interest bearing demand deposits	326,659			272,874		
Total deposits	926,875	2,185		886,937	1,765	
Securities sold under agreement to repurchase	17,434	48	0.56%	18,718	42	0.45%
Other borrowed funds	4,513	34	1.52%	4,611	45	1.97%
Subordindated debentures	3,093	75	4.89%	3,093	61	3.98%
Total interest-bearing liabilities and average rate paid	625,256	2,342	0.76%	640,485	1,913	0.60%
Accrued expenses and other liabilities	4,256			4,316		
Total liabilities	956,171			917,675		
Shareholders' equity	144,919			102,233		
Total liabilities and shareholders' equity	**$ 1,101,090**			$ 1,019,908		
Net interest income		$ 22,974			$ 19,819	
Net interest spread			4.15%			3.89%
Net interest margin			4.51%			4.16%

For these computations:

(i) average balances are presented on a daily average basis,

(ii) information is shown on a tax-equivalent basis assuming a 21% tax rate for 2018 and 34% tax rate for 2017,

(iii) average loans include loans on non-accrual status, and

(iv) average securities include unrealized gains and losses on securities available for sale, while yields are based on average amortized cost

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

Introduction

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

Critical Accounting Policies

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

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

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

Allowance for Loan Losses:

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

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

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

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

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

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

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

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of June 30, 2018 troubled debt restructurings totaled $16.2 million with $522 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.

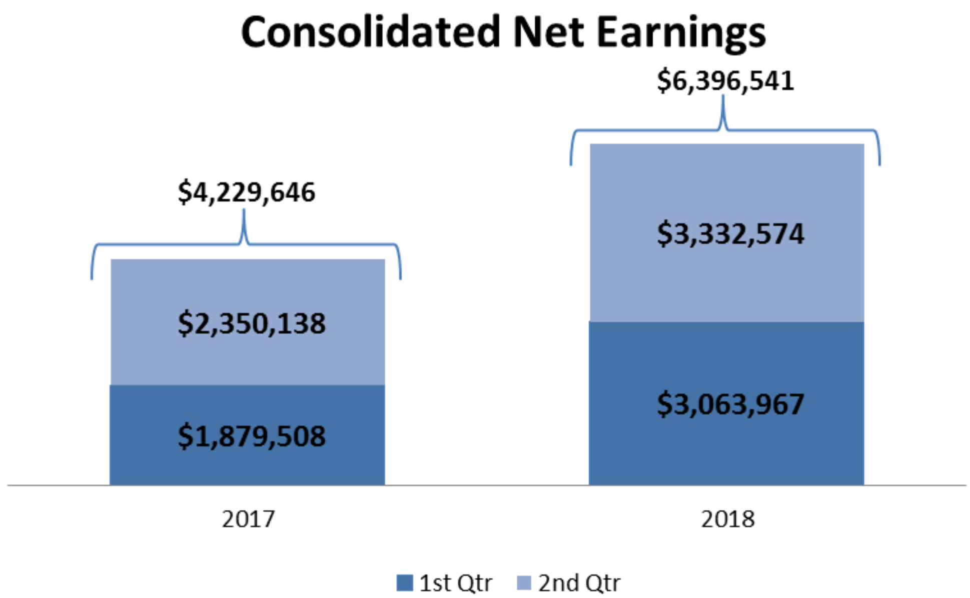
Subsequent Event

Prior to the issuance of our Second Quarter 2018 Shareholders' Report, the Company became aware of an event impacting a substantial customer. In response, the Company wrote off two loans against the allowance for loan losses. Other loans within the relationship are in the process of being evaluated for collateral sufficiency and credit ratings were downgraded as management deemed necessary. Deposit accounts associated with this customer are still being evaluated for potential losses, however, at this time any losses on the deposit accounts are not estimable. In accordance with financial accounting standards, the estimable charge-offs related to the loans were incorporated into the Second Quarter 2018 Shareholders' Report and the discussion and analysis included therein. As the loans in the Company's Consolidated Statement of Financial Condition are presented net of the allowance for loan losses, this resulted in no change to total assets. Shareholders' equity and net income were also unaffected. Gross loan amounts, gross allowance for loan losses, and associated ratios referenced within the discussion and analysis have been reduced to reflect the charge-offs.

Results of Operations

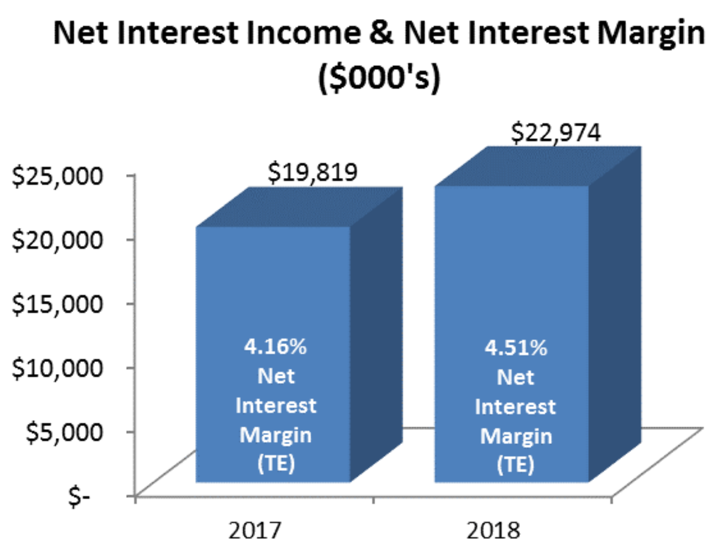
Performance Summary:

The Company ended the first two quarters of 2018 with net earnings at the consolidated level of $6.4 million, an increase of approximately $2.2 million compared to the same period in 2017. Return on average assets at the consolidated level as of June 30, 2018 and 2017 was 1.17% and .84%, respectively. The return on common shareholder's average tangible equity for the same period was 8.84% and 8.87%. On a basic net earnings per share basis at the holding company level, net earnings were $0.51 as of June 30, 2018 and $0.41 as of June 30, 2017. Much of this improvement is attributable to an overall increase in performance by the bank, but also due to the new corporate tax rate of 21% for 2018 vs. 34% for 2017.



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 $23 million for the period ended June 30, 2018 compared to $19.8 million for the same period in 2017. Our year-to-date net interest margin at June 30, 2018 was 4.51%, which was higher compared to 4.16% for the same period in 2017. Rate increases in 2017 and 2018 have positively impacted the bank's net interest margin. 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 June 30, 2018 was $2.7 million, an increase of $824 thousand or 44.75% over the same period in 2017. The following schedule shows each of the major components of year-to-date non-interest income for the periods ended June 30, 2018 as compared to June 30, 2017.

Non-Interest Income	Year-to-Date June 30		Incr./	%
	2018	2017	(Decr.)	Change
Trust department income	$251,648	$232,371	$19,277	8.30 %
Service charges on deposit accounts	738,613	582,523	156,090	26.80 %
Other service charges and fees	579,516	333,254	246,262	73.90 %
Appreciation in cash surrender value of life insurance	356,758	193,819	162,939	84.07 %
Gain/(Loss) on sale of securities	-	-	-	0.00 %
Gain/(Loss) on sale of loans	449,530	491,075	(41,545)	(8.46)%
Gain/(Loss) on sale of other real estate	-	4,638	(4,638)	(100.00)%
Gain/(Loss) on sale of other assets	288,974	3,500	285,474	8,156.40 %
Total Non-Interest Income	$2,665,039	$1,841,180	$823,859	44.75 %

Trust department income for the period ended June 30, 2018 was $252 thousand. This was an increase of $19 thousand from the same period in 2017. Assets managed by the Wealth Management and Trust Division totaled $77.6 million as of June 30, 2018.

Service charges on deposit accounts increased by $156 thousand or 26.80% period over period. Major contributors to this increase are service charges relating to commercial analysis and non-sufficient funds charges (NSFs). Period over period these charges increased by $141 thousand and $9 thousand, respectively.

Other service charges and fees increased by $246 thousand or 73.90%. These charges are mostly comprised of debit card interchange fees and fees collected from customers associated with the cost of doing business. This increase is largely contributable to an increase in debit card interchange fees, which increased $69 thousand period over period and letter of credit fees, which increased $46 thousand period over period.

Income relating to the appreciation in cash surrender value of life insurance increased by $163 thousand or 84.07% period over period. This increase is attributable to an overall increase of bank-owned life insurance of approximately $15 million that occurred during the second quarter of 2017.

Mortgage fee income (net of related processing costs) decreased from $491 thousand to $450 thousand, a decrease of $41 thousand or 8.46% from June 30, 2017 compared to June 30, 2018.

During the first quarter of 2018, the bank agreed to sell our Midland A-Street location. This gain is being recognized proportionately on a monthly basis through the end of the year. During the first quarter of 2017, the bank recorded a $7 thousand gain on the sale of a bank-owned automobile and a $5 thousand gain on the sale other real estate owned. During the second quarter of 2017, the bank recorded a loss of $3 thousand on a repossessed automobile.

Non-Interest Expense:

Non-interest expense for the period ended June 30, 2018 was $17.4 million as compared to $14.5 million for the same period ended June 30, 2017. This represents an increase of $2.9 million or 19.73%.

Non-Interest Expense	Year-to-Date June 30		Incr./ (Decr.)	% Change
	2018	2017		
Salaries & employee benefits	$10,464,005	$8,847,453	$1,616,552	18.27 %
Occupancy & equipment expense	2,586,037	2,139,308	446,729	20.88 %
Advertising	291,317	306,795	(15,478)	(5.05)%
Community and philanthropic support	183,784	156,449	27,335	17.47 %
IT & data processing	571,275	454,756	116,519	25.62 %
Legal, professional, accounting, and exam fees	817,240	549,189	268,051	48.81 %
FDIC assessments	263,554	276,000	(12,446)	(4.51)%
Other expense	2,223,846	1,803,372	420,474	23.32 %
Total Non-Interest Expense	$17,401,058	$14,533,322	$2,867,736	19.73 %

The largest category of expense for the Company is salaries and employee benefits. This component of non-interest expense increased by $1.6 million for the period ended June 30, 2018 as compared to June 30, 2017 and represented an increase of 18.27%. Of this increase, salaries and incentive compensation increased $1.4 million, a 21% increase, which represents both an increase in staff and annual salary increases with commensurate increases in related employment taxes and annual incentive accruals. Other factors include a continuing increase in medical cost of $151 thousand, a 17.18% increase period over period.

Occupancy and equipment expense increased $447 thousand or 20.88% period over period. The bank acquired a new branch in Marble Falls, Texas on September 1, 2017. The increase in expense in this category is attributable partly to this acquisition and the addition of our Lubbock Milwaukee branch that opened in December of 2017. We anticipate expense in this category to continue to rise for the rest of 2018.

Advertising costs decreased $15 thousand or 5.05% from June 30, 2017 compared to the same period ended June 30, 2018. We anticipate increased costs in this category throughout the rest of 2018.

Community and philanthropic related expenses increased $27 thousand or 17.47% period over period. 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 $117 thousand or 25.62% period over period. We anticipate increased expense in this area going forward.

Legal, professional, accounting, and exam fees increased $268 thousand or 48.81% for the period ended June 30, 2018 compared to June 30, 2017. When the bank crossed the $1 billion in assets threshold there were immediate increases to audit and regulatory expenses. We anticipate this category to increase throughout 2018.

The Bank experienced a decrease in FDIC assessments, or deposit insurance costs. The cost for 2017 was $276 thousand and for the same time period in 2018 decreased slightly to $264 thousand. This was a decrease of 4.51%.

All other expenses increased by $420 thousand or 23.32% period over period. During the first two quarters of 2018, the bank took a provision expense of $109 thousand in relation to an allowance for possible losses on loan commitments not yet funded and as a result not shown on the balance sheet. Also contributing to this increase is a rise in cost relating to bank memberships and dues, which increased $96 thousand period over period. Small equipment and software related expenses increased $74 thousand period over period.

Balance Sheet Review

Our portfolio is comprised of loans made to businesses, professionals, and individuals located in the primary trade areas served by our bank. As of June 30, 2018, the Company had total net loans outstanding of $802 million as compared to $691.8 million for the same period in 2017, resulting in an increase of $110.2 million or 15.93%.

Composition of Loans ($ in 000's)	June 30 2018	June 30 2017	Incr./ (Decr.)	% Change
Real estate loans (held for investment)	$588,950,378	$507,081,760	$81,868,618	16.15 %
Real estate loans (held for sale)	2,375,435	1,628,606	746,829	45.86 %
Loans to governmental entities	0	0	0	0.00 %
Commercial & industrial loans	182,171,144	171,954,602	10,216,542	5.94 %
Consumer loans	9,643,590	8,994,493	649,097	7.22 %
Other loans	31,749,294	15,161,021	16,588,273	109.41 %
Total Loans before loan loss reserve	814,889,841	704,820,482	110,069,359	15.62 %
Less: Loan loss reserve	(12,844,061)	(12,996,837)	(152,776)	(1.18)%
Total Loans	$802,045,780	$691,823,645	$110,222,135	15.93 %

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 $507.1 million at June 30, 2017 to $589 million as of June 30, 2018, an increase of $81.9 million or 16.15%. Real estate loans held for sale increased by $747 thousand from June 30, 2017 to June 30, 2018. 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. .

Commercial & industrial loans increased from $172 million at June 30, 2017 to $182.2 million at June 30, 2018, an increase of $10.2 million or 5.94%. 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.

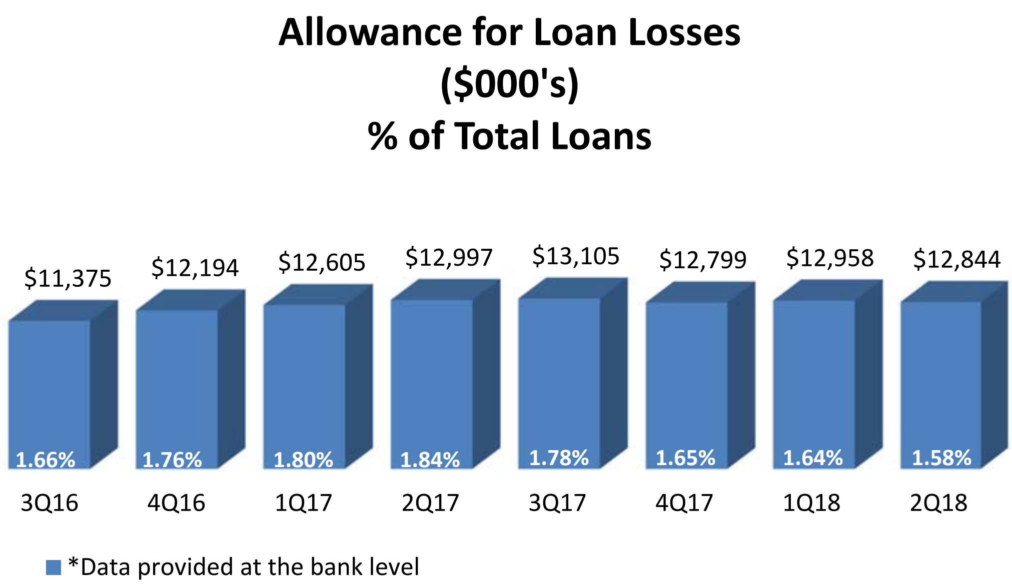
Consumer loans increased by $649 thousand or 7.22% from June 30, 2017 to June 30, 2018. The Company is interested in making consumer loans of all types, but consumer lending is not its primary focus.

The Company currently has consumer credit underwriting software and a seasoned consumer credit underwriting manager. Management anticipates that our consumer loan portfolio will continue to increase over the next several years.

All other loans increased by $16.6 million from June 30, 2017 to June 30, 2018. Included in this category are loans to finance agriculture, loans to purchase securities, and loans to non-depository institutions. The majority of this increase is attributable to an increase in loans to non-depository institutions of approximately $12.5 million.

Asset Quality:

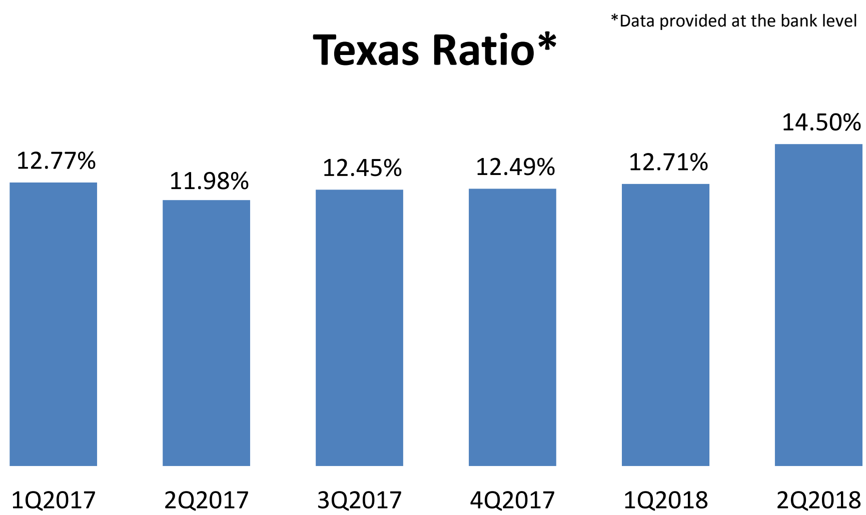
The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. The provision for loan loss expense was $350 thousand for the period ended June 30, 2018 as compared to $900 thousand for same period in 2017. Beginning in the third quarter of 2017, management decided to lessen our loan loss reserves to recognize that the bank's risk profile in the loan portfolio has improved. This improvement is in part attributable to a decrease in classified loans. Our allowance for loan losses as a percentage of our total loan portfolio was 1.58% as of June 30, 2018. The same ratio was 1.84% as of June 30, 2017. As a percent of average loans, net loan charge-offs were 0.04% as of June 30, 2018 and 0.03% for the same period in 2017.



As of June 30, 2018, past due loans over 90 days as a percentage of total loans were 0.00%. This ratio was also 0.00% for the same period in 2017.

Loans placed on non-accrual status as a percentage of total loans were 0.28% as of June 30, 2018 compared to 0.27% at June 30, 2017.

Another common measure of asset quality is the Texas Ratio. The Texas Ratio is calculated as the sum of restructured loans plus non-accrual loans plus real estate acquired in foreclosure divided by the sum of equity capital plus the allowance for loan losses. As of June 30, 2018, the Bank's Texas Ratio was 14.50%. For the same period in 2017 the Bank had a Texas Ratio of 11.98%.



Interest-Bearing Deposits in Banks:

The Company had interest-bearing deposits in banks of $72.7 million as of June 30, 2018, as compared to $132.4 million as of June 30, 2017. The average yield on these balances were 1.90% for the period in 2018 as compared to 1.17% for the same period in 2017. These balances were held with various regional banks located within the state of Texas. Management evaluates the financial strength of each bank it holds balances with on a quarterly basis to assure the safety of the investment in each bank.

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

At June 30, 2018, available-for-sale securities had a fair value of $64.5 million and held-to-maturity securities had an amortized cost of $88.9 million. For the same period in 2017 these figures were $39 million and $104.6 million, respectively. The increase in available-for-sale securities period over period is related to approximately $34.3 million in purchases during the last two quarters of 2017. The decline in held-to-maturity securities is primarily attributable to routine monthly pay-downs on many of our mortgage-backed securities and approximately $2 million in calls and maturities.

As of June 30, 2018, the portion of the securities portfolio classified as available-for-sale had a market loss of approximately $1.9 million and the portion of the portfolio classified as held-to-maturity had an approximate market loss of $1.9 million. These losses are primarily attributable to the differences in the rate environment from when the security was purchased to the current rate environment. For the same period in 2017, these amounts were a $595 thousand gain and a $382 thousand gain, respectively. The decline in market value gains in both the available for sale and the held to maturity portfolios are the result of deflation of bond prices as market rates rise. Throughout 2017 and 2018, the market experienced multiple 25 basis point rate increases. The Company did not hold any securities as of June 30, 2018 or 2017 that would be classified as below investment grade or with any impairment. Our overall tax-equivalent yield to maturity on our portfolio at June 30, 2018 was 2.72%. The overall tax-equivalent yield to maturity on our portfolio for the same period in 2017 was 2.94%. All yields from 2017 are computed on a tax-equivalent basis assuming a marginal tax rate of 34.00%. As a result of the tax reform bill passed in December 2017, these yields will now be calculated assuming a marginal tax rate of 21%. 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 $947 million as of June 30, 2018 compared to $919.3 million as of the same period in 2017. This represents an increase of 3.02% period over period.

Composition of Deposits ($ in 000's)	June 30 2018	June 30 2017	Incr./ (Decr.)	% Change
Non-interest bearing demand	$342,287,908	$292,021,612	$50,266,296	17.21 %
Interest-bearing demand	68,260,582	71,679,150	(3,418,568)	(4.77)%
Money market and savings	220,018,367	222,916,827	(2,898,460)	(1.30)%
Certificates of deposits ≥ $100,000	280,028,000	294,592,000	(14,564,000)	(4.94)%
Certificates of deposits < $100,000	36,451,000	38,059,000	(1,608,000)	(4.23)%
Total Deposits	$947,045,857	$919,268,589	$27,777,268	3.02 %

The average cost of interest-bearing deposits as of June 30, 2018 was 0.49% which compares to 0.41% for the same period in 2017.

Capital Resources:

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

	Actual		Minimum Capital Required - Basel III Buffer Phase-In		Minimum Capital Required - Basel III Buffer Fully Phased-In (2019)		Required to be Considered Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
(000's)								
June 30, 2018								
Total Capital to Risk-Weighted Assets								
Consolidated	$ 162,902	18.337 %	$ 87,726	9.875 %	$ 93,279	10.500 %	$ 88,837	10.000 %
FirstCapital Bank of Texas, N.A.	124,410	14.006	87,714	9.875	93,265	10.500	88,824	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	151,768	17.084	69,959	7.875	75,511	8.500	71,070	8.000
FirstCapital Bank of Texas, N.A.	113,278	12.753	69,949	7.875	75,500	8.500	71,059	8.000
Common Equity Tier 1								
Consolidated	148,768	16.746	56,634	6.375	62,186	7.000	57,744	6.500
FirstCapital Bank of Texas, N.A.	113,278	12.753	56,625	6.375	62,177	7.000	57,736	6.500
Leverage Ratio								
Consolidated	151,768	13.776	44,067	4.000	44,067	4.000	55,084	5.000
FirstCapital Bank of Texas, N.A.	113,278	10.289	44,040	4.000	44,040	4.000	55,050	5.000
June 30, 2017								
Total Capital to Risk-Weighted Assets								
Consolidated	116,781	14.592	74,027	9.250	84,031	10.500	80,030	10.000
FirstCapital Bank of Texas, N.A.	115,402	14.423	74,010	9.250	84,011	10.500	80,011	10.000
Tier 1 Capital to Risk-Weighted Assets								
Consolidated	106,737	13.337	58,021	7.250	68,025	8.500	64,024	8.000
FirstCapital Bank of Texas, N.A.	105,360	13.168	58,008	7.250	68,009	8.500	64,008	8.000
Common Equity Tier 1								
Consolidated	94,945	11.864	46,017	5.750	56,021	7.000	52,019	6.500
FirstCapital Bank of Texas, N.A.	105,360	13.168	46,006	5.750	56,007	7.000	52,007	6.500
Leverage Ratio								
Consolidated	106,737	10.327	41,342	4.000	41,342	4.000	51,678	5.000
FirstCapital Bank of Texas, N.A.	105,360	10.205	41,296	4.000	41,296	4.000	51,620	5.000

The Company and its bank subsidiary as of June 30, 2018, 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. In 2017 this figure included 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. During 2017, the Company retired all Series 2009 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 21 is a table of historical trades and valuations on our common stock.

Dividend Policy:

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

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

CAPITALIZATION

The following table represents, on a consolidated basis, the capitalization of the Company as of June 30, 2018.

	At June 30, 2018
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, 25,000,000 shares authorized, 12,614,928 shares issued, 12,614,928 shares outstanding as of June 30, 2018.	12,614,928
Preferred Stock: $1 par value; 5,000,000 total shares authorized.	-
Surplus	
Common	73,461,760
Preferred	-
Surplus	73,461,760
Treasury stock	-
Retained earnings	63,066,108
Accumulated other comprehensive income	(1,503,715)
Total shareholders' equity	$ 147,639,081
Capital Ratios (Consolidated):	
Tier 1 leverage ratio	13.78%
Common Equity Tier 1 capital ratio	16.75%
Tier 1 risk-based capital ratio	17.08%
Total risk-based capital ratio	18.34%

HISTORICAL TRADES AND VALUATIONS

There have been very few trades in our common stock. The following table presents the low and high per share prices, number of shares traded and the number of trades per quarter for trades in our common stock of which we are aware since January 1, 2009:

Quarter	Low	High	Number of Shares Traded	Number of Trades	Book Value as of Prior Quarter end	Multiple of Price to Book Value Low	Multiple of Price to Book Value High
1st Quarter 2009	$ 6.00	$ 6.00	43,133	9	3.95	1.52	1.52
2nd Quarter 2009	$ 6.00	$ 6.15	119,151	13	4.05	1.48	1.52
3rd Quarter 2009	$ 6.00	$ 6.15	45,850	9	4.12	1.46	1.49
4th Quarter 2009	$ 6.15	$ 6.35	43,337	9	4.24	1.45	1.50
1st Quarter 2010	$ -	$ -	0	0	4.32	0.00	0.00
2nd Quarter 2010	$ 6.35	$ 7.04	149,870	11	4.68	1.36	1.50
3rd Quarter 2010	$ 7.08	$ 7.25	160,570	21	4.79	1.48	1.51
4th Quarter 2010	$ 7.25	$ 7.34	77,000	9	4.89	1.48	1.50
1st Quarter 2011	$ 7.50	$ 7.50	22,500	7	5.01	1.50	1.50
2nd Quarter 2011	$ 6.35	$ 7.68	35,386	7	5.12	1.24	1.50
3rd Quarter 2011	$ 7.86	$ 8.16	70,306	15	5.30	1.48	1.54
4th Quarter 2011	$ 8.16	$ 8.43	140,730	31	5.51	1.48	1.53
1st Quarter 2012	$ 8.50	$ 8.51	16,194	9	5.68	1.50	1.50
2nd Quarter 2012	$ 8.50	$ 9.46	1,446,285	140	5.85	1.45	1.62
3rd Quarter 2012	$ 8.77	$ 9.62	40,160	22	6.41	1.37	1.50
4th Quarter 2012	$ 9.62	$ 9.91	21,751	7	6.61	1.46	1.50
1st Quarter 2013	$ 9.56	$ 10.06	35,334	4	6.71	1.42	1.50
2nd Quarter 2013	$ 9.25	$ 10.41	59,876	12	6.87	1.35	1.52
3rd Quarter 2013	$ 9.76	$ 10.55	58,932	10	6.93	1.41	1.52
4th Quarter 2013	$ 10.00	$ 10.82	135,149	11	7.10	1.41	1.52
1st Quarter 2014	$ 10.87	$ 11.01	89,103	5	7.24	1.50	1.52
2nd Quarter 2014	$ 11.03	$ 11.14	9,234	3	7.42	1.49	1.50
3rd Quarter 2014	$ 11.24	$ 11.54	30,632	8	7.58	1.48	1.52
4th Quarter 2014	$ 11.54	$ 11.81	79,783	8	7.75	1.49	1.52
1st Quarter 2015	$ 11.81	$ 12.10	51,216	8	7.95	1.49	1.52
2nd Quarter 2015	$ 12.31	$ 12.31	71,073	7	8.11	1.52	1.52
3rd Quarter 2015	$ 12.55	$ 12.59	94,568	13	8.29	1.51	1.52
4th Quarter 2015	$ 12.55	$ 12.93	67,134	17	8.47	1.48	1.53
1st Quarter 2016	$ 13.04	$ 13.18	37,432	9	8.70	1.50	1.51
2nd Quarter 2016	$ 13.50	$ 13.50	122,586	17	8.92	1.51	1.51
3rd Quarter 2016	$ 13.82	$ 13.82	43,449	7	9.13	1.51	1.51
4th Quarter 2016	$ 14.16	$ 14.16	31,080	8	9.38	1.51	1.51
1st Quarter 2017	$ 14.25	$ 14.35	68,190	14	9.52	1.50	1.51
2nd Quarter 2017	$ 14.66	$ 14.66	9,778	5	9.70	1.51	1.51
3rd Quarter 2017	$ 15.00	$ 15.03	2,349,834	6	9.94	1.51	1.51
4th Quarter 2017	$ 15.00	$ 16.87	803,560	35	10.95	1.37	1.54
1st Quarter 2018	$ 15.00	$ 17.00	143,896	8	11.21	1.34	1.52
2nd Quarter 2018	$ 17.26	$ 17.35	12,263	3	11.41	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.

OFFICERS

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& General Counsel

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Chairman - FirstCapital Bank of Texas, N.A.

DON E. COSBY
President - First Bancshares of Texas, Inc.
& Executive Vice President - FirstCapital Bank of Texas, N.A.

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JAY W. ISAACS
President

TRACY BACON
Chief Operating Officer

PHYLLIS BECHNER
Chief Financial Officer

KATIE J. BOYD
Chief Marketing Officer

J. GREG BURGESS
Chief Credit Officer

ELAINE LEE
Chief Compliance Officer

SCOTT NELSON
Chief Lending Officer

GEORGE H. REEVES
Chief Deposit & Technology Officer

ROB SCHUETZ
Chief Technology Officer

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Market President, Midland

BETHANY ETHEREDGE
Branch President

DAVINA HOSICK
Branch President

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Senior Vice President & Team Resources Manager

CHRIS L. McGINNIS
Senior Vice President & IT Manager

RICK MITCHELL
Senior Vice President & Senior Relationship Manager

ROBIN RICHEY
Senior Vice President & Trust Administration Officer

BLAKE SCOTT
Senior Vice President, Controller
& Accounting Department Manager

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Senior Vice President, Controller - First Bancshares of Texas, Inc.

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Vice President & Loan Operations Manager

LISA SHANKS
Vice President, Fraud & Security Officer

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Assistant Vice President, Onboarding & Procurement

LIZETT LEYVA
Assistant Vice President & Credit Administration Manager

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Banking Officer & Branch Manager

ALLEN JACKSON
Banking Officer & Branch Manager

SARAH JAMES
Banking Officer & Customer Experience Officer

LESLIE MARISCAL
Banking Officer & Training Department Manager

HAZEL MORRISON
Banking Officer & Marketing Manager

EDGAR PAZ
Banking Officer & Loan Servicing Asst. I

EVAN ROGERS
Banking Officer & Branch Manager

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Senior Vice President & Retail Banking Manager

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Vice President & CRA Officer

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Vice President & Wire Transfer Manager

MEREDITH STOVER

Vice President & Relationship Manager

NICK PHELPS

Assistant Vice President & IT Help Desk Manager

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Banking Officer, Cash & Treasury Client Services Manager

DELYNDA SELGER

Banking Officer & Wire Transfer Supervisor

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BERRY PIGG

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Senior Vice President & Consumer Credit Underwriting Manager

DARRELL HILL

Senior Vice President & Senior Relationship Manager

CATHY COPPLE

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Vice President & TellerConnect Manager

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Assistant Vice President & Consumer Credit Underwriter

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Assistant Vice President & Information Security Officer

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RUDY MCELROY

Banking Officer & Branch Manager

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City President, Fredricksburg

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Branch President, Marble Falls

TERRY ORTIZ

Vice President & Branch Manager, Marble Falls

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