



First Bancshares, Inc.

Annual Report
December 31, 2018

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Letter to Shareholders

Dear Fellow Shareholders:

Our organization saw many changes that assisted us in ushering in a new era of earnings, operational efficiency, and strong future growth potential in 2018. Our management team and directors have been committed to finding new operational efficiencies and economies of scale resulting from the 2017 merger. As a result of that transaction, we have found ways to utilize our overhead platform, employee base, and technological infrastructure as efficiently as possible. This has allowed the larger organization to reduce overhead expenses to total assets, enhance our efficiency ratio, and produce strong earnings without additional capital expenditures.

In addition, we have been focused on remixing the balance sheet to gain efficiency in our earning assets. Over the year, we reduced our investment positions to reallocate resources into better yielding assets, increased the loan portfolio 4.46%, and increased our capital ratios through strong organic earnings.

Total assets, liabilities, and equity at December 31, 2018 totaled \$345.0 million, \$311.2 million, and \$33.8 million compared to \$356.0 million, \$324.9 million, and \$31.0 million at December 31, 2017, respectively. Net income for the year totaled \$2,982,518, or \$1.17 per share, compared to a \$563,000 loss for the year ended December 31, 2017 or \$0.29 per share for the year ended December 31, 2017.

The most notable event from our results in 2018, will be the payment of the first cash dividend based on financial performance since August of 2008. Based on the results noted above, the Board of Directors approved the payment of a \$0.24 per share cash dividend to shareholders of record as of February 15th, 2019 and paid on February 28th, 2019.

We look forward to seeing you at our Annual Shareholders Meeting on Tuesday, April 30, 2019 at 11:00 a.m. Mountain Time, at Stockmens Bank located at 25 N. Cascade Avenue, Suite 100, Colorado Springs, Colorado. In connection with that meeting, you should have received this year's Annual Report via mail or electronically from your broker, your First Bancshares' proxy materials, and notice of our annual shareholder meeting. We are asking you to vote on the three proposals. Voting is easy and can be done via return mail, telephone, or online; those details are provided in the materials you received. If you need information regarding the proxy materials or the Annual Meeting, please contact Shannon Peterson, Vice President, at (417) 547-7232 or shannonp@fhsb.com.

Thank you for your continued support of our Company.

Sincerely,



Robert M. Alexander
Chairman and Chief Executive Officer
First Bancshares, Inc.

Business of the Company

First Bancshares, Inc. (“Company”), a Missouri corporation, was incorporated on September 30, 1993 for the purpose of becoming the savings and loan holding company for First Home Savings Bank (“Bank”) upon the conversion of First Home from a Missouri mutual to a Missouri stock savings and loan association. The mutual to stock conversion was completed on December 22, 1993.

On July 31, 2017, the Company acquired all the outstanding common stock of Stockmens Bank in an all-stock transaction. As a result of this transaction, the Company had two bank subsidiaries, First Home Bank chartered in Missouri and Stockmens Bank chartered in Colorado. On October 1, 2017, the Company merged its two bank subsidiaries into one bank with Stockmens Bank being the surviving bank.

The Company is not engaged in any significant business activity other than holding the stock of the Bank. Accordingly, the information set forth in the report, including the consolidated financial statements and related data, applies primarily to the Bank.

Stockmens Bank is a Colorado-chartered, non-member commercial bank. The Bank is regulated by the Colorado Department of Finance and the Federal Deposit Insurance Corporation (“FDIC”). The Bank’s deposits are insured up to applicable limits by the FDIC.

The Bank is also a member of the Federal Home Loan Bank (“FHLB”) System. The Bank conducts its business from its home office in Colorado Springs, CO and nine full service branch facilities in Mountain Grove, MO, Marshfield, MO, Ava, MO, Kisse Mill, MO, Gainesville, MO, Sparta, MO, Crane, MO, Springfield, MO and Bartley, NE. The Bank provides its customers with a full array of community banking services and is primarily engaged in the business of attracting deposits from, and making loans to, the general public, including individuals and businesses. The Bank originates real estate loans, including one-to-four family residential mortgage loans, multi-family residential loans, commercial real estate loans, agricultural real estate loans and home equity loans, as well as, non-real estate loans, including commercial business, agricultural business and consumer loans. The Bank also invests in mortgage-back securities, United States Government and agency securities and other assets.

At December 31, 2018, the Company had total consolidated assets of \$345.0 million and consolidated stockholders’ equity of \$33.8 million.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain information concerning the consolidated financial position and operating results of the Company as of and for the dates indicated. The Company is primarily in the business of directing, planning and coordinating the business activities of Stockmens Bank. The consolidated data is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the

	At December 31,			
	2018	2017	2016	2015
	(In thousands)			
FINANCIAL CONDITION DATA:				
Total Assets	\$ 345,034	\$ 355,993	\$ 219,482	\$ 213,030
Loans receivable, net	260,402	249,278	136,802	124,527
Cash, interest-bearing deposits and securities	21,524	39,970	12,249	74,408
Deposits	296,829	307,996	181,727	176,713
Repurchase agreements	5,566	4,609	5,185	4,127
FHLB Advances	3,999	7,997	12,000	13,000
Stockholders' equity	33,816	31,066	19,767	18,550
	Years Ended			Six Months
	2018	2017	2016	Ended
	(In thousands, except per share information)			
OPERATING DATA:				
Interest income	\$ 14,855	\$ 9,844	\$ 7,209	\$ 6,698
Interest expense	2,493	1,584	1,216	1,110
Net interest income	12,362	8,260	5,993	5,588
Provision for loan losses	441	115	-	25
Net interest income after provision for loan losses	11,921	8,145	5,993	5,563
Gains (losses) on securities	(1)	(20)	14	109
Non-interest income, excluding gains (losses) on securities	1,281	1,051	1,003	820
Non-interest expense	9,195	8,221	6,296	5,789
Income (loss) before taxes	4,006	955	714	703
Income tax expense (benefit)	1,024	1,518	(454)	(2,399)
Net income (loss)	\$ 2,982	\$ (563)	\$ 1,168	\$ 3,102
Basic earnings (loss) per share	\$ 1.17	\$ (0.29)	\$ 0.75	\$ 2.00
Diluted earnings (loss) per share	\$ 1.17	\$ (0.29)	\$ 0.75	\$ 2.00
Dividends per share	\$ 0.24	\$ -	\$ -	\$ -

	Year Ended			Six Months Ended
	2018	2017	2016	2015
KEY OPERATING RATIOS:				
Return (loss) on average assets	0.84	(0.21)	0.54	1.52
Return (loss) on average equity	9.28	(2.29)	5.95	17.78
Average equity to average assets	9.08	9.04	9.03	8.57
Interest rate spread for period	3.76	3.85	2.95	2.94
Net interest margin for period	3.80	3.87	2.97	2.96
Non-interest expense to average assets	2.60	3.02	2.90	2.84
Average interest-earning assets to interest-bearing liabilities	104.18	102.69	102.98	102.33
Allowance for loan losses to total loans at end of period	0.84	0.98	1.23	1.35
Net charge-offs (recoveries) to average loans outstanding during the period	0.03	(0.02)	-	(0.04)
Dividend payout ratio	0.24	N/A	N/A	N/A

	At December 31,			
	2018	2017	2016	2015
OTHER DATA:				
Number of:				
Loans outstanding	2,157	2,264	1,849	1,755
Deposit accounts	16,531	16,990	14,896	15,235
Full service offices	10	10	8	8



RSM US LLP

Independent Auditor's Report

To the Board of Directors
First Bancshares, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017; the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Bancshares, Inc. and Subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
February 26, 2019

First Bancshares, Inc. and Subsidiary

**Consolidated Balance Sheets
December 31, 2018 and 2017**

	2018	2017
Assets		
Cash and cash equivalents	\$ 5,955,161	\$ 20,673,534
Interest-bearing deposits at other financial institutions	15,569,014	19,296,468
Securities available for sale	41,530,118	44,380,889
Securities held to maturity	119,198	143,375
Federal Home Loan Bank stock, at cost	482,400	420,900
Loans receivable, net	260,402,210	249,278,229
Premises and equipment, net	7,473,137	7,876,428
Real estate owned and other repossessed assets, net	195,400	203,868
Cash surrender value of bank-owned life insurance	5,916,487	5,743,204
Deferred tax asset	1,065,469	1,743,667
Other assets	3,953,520	3,717,407
Goodwill and intangibles	2,372,299	2,515,254
	\$ 345,034,413	\$ 355,993,223
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 296,829,254	\$ 307,995,566
Repurchase agreements	5,565,990	4,608,524
Federal Home Loan Bank borrowings	3,998,751	7,997,164
Subordinated borrowings	2,508,335	2,514,585
Other liabilities	2,315,451	1,811,490
Total liabilities	311,217,781	324,927,329
Commitments and contingencies (Notes 4 and 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 2,000,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value; 8,000,000 shares authorized; 3,898,808 issued; 2,544,298 and 2,552,512 outstanding at December 31, 2018 and 2017, respectively	38,988	38,988
Additional paid-in capital	29,706,202	29,706,202
Retained earnings	24,508,769	21,526,251
Accumulated other comprehensive loss	(1,192,966)	(1,075,880)
	53,060,993	50,195,561
Treasury stock, at cost, 1,354,510 and 1,346,296 shares at December 31, 2018 and 2017, respectively	(19,244,361)	(19,129,667)
Total stockholders' equity	33,816,632	31,065,894
	\$ 345,034,413	\$ 355,993,223

See notes to consolidated financial statements.

First Bancshares, Inc. and Subsidiary

**Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017**

	2018	2017
Interest income:		
Loans	\$ 13,755,701	\$ 8,693,039
Securities	814,893	914,352
Other interest-earning assets	284,812	236,626
	<u>14,855,406</u>	<u>9,844,017</u>
Interest expense:		
Deposits	2,076,534	1,290,821
Repurchase agreements	127,934	76,206
Federal Home Loan Bank borrowings	288,476	217,108
	<u>2,492,944</u>	<u>1,584,135</u>
Net interest income	12,362,462	8,259,882
Provision for loan losses	441,217	115,000
Net interest income after provision for loan losses	11,921,245	8,144,882
Noninterest income:		
Service charges and other fee income	1,056,960	938,618
Loss on sale of securities	(590)	(19,636)
Gain on sale of real estate owned and other repossessed assets	18,227	11,622
Other	205,205	100,069
	<u>1,279,802</u>	<u>1,030,673</u>
Noninterest expense:		
Compensation and employee benefits	4,785,261	4,022,693
Occupancy and equipment	1,472,604	1,264,734
Professional fees	842,792	1,076,639
Deposit insurance premiums	131,268	115,557
Other	1,962,790	1,741,498
	<u>9,194,715</u>	<u>8,221,121</u>
Net income before income tax expense	4,006,332	954,434
Income tax expense	1,023,814	1,517,872
Net income (loss)	\$ 2,982,518	\$ (563,438)

See notes to consolidated financial statements.

First Bancshares, Inc. and Subsidiary

**Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2018 and 2017**

	2018	2017
Net income (loss)	\$ 2,982,518	\$ (563,438)
Other comprehensive income, available-for-sale securities:		
Unrealized holding (losses) gains arising during the year	(155,525)	270,317
Reclassification adjustment for losses included in net income before income taxes	(590)	(19,636)
Income tax benefit (expense)	39,029	(42,196)
Total other comprehensive income (loss)	(117,086)	208,485
Comprehensive income (loss)	\$ 2,865,432	\$ (354,953)

See notes to consolidated financial statements.

First Bancshares, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2016	\$ 28,950	\$ 18,062,566	\$ 21,917,548	\$(19,129,667)	\$ (1,112,224)	\$ 19,767,173
Net loss	-	-	(563,438)	-	-	(563,438)
Other comprehensive income	-	-	-	-	208,485	208,485
Tax Cuts and Jobs Act, reclassification from AOCI to retained earnings, tax effect	-	-	172,141	-	(172,141)	-
Acquisition of Stockmens Bank	10,018	11,620,556	-	-	-	11,630,574
Issuance of 2,000 shares of common stock at \$11.55 per share	20	23,080	-	-	-	23,100
Balance, December 31, 2017	38,988	29,706,202	21,526,251	(19,129,667)	(1,075,880)	31,065,894
Net income	-	-	2,982,518	-	-	2,982,518
Other comprehensive loss	-	-	-	-	(117,086)	(117,086)
Purchase 8,214 shares of treasury stock	-	-	-	(114,694)	-	(114,694)
Balance, December 31, 2018	\$ 38,988	\$ 29,706,202	\$ 24,508,769	\$(19,244,361)	\$ (1,192,966)	\$ 33,816,632

See notes to consolidated financial statements.

First Bancshares, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 2,982,518	\$ (563,438)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	653,717	547,457
Net premium amortization on securities	67,385	101,969
Loss on sale of securities	590	19,636
Provision for loan losses	441,217	115,000
Gain on sale of premises and equipment	(3,409)	-
Gain on sale of real estate owned and other repossessed assets	(18,227)	(11,622)
Deferred income taxes	717,227	1,577,425
Net change in operating assets and liabilities:		
(Increase) decrease in cash surrender value of bank-owned life insurance	(173,283)	28,749
(Increase) decrease in other assets	(236,113)	(30,841)
Increase (decrease) in other liabilities	503,961	25,516
Net cash provided by operating activities	4,935,583	1,809,851
Cash flows from investing activities:		
Net decrease in interest-bearing deposits in other financial institutions	3,727,454	1,686,473
Proceeds from sales, maturities and principal paydowns of securities available for sale	2,626,681	10,718,733
Proceeds from calls and maturities of securities held to maturity	24,177	10,420
Purchase of Federal Home Loan Bank stock	(61,500)	-
Proceeds from Federal Home Loan Bank stock	-	474,700
Net increase in loans receivable	(11,933,430)	(17,875,301)
Purchase of premises and equipment	(122,461)	(431,183)
Proceeds from sale of real estate owned and other repossessed assets	394,927	164,314
Proceeds from sales of premises and equipment	13,736	-
Purchase of CSV life insurance	-	(164,415)
Cash acquired from business combination (Note 9)	-	4,695,735
Net cash used in investing activities	(5,330,416)	(720,524)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(11,166,312)	20,951,175
Net increase (decrease) in repurchase agreements	957,466	(576,325)
Proceeds from Federal Home Loan Bank borrowings	-	17,500,000
Repayment of Federal Home Loan Bank borrowings	(4,000,000)	(22,999,061)
Purchase of common stock for treasury	(114,694)	-
Net cash provided by (used in) financing activities	(14,323,540)	14,875,789
Net increase (decrease) in cash and cash equivalents	(14,718,373)	15,965,116
Cash and cash equivalents:		
Beginning of year	20,673,534	4,708,418
End of year	\$ 5,955,161	\$ 20,673,534

(Continued)

First Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest on deposits and other borrowings	\$ 2,534,477	\$ 1,594,702
Income taxes paid	\$ 137,699	\$ 29,071
Supplemental schedule of noncash investing and financing activities:		
Loans transferred to real estate owned	\$ 368,232	\$ 356,560
Net transfers from acquisition (Note 9)	\$ -	\$ 6,934,839

See notes to consolidated financial statements.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of operations: First Bancshares, Inc., a Missouri corporation (the Company), is a bank holding company. First Bancshares, Inc.'s wholly owned subsidiary is Stockmens Bank (the Bank). The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southern Missouri, eastern Colorado and southwestern Nebraska. The Company and the Bank are also subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities. On July 31, 2017, First Bancshares, Inc. acquired all of the outstanding common stock of Stockmens Bank in an all-stock transaction. For further discussion regarding the acquisition, see Note 9, Acquisition.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiaries, Fybar Service Corporation and SB Cascade. In consolidation, all significant intercompany balances and transactions have been eliminated.

Use of estimates: In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the fair value of financial instruments, the allowance for loan losses, goodwill, and the valuation allowance on deferred income tax assets.

Concentrations of credit risk: Most of the Company's lending activity occurs within the states of Missouri, Colorado and Nebraska. These include 11 counties in southwest Missouri, three rural counties in southwestern Nebraska, and four counties surrounding the metropolitan area of Colorado Springs, Colorado. After the acquisition (see Note 9), the Company's loan portfolio consists of residential real estate, commercial and commercial real estate loans, land and consumer loans. As of December 31, 2018 and 2017, there were no concentrations of loans related to any single industry in excess of 10 percent of total loans.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, cash consists of cash on hand and deposits with other financial institutions. Cash equivalents include highly liquid instruments with an original maturity of three months or less. Cash flows from interest-bearing deposits in other financial institutions, loans, deposits and retail repurchase agreements are reported net.

Securities: Securities designated as available-for-sale provide the Company with certain flexibility in managing its investment portfolio. Such securities are reported at fair value with unrealized gains and losses excluded from income and reported net of applicable income taxes as a component of comprehensive income.

The Company also has securities held to maturity, which are designated as such because they are not intended to be sold until maturity and management has the intent and ability to hold them until maturity. Securities held to maturity are carried at amortized cost, with revenue recognized on an effective-yield basis.

Interest income on securities is recognized on the interest method according to the terms of the security. Gains or losses on sales of securities are recognized in operations at the time of sale and are determined by the difference between the net sales proceeds and the cost of the securities using the specific-identification method, adjusted for any unamortized premiums or discounts. Premiums or discounts are amortized or accreted to income using the interest method over the period to maturity.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Declines in the fair value of equity securities below their amortized cost basis that are deemed to be other-than-temporary impairment losses are reflected as realized losses in the consolidated statements of operations. To determine if an other-than-temporary impairment exists on an equity security, the Company considers (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial condition and near-term prospects of the issuer, (c) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in fair value and (d) the current market conditions. To determine if an other-than-temporary impairment exists on a debt security, the Company first determines if (a) it intends to sell the security or (b) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Company will recognize an other-than-temporary impairment in earnings equal to the difference between the fair value of the security and its adjusted cost basis. If neither of the conditions is met, the Company determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The amount of the credit loss is included in the consolidated statements of operations as an other-than-temporary impairment on securities and is an adjustment to the cost basis of the security. The portion of the total impairment that is related to all other factors is included in other comprehensive income.

Federal Home Loan Bank stock: The Bank is a member of the Federal Home Loan Bank (FHLB) system and, as such, is required to maintain an investment in capital stock of the FHLB of Des Moines and FHLB of Topeka. The stock does not have a readily determinable fair market value and, as such, is carried at cost and evaluated for impairment annually. There have been no other-than-temporary impairments recorded on this security.

Loans receivable: Loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Direct loan origination fees and costs are generally being deferred, and the net amounts are amortized as an adjustment of the related loan's yield. The Company generally amortizes these amounts over the contractual life. Direct loan origination fees and costs related to loans sold to unrelated third parties are recognized as income or expense in the current consolidated statement of operations. Commitment fees based upon a percentage of customers' unused lines of credit and fees related to standby letters of credit are not significant to the consolidated financial statements.

The Company's portfolio segments and classes are as follows:

- Real estate:
 - Residential
 - Commercial
- Land
- Commercial
- Consumer

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Generally, for all classes of loans, loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions, which is generally when loans become 90 days past due. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Troubled debt restructuring: A troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates, and reduction of stated interest rates or accrued interest. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings. See Note 3 for disclosure of the Company's troubled debt restructurings.

Allowance for loan losses: For all classes of loans, the allowance for loan losses is maintained at the level considered adequate by management of the Company to provide for losses that are probable. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. In determining the adequacy of the allowance balance, the Company makes continuous evaluations of the loan portfolio and related off-balance-sheet commitments, and considers current economic conditions, historical loan loss experience, review of specific problem loans, and other factors.

A discussion of the risk characteristics and the allowance for loan losses by each loan class follows:

For real estate and land loans, the Company focuses on real estate developers, investors and owner-occupants in its recognized trade area. The Company provides term loans to finance the acquisition of real estate and lines of credit to finance land acquisition and development and construction of one- to four-family residential and commercial properties. The Company finances various types of real estate, including nonresidential and residential owner-occupied, land acquisition and development, and nonresidential, non-owner-occupied properties. It is the Company's policy that prudently underwritten real estate loans should reflect all relevant credit factors, and approval is based on the following:

- The capacity of the borrower, or income from the underlying property, to adequately service the debt
- The value of the mortgaged property
- The overall creditworthiness of the borrower and the borrower's liquidity
- The level of equity invested in the property
- Historic and projected cash flow data, including interest and vacancy rates and sensitivity analysis, if investment property-related
- Any secondary sources of repayment

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Commercial and commercial real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand their business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed, including business equipment loans, farm equipment loans and cattle loans, and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from their customers.

The Company originates consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value, collection remedies, the total aggregate balance to one borrower, and documentation requirements.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

The allowance for estimated losses on loans consists of specific and general components.

The specific component relates to loans that are classified as impaired, as defined below. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a case-by-case basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The general component consists of quantitative and qualitative factors and covers nonimpaired loans. The quantitative factors are based on historical charge-off experience and expected loss given default derived from the Company's internal risk-rating process. See below for a detailed description of the Company's internal risk-rating scale. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss or risk-rating data.

For all loans, the Company utilizes the following internal risk-rating scale:

Grade 1: This risk grading is generally reserved for credits fully secured by deposits at the Bank.

Grade 2: These are well-established borrowers operating in a reasonably stable industry that may be only moderately affected by the business cycle. Management, owners and guarantors have unquestioned character, as demonstrated by repeated performance. Elements of strength are present in such areas as liquidity, stability of margins and cash flows, diversity of assets, and lack of dependence on one type of business. The total credit relationship is less than \$500,000.

Grade 3: This grade includes loans that are "pass grade" loans to borrowers of acceptable credit quality and risk. These borrowers have satisfactory asset quality and liquidity, adequate debt capacity and coverage, and good management in critical positions.

Grade 4: This grade includes loans that require "increased management attention." These borrowers generally have limited additional debt capacity and modest coverage and average or below average asset quality, margins and market share.

Grade 5: A "special mention" asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Assets that could be included in the special mention category include those that have developed minor credit weaknesses since origination, as well as those that were originated with such weaknesses. This includes loans the institution is unable to properly supervise because of an inadequate loan agreement, inadequate control over collateral (when such control is necessary to effect full repayment of the loan), or when a loan is made with significant deviations from prudent lending practices.

Grade 6: A "substandard" asset is inadequately protected by the current net worth and/or paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Assets classified as substandard may be characterized by one or a combination of the following weaknesses:

- The primary source of repayment is gone or severely impaired and the institution may have to rely upon the secondary source.
- The asset is (or was) a loan or an investment that is nonperforming or nonearning.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- A loss may not seem likely, but sufficient problems have arisen to cause the Bank to go to extraordinary lengths to protect its position in order to maintain a high probability of repayment.
- The obligors are unable to generate enough cash flow to reduce their debts.
- There is a material deterioration in collateral value (if the collateral is expected to be a primary source of repayment).
- Flaws in security agreement or lien documentation leave the Bank in a subordinated or unsecured position when the collateral is likely to be needed for the repayment of the loan.

Grade 7: An asset classified “doubtful” has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The likelihood of a loss on an asset or portion of an asset classified doubtful is high. Its classification as “loss” is not appropriate, however, because pending events are expected to materially reduce the amount of loss.

Grade 8: An asset, or portion thereof, classified “loss” is considered uncollectible and of such little value that its continuance on the institution’s books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has no recovery or salvage value, but rather, there is much doubt about whether, how much, or when the recovery would occur. As such, it is not practical or desirable to defer the write-off.

The Company employs independent, outside consultants who review and validate the credit risk program on a periodic basis. The review consists of a sample of borrowing relationships over \$750,000, a sample of loans secured by residential real estate, and a sample of commercial loans. Results of these reviews are presented to management and the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company’s policies and procedures.

The Company provides many types of consumer and other loans, including motor vehicle, home improvement, home equity and small personal loans. The lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans, consumer and other loans, these large groups of smaller-balance homogenous loans are collectively evaluated for impairment, unless the loan has been restructured as a troubled debt restructuring, in which case the loan would be specifically evaluated for impairment. The Company applies a quantitative factor based on historical charge-off experience in total for each of these segments.

Troubled debt restructurings are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

Credit-related financial instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Real estate owned and repossessed assets: Real estate acquired through foreclosure is initially recorded at fair value, less estimated costs to sell, establishing a new cost basis. If the fair value less costs to sell is less than the respective loan balance, a charge against the allowance for loan losses is recorded upon property acquisition. Declines in property value subsequent to acquisition are charged to operations. Holding costs are expensed as incurred.

Cash surrender value of bank-owned life insurance: The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized upon surrender of the policy.

Premises and equipment, net: Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Depreciation is computed principally on a straight-line basis over the estimated useful lives of the related assets. Additions, major replacements and improvements are added to the respective asset balance at cost. Maintenance, repairs and minor replacements are charged directly to expense as incurred. Buildings and investment real estate have estimated useful lives ranging from 15 to 40 years. All other assets have estimated useful lives ranging from three to 10 years with improvements being depreciated over the remaining estimated life of the related asset.

Transfers of financial assets: Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Impairment of long-lived assets: Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Repurchase agreements: The Company has entered into sales of securities under agreements to repurchase. The amounts deposited under these agreements represent short-term borrowings and are reflected as a liability in the consolidated balance sheets. Securities held in safekeeping are pledged to the depositors under a written custodial agreement that explicitly recognizes the depositors' interest in the securities. Securities sold under agreements to repurchase generally mature within one day to 12 months from the transaction date.

Goodwill and intangibles: Goodwill results from the acquisition described in Note 9 and represents the excess of the purchase price over the fair value of the acquired assets, liabilities and identifiable intangible assets. Goodwill is subject to an impairment test annually or more often if conditions indicate a possible impairment. The Company has completed its annual goodwill impairment test and has determined that there is no impairment of goodwill at December 31, 2018.

The core deposit intangible asset resulted from the acquisition described in Note 9 and is amortized using the straight-line method over its useful life.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes: The Company files its tax return on a consolidated basis with its subsidiary. The entities follow the direct reimbursement method of accounting for income taxes under which income taxes or credits that result from the subsidiary's inclusion on the consolidated tax return are paid to or received from the parent company.

Deferred taxes are determined using the liability (or balance sheet) method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company accounts for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Company recognizes interest and penalties on income taxes as a component of income tax expense. The Company has not accrued any additional income taxes due to uncertain tax positions. As of December 31, 2018, tax years for 2017, 2016, and 2015 are subject to examination by the tax authorities. With a few exceptions, as of December 31, 2018, the Company is no longer subject to U.S. federal, state or local examinations by tax authorities for the years before 2015. Tax year 2018 was open as of December 31, 2018.

Revenue recognition: Deposit account transaction fees and other ancillary noninterest income related to the Bank's deposit and lending activities are recognized as services are performed.

On January 1, 2018, the Company adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018, are presented under Topic 606, while prior-period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Topic 606 does not apply to revenue associated with financial statements, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives and certain credit card fees are also not in the scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust services, deposit-related fees, interchange fees and other. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in scope of Topic 606 are discussed below.

	Years Ended December 31	
	2018	2017
Noninterest income:		
In scope of Topic 606:		
Service charges and other fee income	\$ 1,056,960	\$ 938,618
Loss on sale of securities	(590)	(19,636)
Gain on sale of real estate owned and other repossessed assets	18,227	11,622
Other	205,205	100,069
Total noninterest income	<u>\$ 1,279,802</u>	<u>\$ 1,030,673</u>

Service charges and other fee income: Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account-related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the revenue recognized, over the period in which the service is provided. Check orders and other deposit account-related fees are largely transactional-based; therefore, the Company's performance obligation is satisfied and related revenue is recognized at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Other: Other noninterest income consists mostly of the change in the cash surrender value of bank-owned life insurance policies and some miscellaneous reimbursements. The change in the cash surrender value is recorded on a monthly basis, and reimbursements are recorded when received.

Contract balances: A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2018 and 2017, the Company did not have any significant contract balances.

Contract acquisition costs: In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient that allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Stock-based compensation: The Company records any stock-based employee compensation cost using the fair value method. No stock options have been granted since 2007.

Comprehensive income (loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income. For the Company, other comprehensive income consists entirely of unrealized gains (losses) on securities available for sale, net of deferred taxes and realized losses on sales of securities.

Reclassifications: Certain prior-year amounts have been reclassified to be consistent with current-year classifications. These reclassifications had no effect on total net income or stockholders' equity.

Recently issued accounting pronouncements: *Leases (Topic 842)* is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The standard will require the Company to recognize a right-of-use asset and a lease liability for all leases (excluding short-term leases). The Company intends to adopt the standard for the fiscal year 2019. Management is in the process of reviewing current leases and evaluating the impact this will have on the consolidated financial statements.

Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment is effective for public business entities beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments eliminate Step 2 from the goodwill impairment test. The annual or interim goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company early adopted the standard on January 1, 2018, with no significant impact on the consolidated financial statements.

Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities is effective for public business entities for fiscal years beginning after December 15, 2018. The amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The Company intends to adopt the standard January 1, 2019, with no material impact on the consolidated financial statements.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments is effective for Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). For public companies that are not SEC filers, the standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Company intends to adopt the standard January 1, 2021, and is still evaluating the impact this will have on the consolidated financial statements.

Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities is effective for public business entities for years beginning after December 15, 2017. The amendments update certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company adopted the standard on January 1, 2018, with no significant impact on the consolidated financial statements.

Subsequent events: The Company has evaluated all subsequent events through February 26, 2019, the date the consolidated financial statements were available to be issued.

Note 2. Securities

The amortized cost and estimated fair value of securities available for sale are as follows:

	December 31, 2018			Fair Value
	Amortized Cost	Gross Unrealized		
		Gains	Losses	
Securities, available for sale:				
United States government and federal agency obligations	\$ 27,998,391	\$ -	\$ (910,211)	\$ 27,088,180
Municipal securities	1,407,256	-	(18,882)	1,388,374
Federal agency residential mortgage-backed securities	2,876,222	-	(95,836)	2,780,386
Federal agency collateralized mortgage obligations	10,640,870	-	(565,692)	10,075,178
Common and preferred stocks	198,000	-	-	198,000
Total, available for sale	<u>\$ 43,120,739</u>	<u>\$ -</u>	<u>\$ (1,590,621)</u>	<u>\$ 41,530,118</u>
Securities, held to maturity:				
Municipal securities	\$ 119,198	\$ -	\$ -	\$ 124,042
Total, held to maturity	<u>\$ 119,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,042</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Securities (Continued)

	December 31, 2017			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Securities, available for sale:				
United States government and federal agency obligations	\$ 27,997,975	\$ -	\$ (839,955)	\$ 27,158,020
Municipal securities	1,492,126	-	(17,162)	1,474,964
Federal agency residential mortgage-backed securities	3,347,394	-	(50,257)	3,297,137
Federal agency collateralized mortgage obligations	12,779,900	-	(527,132)	12,252,768
Common and preferred stocks	198,000	-	-	198,000
Total, available for sale	<u>\$ 45,815,395</u>	<u>\$ -</u>	<u>\$ (1,434,506)</u>	<u>\$ 44,380,889</u>
Securities, held to maturity:				
Municipal securities	\$ 143,375	\$ -	\$ -	\$ 161,830
Total, held to maturity	<u>\$ 143,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 161,830</u>

The amortized cost and estimated market value of securities at December 31, 2018, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, such as residential mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Due after one year through five years	\$ 26,070,835	\$ 25,272,645	\$ 119,198	\$ 119,198
Due after five years through 10 years	3,334,812	3,203,912	-	-
Subtotal	<u>29,405,647</u>	<u>28,476,557</u>	<u>119,198</u>	<u>119,198</u>
Federal agency residential mortgage-backed securities and collateralized mortgage obligations	13,517,092	12,855,561	-	-
Common and preferred stocks	198,000	198,000	-	-
Total	<u>\$ 43,120,739</u>	<u>\$ 41,530,118</u>	<u>\$ 119,198</u>	<u>\$ 119,198</u>

During the years ended December 31, 2018 and 2017, gross realized loss on the sale of securities was \$590 and \$19,636, respectively.

The carrying value of securities pledged on repurchase agreements at December 31, 2018 and 2017, was \$25,124,950 and \$25,198,880, respectively.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 2. Securities (Continued)

The following tables present the fair value and gross unrealized losses of the Company's securities with unrealized losses aggregated by category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017:

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Securities, available for sale:						
United States government and federal agency obligations	\$ -	\$ -	\$ 27,088,180	\$ (910,211)	\$ 27,088,180	\$ (910,211)
Municipal securities	-	-	879,204	(18,882)	879,204	(18,882)
Federal agency residential mortgage-backed securities	-	-	2,780,386	(95,836)	2,780,386	(95,836)
Federal agency collateralized mortgage obligations	-	-	10,075,178	(565,692)	10,075,178	(565,692)
Total, available for sale	\$ -	\$ -	\$ 40,822,948	\$ (1,590,621)	\$ 40,822,948	\$ (1,590,621)

	December 31, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Securities, available for sale:						
United States government and federal agency obligations	\$ -	\$ -	\$ 26,888,668	\$ (839,955)	\$ 26,888,668	\$ (839,955)
Municipal securities	99,943	(598)	791,965	(16,564)	891,908	(17,162)
Federal agency residential mortgage-backed securities	-	-	3,518,329	(50,257)	3,518,329	(50,257)
Federal agency collateralized mortgage obligations	-	-	12,300,929	(527,132)	12,300,929	(527,132)
Total, available for sale	\$ 99,943	\$ (598)	\$ 43,499,891	\$ (1,433,908)	\$ 43,599,834	\$ (1,434,506)

As of December 31, 2018, the investment portfolio included 60 securities. Of this number, 56 securities have current unrealized losses, 56 of which have existed for longer than one year. All of the debt securities with unrealized losses are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates and credit-rating information, management believes the declines in fair value for these debt securities are temporary. In addition, the Company does not have the intent to sell these debt securities prior to their anticipated recovery and will more likely than not be required to sell these securities prior to maturity.

The Company did not recognize any other-than-temporary impairment on securities available for sale during the year ended December 31, 2018.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Loans Receivable

At December 31, 2018 and 2017, loans consisted of the following:

Type of Loan	2018	2017
Real estate:		
Residential	\$ 76,588,594	\$ 79,778,401
Commercial	114,779,512	110,439,193
Land	6,239,991	4,192,516
Commercial	62,647,517	53,806,691
Consumer	2,152,399	2,756,166
Total loans	<u>262,408,013</u>	<u>250,972,967</u>
Add unamortized deferred loan costs, net of origination fees	188,523	141,226
Less allowance for loan losses	(2,194,326)	(1,835,964)
Total loans receivable, net	<u>\$ 260,402,210</u>	<u>\$ 249,278,229</u>

The aging of the loan portfolio, by classes of loans, as of December 31, 2018 and 2017, is summarized below:

Type of Loan	December 31, 2018				
	Accruing Loans		Nonaccrual Loans	Current Loans	Total Loans
	30–89 Days Past Due	90+ Days Past Due			
Real estate:					
Residential	\$ 203,391	\$ -	\$ 148,637	\$ 76,236,566	\$ 76,588,594
Commercial	-	-	-	114,779,512	114,779,512
Land	-	-	338,705	5,901,286	6,239,991
Commercial	629	-	-	62,646,888	62,647,517
Consumer	-	-	-	2,152,399	2,152,399
Total loans	<u>\$ 204,020</u>	<u>\$ -</u>	<u>\$ 487,342</u>	<u>\$ 261,716,651</u>	<u>\$ 262,408,013</u>
Type of Loan	December 31, 2017				
	Accruing Loans		Nonaccrual Loans	Current Loans	Total Loans
	30–89 Days Past Due	90+ Days Past Due			
Real estate:					
Residential	\$ 137,726	\$ -	\$ 242,956	\$ 79,397,719	\$ 79,778,401
Commercial	-	-	340,621	110,098,572	110,439,193
Land	-	-	-	4,192,516	4,192,516
Commercial	-	-	-	53,806,691	53,806,691
Consumer	30,089	-	-	2,726,077	2,756,166
Total loans	<u>\$ 167,815</u>	<u>\$ -</u>	<u>\$ 583,577</u>	<u>\$ 250,221,575</u>	<u>\$ 250,972,967</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Loans Receivable (Continued)

Nonperforming loans, by classes of loans, as of December 31, 2018 and 2017, are summarized as follows:

		December 31, 2018				
		Accruing Past Due 90 Days or More	Nonaccrual Loans	Troubled Debt Restructurings— Accruing	Total Nonperforming Loans	Percentage of Total Nonperforming Loans
Real estate:						
Residential	\$	-	\$ 148,637	\$ 2,783	\$ 151,420	30.89%
Land		-	338,705	-	338,705	69.11%
	\$	-	\$ 487,342	\$ 2,783	\$ 490,125	100.00%

		December 31, 2017				
		Accruing Past Due 90 Days or More	Nonaccrual Loans	Troubled Debt Restructurings— Accruing	Total Nonperforming Loans	Percentage of Total Nonperforming Loans
Real estate:						
Residential	\$	-	\$ 242,956	\$ 159,928	\$ 402,884	54.19%
Commercial		-	340,621	-	340,621	45.81%
	\$	-	\$ 583,577	\$ 159,928	\$ 743,505	100.00%

The following tables detail activity in the allowance for loan losses by class of loan for the years ended December 31, 2018 and 2017:

		Year Ended December 31, 2018					
		Real Estate Residential	Real Estate Commercial	Land	Commercial	Consumer	Total
Balance, beginning	\$	555,151	\$ 684,146	\$ 46,375	\$ 528,489	\$ 21,803	\$ 1,835,964
Provision charged to expense		72,880	50,858	42,738	274,939	(198)	441,217
Recoveries		57,627	14,278	-	2,725	4,591	79,221
		685,658	749,282	89,113	806,153	26,196	2,356,402
Loans charged off		(125,587)	-	-	(31,493)	(4,996)	(162,076)
Balance, ending	\$	560,071	\$ 749,282	\$ 89,113	\$ 774,660	\$ 21,200	\$ 2,194,326

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Loans Receivable (Continued)

	Year Ended December 31, 2017					
	Real Estate Residential	Real Estate Commercial	Land	Commercial	Consumer	Total
Balance, beginning	\$ 382,770	\$ 781,235	\$ 62,846	\$ 454,651	\$ 24,995	\$ 1,706,497
Provision charged to expense	166,468	(97,653)	(16,471)	62,620	36	115,000
Recoveries	6,772	13,798	-	11,218	-	31,788
	556,010	697,380	46,375	528,489	25,031	1,853,285
Loans charged off	(859)	(13,234)	-	-	(3,228)	(17,321)
Balance, ending	\$ 555,151	\$ 684,146	\$ 46,375	\$ 528,489	\$ 21,803	\$ 1,835,964

The allowance for loan losses by impairment evaluation and by portfolio class, as of December 31, 2018 and 2017, is summarized as follows:

	December 31, 2018					
	Real Estate Residential	Real Estate Commercial	Land	Commercial	Consumer	Total
Allowance for loans individually evaluated for impairment	\$ 39,700	\$ -	\$ -	\$ -	\$ -	\$ 39,700
Allowance for loans collectively evaluated for impairment	520,371	749,282	89,113	774,660	21,200	2,154,626
	\$ 560,071	\$ 749,282	\$ 89,113	\$ 774,660	\$ 21,200	\$ 2,194,326
Loans individually evaluated for impairment	\$ 1,043,385	\$ -	\$ 8,523	\$ 147,049	\$ -	\$ 1,198,957
Loans collectively evaluated for impairment	75,545,209	114,779,512	6,231,468	62,500,468	2,152,399	261,209,056
	\$ 76,588,594	\$ 114,779,512	\$ 6,239,991	\$ 62,647,517	\$ 2,152,399	\$ 262,408,013
	December 31, 2017					
	Real Estate Residential	Real Estate Commercial	Land	Commercial	Consumer	Total
Allowance for loans individually evaluated for impairment	\$ 108,618	\$ -	\$ -	\$ -	\$ -	\$ 108,618
Allowance for loans collectively evaluated for impairment	446,533	684,146	46,375	528,489	21,803	1,727,346
	\$ 555,151	\$ 684,146	\$ 46,375	\$ 528,489	\$ 21,803	\$ 1,835,964
Loans individually evaluated for impairment	\$ 1,139,444	\$ -	\$ 544,885	\$ 1,505,536	\$ -	\$ 3,189,865
Loans collectively evaluated for impairment	78,638,957	110,439,193	3,647,631	52,301,155	2,756,166	247,783,102
	\$ 79,778,401	\$ 110,439,193	\$ 4,192,516	\$ 53,806,691	\$ 2,756,166	\$ 250,972,967

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Loans Receivable (Continued)

Loans, by classes of loans, considered to be impaired as of December 31, 2018 and 2017, are summarized as follows:

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized for Cash Payments Received
Classes of loans:					
Impaired loans with no specific allowance recorded:					
Real estate:					
Residential	\$ 861,526	\$ 861,526	\$ -	\$ 746,396	\$ 43,899
Land	8,523	8,523	-	276,704	9,585
Commercial	147,049	147,049	-	826,293	82,657
	<u>\$ 1,017,098</u>	<u>\$ 1,017,098</u>	<u>\$ -</u>	<u>\$ 1,849,393</u>	<u>\$ 136,141</u>
Impaired loans with specific allowance recorded:					
Real estate:					
Residential	\$ 181,859	\$ 181,859	\$ 39,700	\$ 345,019	\$ 11,132
Land	-	-	-	-	-
Commercial	-	-	-	-	-
	<u>\$ 181,859</u>	<u>\$ 181,859</u>	<u>\$ 39,700</u>	<u>\$ 345,019</u>	<u>\$ 11,132</u>
Total impaired loans:					
Real estate:					
Residential	\$ 1,043,385	\$ 1,043,385	\$ 39,700	\$ 1,091,415	\$ 55,031
Land	8,523	8,523	-	276,704	9,585
Commercial	147,049	147,049	-	826,293	82,657
	<u>\$ 1,198,957</u>	<u>\$ 1,198,957</u>	<u>\$ 39,700</u>	<u>\$ 2,194,412</u>	<u>\$ 147,273</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Loans Receivable (Continued)

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized for Cash Payments Received
Classes of loans:					
Impaired loans with no specific allowance recorded:					
Real estate:					
Residential	\$ 631,265	\$ 631,265	\$ -	\$ 515,030	\$ 31,143
Land	544,885	204,143	-	306,717	20,540
Commercial	1,505,536	1,846,278	-	752,768	88,799
	<u>\$ 2,681,686</u>	<u>\$ 2,681,686</u>	<u>\$ -</u>	<u>\$ 1,574,515</u>	<u>\$ 140,482</u>
Impaired loans with specific allowance recorded:					
Real estate:					
Residential	\$ 508,179	\$ 508,179	\$ 108,618	\$ -	\$ 16,173
Land	-	-	-	-	-
Commercial	-	-	-	-	-
	<u>\$ 508,179</u>	<u>\$ 508,179</u>	<u>\$ 108,618</u>	<u>\$ -</u>	<u>\$ 16,173</u>
Total impaired loans:					
Real estate:					
Residential	\$ 1,139,444	\$ 1,139,444	\$ 108,618	\$ 515,030	\$ 47,316
Land	544,885	204,143	-	306,717	20,540
Commercial	1,505,536	1,846,278	-	752,768	88,799
	<u>\$ 3,189,865</u>	<u>\$ 3,189,865</u>	<u>\$ 108,618</u>	<u>\$ 1,574,515</u>	<u>\$ 156,655</u>

Impaired loans for which no allowance has been provided as of December 31, 2018 and 2017, have adequate collateral, based on management's current estimates.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 3. Loans Receivable (Continued)

The following tables show the outstanding balance of loans by credit quality indicator and loan class as of December 31, 2018 and 2017:

Type of Loan	December 31, 2018				Total
	Pass (Grades 1-4)	(Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	
Real estate:					
Residential	\$ 75,395,073	\$ 150,136	\$ 1,043,385	\$ -	\$ 76,588,594
Commercial	112,124,079	2,646,910	8,523	-	114,779,512
Land	6,239,991	-	-	-	6,239,991
Commercial	62,000,512	499,956	147,049	-	62,647,517
Consumer	2,132,732	19,667	-	-	2,152,399
Total gross loans	<u>\$257,892,387</u>	<u>\$ 3,316,669</u>	<u>\$ 1,198,957</u>	<u>\$ -</u>	<u>\$ 262,408,013</u>

Type of Loan	December 31, 2017				Total
	Pass (Grades 1-4)	(Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	
Real estate:					
Residential	\$ 78,371,896	\$ 267,061	\$ 1,139,444	\$ -	\$ 79,778,401
Commercial	107,067,120	3,167,930	204,143	-	110,439,193
Land	996,439	1,349,799	1,846,278	-	4,192,516
Commercial	52,235,588	1,571,103	-	-	53,806,691
Consumer	2,734,666	21,500	-	-	2,756,166
Total gross loans	<u>\$241,405,709</u>	<u>\$ 6,377,393</u>	<u>\$ 3,189,865</u>	<u>\$ -</u>	<u>\$ 250,972,967</u>

The Company's credit quality indicator is internally assigned risk ratings. Each loan is assigned a risk rating upon origination. This risk rating is reviewed on commercial and commercial real estate loans greater than \$250,000 on an annual basis or on an as-needed basis depending on circumstances. All other loans are reviewed on an as-needed basis depending on the specific circumstances of the loan. See Note 1 for further discussion on the Bank's risk ratings.

As of December 31, 2018 and 2017, troubled debt restructurings totaled \$2,783 and \$159,928, respectively.

Note 4. Premises and Equipment

Premises and equipment at December 31, 2018 and 2017, consist of the following:

	2018	2017
Land	\$ 974,954	\$ 974,954
Buildings	9,248,012	9,236,309
Office furniture, fixtures and equipment	4,217,949	4,145,045
Automobiles	49,320	4,878
	<u>14,490,235</u>	<u>14,361,186</u>
Less accumulated depreciation	7,019,351	6,493,982
Construction in progress	2,253	9,224
Premises and equipment, net	<u>\$ 7,473,137</u>	<u>\$ 7,876,428</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 4. Premises and Equipment (Continued)

As of December 31, 2018, there are no significant remaining commitments on construction in progress.

The Bank's full-service branch office in Colorado Springs, Colorado, is leased from a related party through 2031. Minimum future lease payments are as follows:

Years ending December 31:	
2019	\$ 157,452
2020	157,452
2021	157,452
2022	157,452
2023	157,452
Thereafter	1,102,164
	<u>\$ 1,889,424</u>

Rent expense for the years ended December 31, 2018 and 2017, was \$164,098 and \$66,167, respectively.

Note 5. Deposits

A summary of deposit accounts at December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Non-interest-bearing checking	\$ 47,441,142	\$ 48,448,952
Interest-bearing checking	141,509,564	146,147,330
Super-saver money market	21,888,389	20,439,730
Money market savings accounts	17,318,790	20,939,847
Certificates of deposit	68,671,369	72,019,707
Total	<u>\$296,829,254</u>	<u>\$307,995,566</u>

The aggregate amount of certificates of deposit, each with a minimum denomination of \$100,000, was \$54,514,930 and \$55,816,118 at December 31, 2018 and 2017, respectively.

The aggregate amount of deposits, each with a balance greater than the Federal Deposit Insurance Corporation (FDIC) insurance coverage of \$250,000, was \$68,240,409 and \$78,819,509 at December 31, 2018 and 2017, respectively.

At December 31, 2018, scheduled maturities of certificates of deposit are as follows:

Years ending December 31:	
2019	\$ 40,062,653
2020	14,190,184
2021	5,970,837
2022	4,463,950
2023	3,979,556
Thereafter	4,189
	<u>\$ 68,671,369</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 6. Repurchase Agreements

The Bank offers repurchase agreements as an additional product offering to its customers. Repurchase agreements allow customers to have excess checking account balances “swept” from the checking accounts into a noninsured interest-bearing account. The customers’ investment in these noninsured accounts is collateralized by securities of the Bank pledged at FHLB for that purpose. The agreements mature daily and carry a weighted-average interest rate of 2.64 percent and 1.97 percent at December 31, 2018 and 2017, respectively.

Note 7. Advances From the Federal Home Loan Bank and Subordinated Borrowings

Advances are obtained from the FHLB of Des Moines. The advances are secured by the mortgage-backed security portfolio. Advances from the FHLB at December 31, 2018 and 2017, are \$3,998,751 and \$7,997,164, respectively. The advances bear interest at rates ranging from 1.07 percent to 1.89 percent and mature January 2019 to January 2021. The weighted-average interest rate was 1.88 percent and 1.63 percent as of December 31, 2018 and 2017, respectively.

On September 30, 2015, the Company signed a promissory note payable to Community Funding CLO, Ltd. for \$2,500,000. The note matures on October 1, 2025. The note bears interest at a rate of 7.10 percent, fixed for the remaining life of the note. The Company may pay down the note without penalty upon the five-year anniversary of the closing date. The debt is unsecured and is subordinate to claims of senior and general creditors.

As of December 31, 2018, the fixed-rate term advances shown above are subject to a prepayment fee equal to 100 percent of the present value of the monthly lost cash flow to the FHLB based upon the difference between the contract rate on the advance and the rate on an alternative qualifying investment of the same remaining maturity. Advances may be prepaid without a prepayment fee if the rate on an advance being prepaid is equal to or below the current rate for an alternative qualifying investment of the same remaining maturity.

At December 31, 2018, maturities of advances are as follows:

	<u>Aggregate Annual Maturities</u>
Years ending December 31:	
2019	\$ 3,498,751
2020	-
2021	500,000
2022	-
2023	-
Thereafter	2,508,335
	<u>\$ 6,507,086</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Income Taxes

The provision for income taxes charged to operations for the years ended December 31, 2018 and 2017, consists of the following:

	2018	2017
Current tax	\$ 306,587	\$ 69,517
Deferred tax	717,227	1,448,355
Total	<u>\$ 1,023,814</u>	<u>\$ 1,517,872</u>

The provision for income taxes (benefit) differs from that computed at the statutory corporate rate (34 percent) for the years ended December 31, 2018 and 2017, as follows:

	2018	2017
Tax at statutory rate	\$ 841,330	\$ 338,788
Increase (decrease) in taxes resulting from:		
State taxes, net of federal benefit	179,803	45,698
Tax-exempt income	(7,011)	(5,761)
Acquisition costs	-	74,800
Impact of rate change	-	995,210
Bank-owned life insurance	(36,389)	(41,099)
Change in valuation allowance	-	(196,566)
Other, net	46,081	306,802
Income tax benefit	<u>\$ 1,023,814</u>	<u>\$ 1,517,872</u>

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Income Taxes (Continued)

The components of deferred tax assets and liabilities as of December 31, 2018 and 2017, consisted of the following:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	\$ 548,202	\$ 377,533
Loan fair value adjustment	302,131	310,663
Missouri low-income housing and other credits	49,814	39,795
Net unrealized loss on available-for-sale securities	397,656	358,627
Tenant allowance	127,028	-
Other	1,248	-
Federal net operating loss carryforwards	448,550	1,246,736
Total gross deferred tax assets	<u>1,874,629</u>	<u>2,333,354</u>
Deferred tax liabilities:		
Premises and equipment	(359,029)	(214,591)
Section 481(a) adjustment	(51,859)	(64,028)
Core deposit intangible	(235,117)	(231,456)
Investment in partnership interest	(71,855)	-
FHLB stock dividends	(11,595)	(12,820)
Prepaid expenses	(32,606)	(37,751)
Deferred loan costs, net of fees	(47,099)	(29,041)
Total gross deferred tax liabilities	<u>(809,160)</u>	<u>(589,687)</u>
Total net deferred tax assets	<u>\$ 1,065,469</u>	<u>\$ 1,743,667</u>

In accordance with *FASB Accounting Standards Codification (ASC)* Topics 740-10 and 740-30, a deferred tax liability has not been recognized for tax-basis bad-debt reserves of \$2.2 million of the former savings bank that arose in tax years that began prior to December 31, 1987. At December 31, 2018, the amount of the deferred tax liability that had not been recognized was approximately \$2,200,000. This deferred tax liability could be recognized if, in the future, there is a change in federal tax law; the former savings bank fails to meet the definition of a "qualified savings institution," as defined by the Internal Revenue Code; certain distributions are made with respect to the stock of the former savings bank; or the bad-debt reserves are used for any purpose other than absorbing bad debts.

At December 31, 2018, the Company had net operating loss carryforwards of approximately \$2,135,950, which are available to offset future taxable income and expire in varying amounts through 2034.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 8. Income Taxes (Continued)

The Tax Cuts and Jobs Act (the Tax Act) was signed into law on December 22, 2017. The Tax Act has a significant impact on the U.S. corporate income tax regime by lowering the U.S. corporate tax rate from 35 percent to 21 percent effective for taxable years beginning on or after January 1, 2018, in addition to implementing numerous other changes. Generally accepted accounting principles require that the impact of the tax legislation be recognized in the period in which the law was enacted.

As a result of the Tax Act, the Company remeasured its deferred tax assets and deferred tax liabilities during the fourth quarter of 2017, resulting in additional income tax expense of \$995,200.

Note 9. Acquisition

On July 31, 2017, First Bancshares, Inc. acquired all the outstanding common stock of Stockmens Bank in an all-stock transaction through the issuance of 1,001,772 shares of common stock, which was valued at \$11.61 per share. The primary purpose of the acquisition was to increase market share that will allow the Company to absorb increasing technology, regulatory and other operations costs to maintain and improve earnings.

The Company has fair value adjustments recorded within the consolidated financial statements as of December 31, 2017, that relate to this acquisition. These adjustments include the Company's goodwill, fair value adjustments on loans, core deposit intangible asset, borrowings, investment in subsidiary, buildings and deferred tax asset. The goodwill that was recorded on the transaction represents the excess of the purchase price over the fair value of the stock acquired. Goodwill is not amortized and is reviewed for impairment each year. Goodwill recorded as a result of the transaction was \$1,431,179 and reflects the synergies expected from the acquisition along with the entry into new geographic markets for the Company. If an event occurs or circumstances change that result in the Company's fair value declining to below its book value, the Company would perform an impairment analysis at that time.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Acquisition (Continued)

The acquisition was recorded in accordance with ASC Topic 805. The following table summarizes the fair value of the assets acquired and the liabilities assumed at the date of the acquisition:

Purchase price	<u><u>\$ 11,630,574</u></u>
Fair value of assets acquired:	
Cash and cash equivalents	\$ 4,695,735
Interest-bearing deposits at other financial institutions	13,442,000
Securities held to maturity	153,795
Investment in subsidiary	1,948,662
FHLB stock	159,800
Loans receivable	95,072,277
Office property and equipment, net	1,231,065
Other assets	2,666,337
Goodwill and intangibles	<u>2,574,819</u>
Total assets	<u><u>121,944,490</u></u>
Fair value of liabilities assumed:	
Deposits	105,317,311
FHLB advances	1,496,225
Subordinated debt	2,517,190
Other liabilities	<u>983,190</u>
Total liabilities	<u><u>110,313,916</u></u>
Fair value of stockholders' equity	<u><u>\$ 11,630,574</u></u>

The core deposit intangible asset was valued using the discounted cash flow method. The core deposits were made up of non-interest-bearing demand accounts, negotiable order of withdrawal (NOW) accounts, money market deposit accounts (MMDA) and savings deposits. Zero and negative balance accounts, Insured Cash Sweep (ICS) accounts, internal accounts and public accounts were all excluded from the fair value analysis, which is common industry practice. The economic life was determined as 8.1 years. The Company will amortize this intangible straight-line over the remaining economic life. The core deposit intangible is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value and related accumulated amortization as of December 31, 2017, was \$1,084,075 and \$59,565, respectively.

There were no purchased credit impaired (PCI) loans acquired with this transaction. For non-PCI loans, loan fair value adjustments consist of an accretible yield and credit loss component on each individual loan, which will be amortized to loan interest income based on the straight-line method over the estimated remaining life of the loans. The contractual balance and fair value at the acquisition date were \$96,604,319 and \$95,072,277, respectively. The Company expects to receive all the contractual principal and interest payments due under an individual loan. The amount accreted into loan interest income as of December 31, 2017, was approximately \$106,000.

Acquisition costs totaled approximately \$682,000 for the Company and were expensed as incurred in noninterest expenses in the consolidated statement of operations. There were no seller transaction costs paid for by the Company.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 10. Goodwill and Intangible Assets

The carrying amount of goodwill arising during the years ended December 31, 2018 and 2017, was \$1,431,179 as a result of the acquisition described in Note 9. Goodwill has an indefinite life.

The core deposit intangible asset has an economic life of 8.1 years. The carrying amount of this intangible as of the year ended December 31, 2018, is as follows:

Balance as of December 31, 2017	\$ 1,084,075
Amortization	(142,955)
Balance as of December 31, 2018	<u>\$ 941,120</u>

Note 11. Employee Benefit Plans

The Bank had participated in a multiple-employer defined benefit pension plan covering substantially all employees. In fiscal year 2006, the Bank opted to freeze the plan. Participants in the plan became entitled to their vested benefits at the date it was frozen. The Bank limited its future obligations to the funding amount required by the annual actuarial evaluation of the plan and administrative costs. No participants will be added to the plan. Pension expense for the years ended December 31, 2018 and 2017, was approximately \$120,000. This plan is not subject to the requirements of ASC Topics 715 and 958.

The First Home Bank Employee Stock Ownership and 401(k) Plan covers all employees that are age 21 and have completed six months of service. The Company makes contributions on a matching basis 100 percent on the first 3 percent of employee deferrals and 50 percent on the next 2 percent of employee deferrals. Expense for the employee stock ownership and 401(k) plan for the years ended December 31, 2018 and 2017, was \$106,630 and \$97,344, respectively.

Compensation expense for stock-based awards is recorded over the vesting period at the fair value of the award at the time of the grant. The recording of such compensation began on July 1, 2006, for shares not yet vested as of that date and for all new grants subsequent to that date. The exercise price of options granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeiture rates on its stock-based compensation.

Note 12. Related-Party Transactions

Certain employees, officers and directors are engaged in transactions with the Bank in the ordinary course of business. It is the Bank's policy that all related-party transactions are conducted at "arm's length," and all loans and commitments included in such transactions are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

Loans to officers and directors as of December 31, 2018 and 2017, were \$7,524,063 and \$8,723,242, respectively.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 13. Commitments and Contingencies

In the ordinary course of business, the Bank has various outstanding commitments that are not reflected in the accompanying consolidated financial statements. The principal commitments of the Bank are as follows:

Letters of credit: Outstanding standby letters of credit were approximately \$76,000 and \$11,000 at December 31, 2018 and 2017, respectively.

Loan commitments: The Bank had outstanding firm commitments to originate loans of approximately \$46,032,107 and \$41,181,186 at December 31, 2018 and 2017, respectively.

Lines of credit: The unused portion of lines of credit was approximately \$53,731,190 and \$44,878,416 at December 31, 2018 and 2017, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, and residential and commercial real estate, as well as income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions.

None of the guarantees extend longer than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances that the Company deems necessary. All of the standby letters of credit outstanding at December 31, 2018, were collateralized. No amounts were recorded as liabilities for the years ended December 31, 2018 or 2017, for the Company's potential obligations under these guarantees.

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's consolidated financial statements.

Note 14. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Regulatory Matters (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), Tier 1 capital to adjusted total assets (as defined), and tangible capital to adjusted total assets (as defined).

Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject and was well-capitalized. Based on the most recent notification received from the Bank's primary regulator, as of December 31, 2018 and 2017, the Bank was considered well-capitalized. To be categorized as well-capitalized, the Bank must maintain minimum amounts and ratios and not be subject to any written agreement, order or capital directive, or prompt corrective action.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum for Capital Adequacy Purposes		Minimum to Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Total risk-based capital (to risk-weighted assets)	\$ 36,499	13.61%	\$21,454	8.00%	\$ 26,818	10.00%
Tier 1 capital (to risk-weighted assets)	31,805	11.86%	10,727	4.00%	21,454	8.00%
Tier 1 capital (to adjusted tangible assets)	31,805	9.29%	13,694	4.00%	17,118	5.00%
Common equity Tier 1 capital (to risk-weighted assets)	31,805	9.29%	15,406	4.50%	22,253	6.50%
As of December 31, 2017:						
Total risk-based capital (to risk-weighted assets)	32,439	12.48%	20,802	8.00%	26,002	10.00%
Tier 1 capital (to risk-weighted assets)	28,103	10.81%	10,401	6.00%	20,802	8.00%
Tier 1 capital (to adjusted tangible assets)	28,103	8.25%	13,630	4.00%	17,037	5.00%
Common equity Tier 1 capital (to risk-weighted assets)	28,103	8.25%	15,333	4.50%	22,148	6.50%

In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to most national banks and federal savings associations as well as their holding companies generally beginning on January 1, 2015. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50 percent, and a higher Tier 1 capital requirement of 6.00 percent (which is an increase from 4.00 percent). Under the final rule, the total capital ratio remains at 8.00 percent, and the minimum leverage ratio (Tier 1 capital to total assets) for all banking organizations, regardless of supervisory rating, is 4.00 percent.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 14. Regulatory Matters (Continued)

Additionally, under the final rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. At December 31, 2018, the capital conversion buffer was 1.875 percent. The final rule also enhances risk sensitivity and addresses weaknesses identified by the regulators over recent years with the measure of risk-weighted assets, including through new measures of creditworthiness to replace references to credit ratings, consistent with the requirements of the Dodd-Frank Act.

Except for the largest internationally active banking organizations (which are subject to the “advanced approaches” provisions of the final rule), the new minimum capital requirements generally became effective for all banking organizations on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016 through January 1, 2019. Similarly, nonqualifying capital instruments phase out over time.

Note 15. Fair Value Measurements

Accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value using a hierarchy system and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based on the valuation techniques used. The three levels are as follows:

- Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date
- Level 2:** Significant observable inputs other than the Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data
- Level 3:** Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Assets recorded at fair value on a recurring basis: A description of the valuation methodologies used for assets measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities would include U.S. agency securities; mortgage-backed agency securities; obligations of states and political subdivisions; and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around the input to the valuation, securities are classified within Level 3 of the valuation hierarchy.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Fair Value Measurements (Continued)

The following tables summarize financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2018			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				
United States government and federal agency obligations	\$ -	\$ 27,088,180	\$ -	\$ 27,088,180
Municipal securities	-	1,388,374	-	1,388,374
Federal agency residential mortgage-backed securities	-	2,780,386	-	2,780,386
Federal agency collateralized mortgage obligations	-	10,075,178	-	10,075,178
Common and preferred stocks	-	-	198,000	198,000
Total	\$ -	\$ 41,332,118	\$ 198,000	\$ 41,530,118

	December 31, 2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale:				
United States government and federal agency obligations	\$ -	\$ 27,158,020	\$ -	\$ 27,158,020
Municipal securities	-	1,474,964	-	1,474,964
Federal agency residential mortgage-backed securities	-	3,297,137	-	3,297,137
Federal agency collateralized mortgage obligations	-	12,252,768	-	12,252,768
Common and preferred stocks	-	-	198,000	198,000
Total	\$ -	\$ 44,182,889	\$ 198,000	\$ 44,380,889

Assets recorded at fair value on a nonrecurring basis: A description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Impaired loans: The Company does not record loans at fair value on a recurring basis. From time to time, a loan is considered impaired and an allowance for loan losses is established. Once a loan has been identified as impaired, management measures impairment based upon the value of the underlying collateral. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Loan impairment is measured based upon the present value of expected future cash flows at the loan's effective interest rate except, where more practical, at the observable market price of the discounted loan based upon appraisals by qualified licensed appraisers hired by the Company, and are generally considered Level 2 measurements. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair market measurement is categorized as a Level 3 measurement.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Fair Value Measurements (Continued)

Real estate owned: Real estate owned is carried at the estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals. As with impaired loans, if significant adjustments are made to the appraised value, based upon unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

The following tables summarize financial assets measured at fair value on a nonrecurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2018			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Real estate owned	\$ -	\$ -	\$ 195,400	\$ 195,400
Impaired loans	-	-	142,159	142,159
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,559</u>	<u>\$ 337,559</u>

	December 31, 2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Real estate owned	\$ -	\$ -	\$ 203,868	\$ 203,868
Impaired loans	-	-	399,561	399,561
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 603,429</u>	<u>\$ 603,429</u>

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended December 31, 2018.

There were no transfers of assets or liabilities between Levels 1, 2 and 3 of the fair value hierarchy during the year ended December 31, 2018.

Accounting guidance and fair value measurements require disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet for which it is practicable to estimate that fair value. Certain financial instruments and all nonfinancial instruments are excluded from these disclosure requirements.

Cash and interest-bearing deposits at other financial institutions: For these short-term instruments, the carrying amount approximates fair value.

Loans receivable: For variable-rate loans that reprice in accordance with indices, carrying amounts reported approximate those loans' fair values. The fair values for fixed-rate loans were estimated using discounted cash flow analysis that applies interest rates currently offered for loans with similar terms.

Cash surrender value of bank-owned life insurance: The fair value of the Bank's cash surrender value of life insurance is estimated by discounting projected cash flows at the corresponding US treasury rate plus 1 percent.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Fair Value Measurements (Continued)

Investment in FHLB stock: Fair value of the Bank's investment in FHLB stock approximates the carrying value, as no ready market exists for this investment, and the stock could only be sold back to the FHLB at par.

Accrued interest: The carrying amount of accrued interest approximate its fair value.

Securities: The fair values of securities available for sale and held to maturity are estimated as described above.

Deposits: The fair value of demand deposits, savings accounts and interest-bearing demand deposits is the amount payable on demand at the reporting date (i.e., their carrying amount). The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the market rates currently offered for deposits of similar remaining maturities.

Retail repurchase agreements: The carrying amount of retail repurchase agreements approximates fair value.

FHLB advances: The fair value of the Bank's advances is estimated using discounted cash flows, based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to extend credit, letters of credit and lines of credit: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date and is insignificant.

Subordinated borrowings: The fair value is determined using quoted market prices at the consolidated balance sheet date.

First Bancshares, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 15. Fair Value Measurements (Continued)

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain instruments were calculated by discounting expected cash flows. This method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, and because management does not intend to sell these financial instruments, the fair values shown below may not represent values at which the respective financial instruments could be sold, individually or in the aggregate.

	December 31, 2018		December 31, 2017	
	Carrying Amount	Approximate Fair Value	Carrying Amount	Approximate Fair Value
Financial assets:				
Cash and cash equivalents	\$ 5,955,161	\$ 5,955,161	\$ 20,673,534	\$ 20,673,534
Interest-bearing deposits at other financial institutions	15,569,014	15,569,014	19,296,408	19,296,408
Available-for-sale securities	41,530,118	41,530,118	44,380,889	44,380,889
Held-to-maturity securities	119,198	124,042	143,375	161,830
Cash surrender value of bank-owned life insurance	5,916,487	5,916,487	5,743,204	5,743,204
Investment in FHLB stock	482,400	482,400	420,900	420,900
Loans, net of allowance for loan losses	260,402,210	265,147,553	249,278,229	245,166,946
Accrued interest receivable	1,787,012	1,786,952	1,524,994	1,524,994
Financial liabilities:				
Deposits	296,829,254	274,214,500	307,995,566	275,792,972
Retail repurchase agreements	5,565,990	5,575,291	4,608,524	4,612,590
FHLB advances	3,998,751	3,967,784	7,997,164	8,102,088
Accrued interest payable	123,044	132,778	92,686	90,704
Subordinated borrowings	2,508,335	3,079,842	2,514,585	3,236,278

FIRST BANCSHARES, INC. AND SUBSIDIARIES

ADDITIONAL INFORMATION

COMMON STOCK INFORMATION

The common stock of First Bancshares, Inc. is traded on the Over-the-Counter Bulletin Board under the symbol "FBSI". As of March 22, 2019, there were 287 registered stockholders and 2,539,516 shares of common stock outstanding. This does not reflect the number of persons or entities who hold stock in nominee or "street name."

Due to the financial results of the company, the Board of Directors authorized the payment of a \$0.24/share cash dividend to the shareholders of record as of February 15th, 2019, payable on February 28th, 2019. This will be the first authorized dividend the company has paid since August of 2008.

Dividend payments by the Company are dependent on its cash flows, which include reimbursement from its subsidiaries for the income tax savings created by its stand alone operating loss, the operation of real estate owned by the Company and dividends received by the Company from the Bank. Under Federal regulations, the dollar amount of dividends a bank may pay is dependent upon the bank's capital position and recent net income. Generally, if the Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed by the FDIC regulations. However, institutions that have converted to stock form of ownership, like Stockmens Bank, may not declare or pay a dividend on, or repurchase any of, its common stock if the effect thereof would cause the regulatory capital of the institution to be reduced below the amount required for the liquidation account which was established in accordance with federal banking regulations and the Bank's Plan of Conversion. Under Missouri law, the Company is generally prohibited from declaring and paying dividends at a time when the Company's net assets are less than its stated capital or when the payment of dividends would reduce the Company's net assets below its stated capital.

The Company's Board of Directors authorized a stock repurchase plan in July 2018 to repurchase up to 25,000 shares of the Company's stock. As of March 22, 2019, 15,071 authorized shares had been repurchased at an average price of \$8.73 per share.

The following table sets forth market price and dividend information for the Company's common stock.

Year Ended <u>December 31, 2017</u>	<u>High</u>	<u>Low</u>	<u>Dividend</u>
First Quarter	\$ 12.60	\$ 11.49	N/A
Second Quarter	\$ 12.60	\$ 11.75	N/A
Third Quarter	\$ 12.25	\$ 11.50	N/A
Fourth Quarter	\$ 11.73	\$ 11.35	N/A

Year Ended <u>December 31, 2018</u>	<u>High</u>	<u>Low</u>	<u>Dividend</u>
First Quarter	\$ 12.00	\$ 10.90	N/A
Second Quarter	\$ 12.00	\$ 10.80	N/A
Third Quarter	\$ 16.00	\$ 11.59	N/A
Fourth Quarter	\$ 15.20	\$ 13.35	0.24

DIRECTORS

FIRST BANCSHARES, INC.

DIRECTORS:

Robert M. Alexander
Chairman and
Chief Executive Officer

Robert J. Breidenthal, Jr.
Vice Chairman
Security Bank of Kansas City

D. Mitch Ashlock
Chairman, President and Chief Executive Officer
First Federal Savings and Loan Bank of Olathe

D. Edward Sauer
Director
First Bancshares, Inc.

John G. Moody
Director
Frist Bancshares, Inc.

Mark E. Gardner
Director
Gardner Capital

Bradley M. Segebarth
Chief Operating Officer
Lebanon Auto Transport

Jeffrey Timmerman
Owner/Operator
Sunset Land & Cattle

Thomas M. Sutherland
One of the owners and operators of Sutherland
Home Improvement Centers group of stores

STOCKMENS BANK

DIRECTORS:

Robert M. Alexander
Chairman and
Chief Executive Officer

D. Edward Sauer
Vice Chairman

Brady J. Nachtrieb
Chief Financial Officer

Judith Ingels
Executive Vice President

John Gumper
Executive Vice President

Jeffrey C. Palmer
Missouri President

Robert J. Breidenthal, Jr.
Director

Thomas M. Sutherland
Director

Matthew Springer
Director

Jeffrey Timmerman
Director

Bradley M. Segebarth
Director

ADVISORY DIRECTORS:

D. Mitch Ashlock
John G. Moody
Steven McConville
Robert Unger

EXECUTIVE OFFICERS

FIRST BANCSHARES, INC.

OFFICERS:

Robert M. Alexander
Chairman and
Chief Executive Officer

Jeffrey C. Palmer
Treasurer

Brady J. Nachtrieb
Chief Financial Officer

Shannon Peterson
Corporate Secretary

STOCKMENS BANK

OFFICERS:

Robert M. Alexander
Chairman and
Chief Executive Officer

Jeffrey C. Palmer
Missouri President

Brady J. Nachtrieb
Chief Financial Officer

John Gumper
Corporate Secretary

Judith Ingels
Executive Vice President

E. Steve Moody
Executive Vice President

CORPORATE INFORMATION

CORPORATE HEADQUARTERS:

142 East First Street
P.O. Box 777
Mountain Grove, Missouri 65711

INDEPENDENT AUDITORS:

RSM US, LLP
Kansas City, Missouri

GENERAL COUNSEL:

Millington, Glass, Love & Young
Springfield, Missouri

SPECIAL COUNSEL:

Breyer & Associates PC
McLean, Virginia

TRANSFER AGENT:

Computershare
P.O. Box 43078
Providence, RI 02940
(800) 942-5909

COMMON STOCK:

Traded on the Over-the-Counter Bulletin
OTCPink Symbol: FstBksh: **FBSI**

ANNUAL MEETING

The Annual Meeting of Stockholders will be held Tuesday, April 30, 2019, at 11:00 a.m., Mountain Time, at Stockmens Bank located at 25 N. Cascade Ave., Colorado Springs, CO.

Stockmens Bank is the wholly owned subsidiary of First Bancshares, Inc. with 10 convenient locations to serve the residents of Southern Colorado, Southern Missouri, and Southwestern Nebraska.



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