FIRST BANCSHARES, INC.

Annual Report

December 31, 2023

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LETTER TO SHAREHOLDERS

Dear Fellow Shareholders:

It is with the utmost humility and gratitude that I announce First Bancshares, Inc. (FBSI) and its subsidiary Stockmens Bank successfully navigated the interest rate and liquidity challenges faced by the banking industry in 2023 and, for the sixth year in a row, recorded the best operating results in the combined Company's history. The Company continued to benefit from restraint shown during the last interest rate cycle by abstaining from the securities market as evidenced by the Company's strong liquidity and tangible equity capital. Further, the Company's credit quality has remained resilient primarily due to the Company's resistance to non-owner-occupied commercial real estate and other challenging loan categories. Strong margins, funding of operations through core deposits, efficiency, and management are, and will continue to be, a priority to the Company moving forward.

FBSI has continued its trend of improving in all categories of the balance sheet with the loan portfolio growing 3.17%, deposit balances growing 12.19%, and capital reserves increasing by 12.62%. These performance results prompted the Company to continue its practice of paying an annual dividend to our shareholders. The Board of Directors approved the payment of a $0.35 per share cash dividend to shareholders of record as of April 1, 2024 and paid on April 15, 2024.

Total assets, liabilities, and equity on December 31, 2023 totaled $541.6 million, $488.0 million, and $53.6 million compared to $471.8 million, $424.2 million, and $47.6 million at December 31, 2022, respectively. Net income for the year ended December 31, 2023 totaled $6,719,966, or $2.77 per share, compared to $5,282,812, or $2.16 per share for the year ended December 31, 2022.

We look forward to seeing you at our Annual Shareholders Meeting on Tuesday, April 30, 2024, at 11:00 a.m. Mountain Time via a WebEx virtual conference call. In anticipation of the 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 ask you to vote on the two proposals. Voting is easy and can be done via return mail, telephone, or online; those details are provided in the materials you received. Due to the virtual nature of the meeting this year, we highly suggest you vote using the telephonic or online voting methods provided in your materials. If you need information regarding the proxy materials or the Annual Meeting, please contact Shannon Peterson, Corporate Secretary, at (417) 547-7232 or shannon.peterson@thestockmensbank.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 ten full-service branch facilities in Mountain Grove, MO, Marshfield, MO, Ava, MO, Kissee Mills, MO, Gainesville, MO, Hartville, MO, Crane, MO, Springfield, MO, Akron, CO, 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, 2023, the Company had total consolidated assets of $541.6 million and consolidated stockholders’ equity of $53.6 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 Company and its subsidiaries presented herein.

	At December 31,			
	2023	2022	2021	2020
	(In thousands)			
FINANCIAL CONDITION DATA:				
Total Assets	**$ 541,561**	$ 471,781	$ 446,850	$ 406,279
Loans receivable, net	**418,044**	405,188	340,767	291,511
Cash, interest-bearing deposits and securities	**92,132**	34,434	76,663	86,818
Deposits	**471,992**	420,692	398,281	356,489
Repurchase agreements	**836**	864	490	1,625
FHLB Advances	**-**	-	-	500
Other Borrowings	**11,000**	-	1,500	-
Stockholders' equity	**53,592**	47,586	44,161	42,765

	Years Ended			
	2023	2022	2021	2020
	(In thousands, except per share information)			
OPERATING DATA:				
Interest income	**$ 28,324**	$ 19,388	$ 17,567	$ 16,288
Interest expense	**7,437**	1,650	1,137	2,330
Net interest income	**20,887**	17,738	16,430	13,958
Provision for credit losses	**795**	1,100	1,342	856
Net interest income after provision for credit losses	**20,092**	16,638	15,088	13,102
Gains on securities	**-**	-	128	62
Non-interest income, excluding gains on securities	**1,807**	1,717	1,597	1,141
Non-interest expense	**12,992**	11,216	10,103	9,164
Income before taxes	**8,907**	7,139	6,710	5,141
Income tax expense	**2,187**	1,856	1,617	1,197
Net income	**$ 6,720**	$ 5,283	$ 5,093	$ 3,944
Basic earnings per share	**$ 2.77**	$ 2.16	$ 1.96	$ 1.49
Diluted earnings per share	**$ 2.77**	$ 2.16	$ 1.96	$ 1.49
Dividends per share	**$ 0.30**	$ 0.30	$ 0.25	$ 0.24

	Years Ended			
	2023	2022	2021	2020
KEY OPERATING RATIOS:				
Return on average assets	**1.32**	1.14	1.20	1.04
Return on average equity	**13.34**	11.64	11.65	9.61
Average equity to average assets	**9.93**	9.82	10.34	10.81
Interest rate spread for period	**4.23**	4.03	4.03	3.69
Net interest margin for period	**4.33**	4.06	4.05	3.73
Non-interest expense to average assets	**2.21**	2.43	2.39	2.41
Average interest-earning assets to interest-bearing liabilities	**106.82**	106.18	106.37	106.32
Allowance for credit losses to total loans at end of period	**1.54**	1.61	1.59	1.40
Net charge-offs (recoveries) to average loans outstanding during the period	**0.02**	(0.01)	0.00	(0.05)
Dividend payout ratio	**13.89**	15.31	16.78	17.02

	At December 31,			
	2023	2022	2021	2020
OTHER DATA:				
Number of:				
Loans outstanding	**2,109**	2,088	1,925	2,051
Deposit accounts	**16,025**	15,449	15,941	15,999
Full service offices	**11**	11	10	10

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
First Bancshares, Inc.
Mountain Grove, Missouri

Opinion

We have audited the consolidated financial statements of First Bancshares, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of First Bancshares, Inc. and Subsidiaries as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First Bancshares, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, the Company changed its method of accounting for allowance for credit losses due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new current expected credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

(Continued)

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First Bancshares, Inc. and Subsidiaries' ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 First Bancshares, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Bancshares, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Crowe LLP

Crowe LLP

Denver, Colorado
March 5, 2024

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and due from banks	$ 9,072,538	$ 10,069,333
Federal funds sold	69,959,000	11,712,000
Cash and cash equivalents	79,031,538	21,781,333
Term deposits in other financial institutions	245,874	980,733
Investment securities – available for sale	12,764,808	12,551,594
Investment securities – held to maturity, net of allowance for credit losses of $2,654 and $0 (fair value $92,932 and $100,640 as of December 31, 2023 and 2022, respectively)	90,278	100,640
Total securities	12,855,086	12,652,234
Loans, net of allowance of $6,561,897 and $6,645,524 as of December 31, 2023 and 2022, respectively	418,044,104	405,187,845
Restricted stock – cost	499,238	451,900
Premises and equipment – net	8,556,094	9,235,928
Goodwill	1,431,179	1,431,179
Core deposit intangible	226,345	369,300
Deferred tax asset, net	1,517,052	1,546,220
Bank-owned life insurance	9,916,950	9,642,098
Other assets	9,237,707	8,502,463
Total assets	$ 541,561,167	$ 471,781,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest-bearing	$ 126,891,305	$ 164,154,943
Interest-bearing	345,101,014	256,537,288
Total deposits	471,992,319	420,692,232
Repurchase agreements	836,123	863,961
Other borrowings	11,000,000	-
Accrued expenses and other liabilities	4,141,170	2,638,976
Total liabilities	487,969,612	424,195,169
Stockholders' equity		
Preferred stock, $0.01 par value; authorized 2,000,000 shares at December 31, 2023 and 2022, none issued and outstanding	-	-
Common stock, voting, $0.01 par value; authorized 8,000,000 shares at December 31, 2023 and 2022; issued 4,038,397 and 4,038,397 at December 31, 2023 and 2022, respectively; outstanding 2,428,224 and 2,439,582 at December 31, 2023 and 2022, respectively	40,384	40,384
Treasury stock, at cost, 1,610,173 and 1,598,865 shares at December 31, 2023 and 2022, respectively	(23,203,538)	(22,947,483)
Additional paid-in capital	32,050,303	32,015,831
Retained earnings	45,648,325	39,764,940
Accumulated other comprehensive loss	(943,919)	(1,287,608)
Total stockholders' equity	53,591,555	47,586,064
	$ 541,561,167	$ 471,781,233

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2023 and 2022

	2023	2022
Interest income		
Loans, including fees	$ 26,303,029	$ 18,801,847
Investment securities	136,810	141,089
Dividends	23,475	10,208
Other	1,860,825	434,792
Total interest income	28,324,139	19,387,936
Interest expense		
Deposits	7,022,786	1,571,998
Repurchase agreements	4,478	6,296
Other interest expense	409,556	72,033
Total interest expense	7,436,820	1,650,327
Net interest income	20,887,319	17,737,609
Provision for credit losses	794,883	1,100,000
Net interest income after provision for loan losses	20,092,436	16,637,609
Noninterest income		
Service charges – deposits	994,369	1,001,830
Increase in cash surrender value of bank-owned life insurance	274,852	261,553
Gain on sale of premises and equipment	83,167	-
Other	454,300	453,218
Total noninterest income	1,806,688	1,716,601
Noninterest expense		
Salaries and employee benefits	7,912,085	6,676,386
Occupancy and equipment	2,196,412	1,829,299
Professional fees	462,039	352,008
Other	2,421,921	2,357,891
Total noninterest expense	12,992,457	11,215,584
Income before income taxes	8,906,667	7,138,626
Income tax expense	2,186,701	1,855,814
Net income	$ 6,719,966	$ 5,282,812

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 6,719,966	$ 5,282,812
Other comprehensive loss:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	458,252	(1,433,758)
Tax effect	(114,563)	358,439
Total other comprehensive income (loss)	343,689	(1,075,319)
Comprehensive income	$ 7,063,655	$ 4,207,493

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2023 and 2022

	Common Shares Amount	Common Stock	Treasury Shares Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2022	2,442,377	$ 40,384	1,596,070	$ (22,898,016)	$ 32,015,831	$ 35,214,838	$ (212,289)	$ 44,160,748
Net income	-	-	-	-	-	5,282,812	-	5,282,812
Other comprehensive loss	-	-	-	-	-	-	(1,075,319)	(1,075,319)
Purchase of treasury stock	(2,795)	-	2,795	(49,467)	-	-	-	(49,467)
Cash dividends declared ($0.30 per share)	-	-	-	-	-	(732,710)	-	(732,710)
Balance, December 31, 2022	2,439,582	40,384	1,598,865	(22,947,483)	32,015,831	39,764,940	(1,287,608)	47,586,064
Cumulative change in accounting principle (Note 1) (ASC 326)	-	-	-	-	-	(104,781)	-	(104,781)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	2,439,582	40,384	1,598,865	(22,947,483)	32,015,831	39,660,159	(1,287,608)	47,481,283
Net income	-	-	-	-	-	6,719,966	-	6,719,966
Other comprehensive income	-	-	-	-	-	-	343,689	343,689
Employee stock ownership plan activity	20,238	-	(20,238)	430,662	(3,450)	-	-	427,212
Purchase of treasury stock	(38,262)	-	38,212	(844,232)	45,452	-	-	(798,780)
Stock based compensation expense	6,666	-	(6,666)	157,515	(7,530)	-	-	149,985
Cash dividends declared ($0.30 per share)	-	-	-	-	-	(731,800)	-	(731,800)
Balance, December 31, 2023	2,428,224	$ 40,384	1,610,173	$ (23,203,538)	$ 32,050,303	$ 45,648,325	$ (943,919)	$ 53,591,555

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$ 6,719,966	$ 5,282,812
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation and amortization	712,109	760,024
Provision for credit losses	794,883	1,100,000
Net premium amortization of securities	38,811	39,918
Deferred income tax benefit	(48,847)	(406,131)
Gain on sale of premises and equipment	(83,167)	-
Stock based compensation expense	149,985	-
Increase in cash surrender value of bank-owned life insurance	(274,852)	(261,553)
Net change in:		
(Increase) decrease in other assets	(746,982)	(2,031,378)
Increase in accrued expenses and other liabilities	610,048	220,323
Net cash from operating activities	7,871,954	4,704,015
Cash flows from investing activities		
Net decrease in term deposits in other financial institutions	734,859	244,668
Purchase of securities available for sale	-	-
Proceeds from sales, maturities, calls, and principal paydowns of securities available for sale	206,227	175,000
Proceeds from maturities, calls, and principal paydowns of securities held to maturity	7,708	4,880
Proceeds from sales of real estate owned and repossessed assets	-	-
Net increase in loans receivable	(12,897,671)	(65,521,028)
Purchases and sales of premises and equipment, net	193,847	(642,344)
Purchase of Federal Home Loan Bank stock	(35,600)	(43,800)
Net cash used in investing activities	(11,790,630)	(65,782,624)
Cash flows from financial activities		
Net increase in deposits	51,300,087	22,411,129
Net increase (decrease) in repurchase agreements	(27,838)	374,265
Repayment of other borrowings	-	(1,500,000)
Purchase of common stock for treasury	(798,780)	(49,467)
Employee stock ownership plan activity	427,212	-
Cash dividends paid on common stock	(731,800)	(732,710)
Proceeds from other borrowings	11,000,000	-
Net cash from financial activities	61,168,881	20,503,217
Net change in cash and cash equivalents	57,250,205	(40,575,392)
Cash and cash equivalents at beginning of year	21,781,333	62,356,725
Cash and cash equivalents at end of year	$ 79,031,538	$ 21,781,333
Supplemental cash flow information		
Interest paid	$ 6,432,251	$ 1,620,979
Income taxes paid	2,187,867	2,170,755

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: First Bancshares, Inc., a Missouri corporation (the "Company"), is a bank holding company. First Bancshares, Inc.'s wholly owned Subsidiaries is Stockmens Bank (the "Bank"). The consolidated financial statements include the accounts of the Company and its wholly owned Subsidiaries, the Bank, and the Bank's wholly owned Subsidiaries, SB Cascade. All significant intercompany balances and transactions have been eliminated in consolidation.

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.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk: Most of the Company's lending activity is with customers located within Missouri, Colorado, and Nebraska. The customers are located in 11 counties in southwest Missouri, 3 rural counties in southwestern Nebraska, 7 counties in northeast Colorado, and 4 counties surrounding the metropolitan area of Colorado Springs, Colorado. The Company's loan portfolio consists of residential real estate, commercial real estate (including farmland), land, commercial (including agricultural), and consumer loans. As of December 31, 2023 and 2022, the Company does not have any significant concentrations within any one industry or with any one customer.

Cash and Cash Equivalents: For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and deposits with other financial institutions with maturities fewer than 90 days. 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.

Term Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Debt Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Held-to-Maturity Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $451 and $488 at December 31, 2023 and 2022, respectively and is excluded from the estimate of credit losses.

The estimate of expected credit losses considers the industry's historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Management classifies the lone held-to maturity debt security as a Municipal bond. This security is collateralized by commercial lots being developed, the bond has paid as scheduled, and population growth continues to support the project. This bond was not rated upon issuance so, for the purposes of estimating credit loss, management has internally graded the bond as "speculative" and as such, has used Moody's historical probability of default and recovery rates to determine the estimated credit loss.

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than the amortized cost, any changes to the rating of the security by the rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cashflows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $15,584 at December 31, 2023 and is excluded from the estimate of credit losses.

Equity Securities: Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment.

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 the capital stock of the 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: The Company grants real estate, land, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans throughout Colorado, Missouri, and Nebraska. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan's yield using the interest method.

Interest income on mortgage and commercial loans is discontinued and placed on non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Commercial loans are charged off to the extent principal or interest is deemed uncollectible. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses - Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in the lending staff, changes in the volume and severity of past due loans, changes in the quality of the loan review system, changes in the value of underlying collateral, existence and effect of concentrations of credit, and the effect of external factors such as competition and legal and regulatory requirements.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments:

Residential Construction: Residential construction loans include one to four family and multifamily construction projects secured by real estate. Repayment is primarily dependent on the borrower's ability to repay and secondarily dependent on the property's value upon default.

Other Construction: Other construction loans include any commercial construction projects secured by real estate. Repayment is primarily dependent on the borrower's ability to repay and secondarily dependent on the property's value upon default.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land: Land loans include land purchased for development or speculation and are secured by real estate. Repayment is primarily dependent on the borrower’s ability to repay and secondarily dependent on the property’s value upon default.

Farmland: Farmland loans include loans secured by farmland and agricultural assets. The repayment of these loans largely depends on the results of operations and management of these properties. Agriculture loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business.

HELOC: HELOC loans are loans secured primarily by one to four family residential real estate. Repayment is primarily dependent on the borrower’s ability to repay and secondarily dependent on the property’s value upon default.

One to Four Family Residential Real Estate: One to four family residential real estate loans are usually secured by the borrower’s primary residence. Repayment is primarily dependent on the borrower’s ability to repay and secondarily dependent on the property’s value upon default.

Multifamily: Multifamily loans are usually secured by apartment complexes. Repayment is primarily dependent on the borrower’s ability to repay and secondarily dependent on the property’s value upon default.

Owner-Occupied Commercial Real Estate: Commercial real estate loans are secured by commercial real estate. Often commercial loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Commercial loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business.

Non-Owner-Occupied Commercial Real Estate: Commercial real estate loans are secured by commercial real estate. Often commercial loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Commercial loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business.

Agricultural Non-Real Estate: Agriculture loans include loans secured by agriculture non-real estate secured by business assets. The agriculture loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Agriculture loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business.

Commercial and Industrial: Commercial and industrial loans include loans secured by business assets (non-real estate). Often commercial loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Commercial loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business. Commercial non-real estate loans are generally secured by accounts receivable, inventory and equipment.

Consumer: Consumer and other loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by customer deposit accounts, vehicles and other household goods.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For all loan pools, management uses the weighted average remaining maturity (WARM) method to estimate credit losses. This model utilizes historical loss rates, peer loss rates, historical prepayment speeds, weighted average life of loans pools, weighted average interest rates per loan pool, and the amortized basis for each loan pool. Management then runs a statistical regression analysis to extrapolate peer loss rates through the last relevant economic cycle via reasonable and supportable forecasts from Government Budget Office and USDA economic projections for data such as unemployment rates, housing price index, CPI, soybean prices, corn prices, cattle production, effective fed funds rate, and GDP to forecast one year's worth of expected credit losses. After one year, management reverts to its lifetime historical loss rate for the remaining projected future balances.

The estimated loan losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management. The current period measurements are evaluated and assigned a risk factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan portfolios. These adjustments are based upon quarterly trend assessments of underwriting standards, economic and business conditions, the nature and volume of the portfolio, lending staff, volume and severity of past due loans, the quality of the loan review system, value of underlying collateral, existence and effect of concentrations of credit, and the effect of external factors such as competition and legal and regulatory requirements. The qualitative allowance allocation, as determined by the processes noted above, is increased or decreased for each loan segment based on the assessment of these various qualitative factors. Additional qualitative considerations are made for any identified risk which did not exist within our portfolio historically and therefore may not be adequately addressed through evaluation of such risk factor based on historical portfolio trends as previously discussed.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

<u>Allowance for Credit Losses on Off-Balance Sheet Credit Exposures</u>: The Company estimates expected credit losses over the contractual period in which the company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Estimated credit losses on off-balance sheet credit exposures are estimated in the same way as the allowance for credit losses on loans.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value or the amount that can be realized upon immediate liquidation.

Premises and Equipment: Land and land improvements are carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. Additions, major replacements, and improvements are added to the respective balance at cost. Buildings and investment in real estate have estimated useful lives ranging from 15 to 40 years. All other assets have estimated useful lives ranging from 3 to 10 years, with improvements being depreciated over the remaining estimated life of the related asset. Maintenance, repairs, and minor replacements are charged directly to expense as incurred. Lease right of use (“ROU”) assets are included in premises and equipment and are included in the type of asset with which the leased property is classified.

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations and equipment. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company does not record leases on the consolidated balance sheets that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company’s leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense on the Company's Consolidated Statements of Operations. The Company's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. The amortization of the right-of-use asset arising from finance leases is expensed through occupancy and equipment expense and the interest on the related lease liability is expensed through interest expense on borrowings on the Company's Consolidated Statements of Operations.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales 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 (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-lived Assets: The Company reviews the recoverability of long-lived assets, including buildings, equipment, and other intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. 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 Company's acquisition (“the acquisition”) of Stockmens Bank effective July 31, 2017 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 recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized but rather is assessed at least on an annual basis for impairment.

The core deposit intangible asset resulted from the acquisition and is amortized using the straight-line method over its useful life of 8.1 years. The core deposit intangible had an original value of $1,144,000, and amortization expense for the years ended December 31, 2023 and 2022 were $142,955.

Income Taxes: The Company files its tax return on a consolidated basis with its Subsidiaries. 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 income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various consolidated balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance, if needed, reduces the deferred tax assets to the amount expected to be realized.

In accordance with guidance on accounting for uncertainty in income taxes, management evaluated the Company's tax position and does not believe the Company has any uncertain tax positions that require disclosure or adjustment to the financial statements.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to stockholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

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.

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

Stock-Based Compensation: The Company applies the recognition and measurement of stock-based compensation accounting rules for stock-based compensation, which is referred to as the fair value method. Compensation cost is based on the fair value of equity issued to employees. No stock options have been granted since 2007 and there are no unvested or unexercised stock options outstanding. During 2023, the Company recorded stock-based compensation expense of $149,985 through a grant of 6,666 shares to select employees. There are no additional shares outstanding, vested, or expected to vest in relation to this transaction.

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

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Subsequent Events: The consolidated financial statements and related disclosures include evaluation of events up through and including March 5, 2023, which is the date the consolidated financial statements were available to be issued.

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with and expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

receivable and held-to-maturity debt securities. It also applies to off-balance sheet (OBS) credit exposures (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by the lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company reported a net decrease in retained earnings of $104,781 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a decrease of $566,636 in the allowance for credit losses on loans, an increase of $696,253 in the allowance for off-balance sheet credit exposures, and an increase of $11,714 in the allowance for credit losses on held-to-maturity debt securities.

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses on debt securities held-to-maturity			
Municipal securities	$ 11,714	$ -	$ 11,714
Loans			
Construction and land development	971,596	486,867	484,729
Residential real estate	872,216	1,077,000	(204,784)
Commercial	2,640,289	2,467,658	172,631
Agricultural	1,394,680	2,575,697	(1,181,017)
Consumer	200,107	38,302	161,805
Allowance for credit losses on loans	6,078,888	6,645,524	(566,636)
Liabilities:			
Allowance for credit losses on OBS credit exposures	696,253	-	696,253
Tax effect of ASC 326 adoption	-	-	(36,550)

NOTE 2 – SECURITIES

The details of the Company's investments in debt and equity securities at December 31 are as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Agencies	$ 10,998,111	$ -	$ (1,054,371)	$ 9,943,740
Municipal securities	3,025,256	553	(204,741)	2,821,068
Total available for sale	$ 14,023,367	$ 553	$ (1,259,112)	$ 12,764,808
Held to maturity				
Municipal securities	$ 92,932	$ -	$ -	$ 92,932
Allowance for credit losses	(2,654)			
Held to maturity, net of allowance for credit losses	$ 90,278			

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Agencies	$ 10,997,550	$ -	$ (1,422,690)	$ 9,574,860
Municipal securities	3,270,854	167	(294,287)	2,976,734
Total available for sale	$ 14,268,404	$ 167	$ (1,716,977)	$ 12,551,594
Held to maturity				
Municipal securities	$ 100,640	$ -	$ -	$ 100,640

During the year ended December 31, 2023, the Company decreased the allowance for credit losses on held-to-maturity debt securities by $9,060 through a decrease in the provision for credit losses.

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2023 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.

	December 31, 2023			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 25,011	$ 24,987	$ 92,932	$ 92,932
Due in one year through five years	13,238,152	12,074,378	-	-
Due after five years through ten years	760,203	665,442	-	-
	$ 14,023,366	$ 12,764,808	$ 92,932	$ 92,932

(Continued)

NOTE 2 – SECURITIES (Continued)

There were no realized gains or losses on the sale of securities during the years ended December 31, 2023 and 2022.

The carrying value of securities pledged at December 31, 2023 and 2022 was approximately $11,585,000 and $1,687,000, respectively.

Information pertaining to investment securities with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2023					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale securities:						
Agencies	$ -	$ -	$ (1,054,371)	$ 9,943,740	$ (1,054,371)	$ 9,943,740
Municipal securities	(119)	80,418	(204,622)	2,251,783	(204,741)	2,332,201
	$ (119)	$ 80,418	$ (1,258,993)	$ 12,195,523	$ (1,259,112)	$ 12,275,941

	2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale securities:						
Agencies	$ -	$ -	$ (1,422,690)	$ 9,574,860	$ (1,422,690)	$ 9,574,860
Municipal securities	(51,801)	591,297	(242,486)	2,123,722	(294,287)	2,714,019
	$ (51,801)	$ 591,297	$ (1,665,176)	$ 11,698,582	$ (1,716,977)	$ 12,289,879

As of December 31, 2023 and 2022, the portfolio had 25 and 28 securities, respectively, in an unrealized loss position. Management evaluated its investments with unrealized losses for impairment, and, based on the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2023 and 2022.

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

At December 31, 2023 and 2022, loans consisted of the following:

	2023	2022
Construction and land development	$ 24,110,620	$ 30,224,918
Residential real estate	95,283,019	88,540,182
Commercial		
Commercial real estate	83,319,514	84,438,592
Commercial other	54,771,409	48,228,241
Agriculture		
Farmland real estate	125,012,654	118,330,873
Agriculture other	38,663,378	38,834,132
Consumer	3,206,027	3,097,866
Total loans	424,366,621	411,694,804
Deferred loan costs	239,380	138,565
Allowance for credit losses	(6,561,897)	(6,645,524)
Net loans	$ 418,044,104	$ 405,187,845

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Company's activity in the allowance for credit losses for the years ended December 31, 2023 and 2022, by loan segment, is summarized below:

	Year ended December 31, 2023					
	Construction and Land	Residential Real Estate	Commercial	Agriculture	Consumer	Total
Beginning balance	$ 486,867	$ 1,077,000	$ 2,467,658	$ 2,575,697	$ 38,302	$ 6,645,524
Impact of adopting ASC 326	484,729	(204,784)	172,631	(1,181,017)	161,805	(566,636)
Beginning balance after ASC 326 Adoption	$ 971,596	$ 872,216	$ 2,640,289	$ 1,394,680	$ 200,107	$ 6,078,888
Provision	751,505	434,032	14,815	(504,406)	(117,347)	578,599
Charge-offs	-	-	(118,137)	(14,740)	-	(132,877)
Recoveries	-	3,372	18,963	14,740	212	37,287
Ending balance	$ 1,723,101	$ 1,309,620	$ 2,555,930	$ 890,274	$ 82,972	$ 6,561,897
Ending allowance balance Attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,723,101	1,309,620	2,555,931	890,274	82,972	6,561,897
Ending allowance balance	$ 1,723,101	$ 1,309,620	$ 2,555,931	$ 890,274	$ 82,972	$ 6,561,897
Loans						
Individually evaluated for impairment	$ -	$ -	$ 4,644	$ 1,625,434	$ -	$ 1,630,078
Collectively evaluated for impairment	24,110,620	95,283,019	138,086,279	162,050,598	3,206,027	422,736,543
Total loans	$ 24,110,620	$ 95,283,019	$ 138,090,923	$ 163,676,032	$ 3,206,027	$ 424,366,621

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	Year ended December 31, 2022					
	Construction and Land	Residential Real Estate	Commercial	Agriculture	Consumer	Total
Beginning balance	$ 316,455	$ 1,000,824	$ 2,096,432	$ 2,025,698	$ 53,514	$ 5,492,923
Provision	169,599	55,404	340,574	549,999	(15,576)	1,100,000
Charge-offs	-	-	-	-	-	-
Recoveries	813	20,772	30,652	-	364	52,601
Ending balance	$ 486,867	$ 1,077,000	$ 2,467,658	$ 2,575,697	$ 38,302	$ 6,645,524
Ending allowance balance						
Attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ 446,888	$ -	$ -	$ 446,888
Collectively evaluated for impairment	486,867	1,077,000	2,020,770	2,575,697	38,302	6,198,636
Ending allowance balance	$ 486,867	$ 1,077,000	$ 2,467,658	$ 2,575,697	$ 38,302	$ 6,645,524
Loans						
Individually evaluated for impairment	$ -	$ -	$ 4,868,859	$ 604,237	$ -	$ 5,473,096
Collectively evaluated for impairment	30,224,918	88,540,182	127,797,974	156,560,768	3,097,866	406,221,708
Total loans	$ 30,224,918	$ 88,540,182	$ 132,666,833	$ 157,165,005	$ 3,097,866	$ 411,694,804

As a result of the adoption of the current expected credit losses ("CECL") accounting standard, the Company adjusted the January 1, 2023 allowance for credit losses balances within each loan segment to reflect the changes from the incurred loss model to the current expected credit loss model which resulted in increases and decreases in each loan segment based on, among other factors, quantitative and qualitative assumptions and the economic forecast to estimate the provision for credit losses over the expected life of the loans. During the year ended December 31, 2023, the ACL increased primarily as a result of organic loan growth and increases in qualitative risk factors.

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Grading: The Company categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Company uses the following definitions for credit risk ratings:

Pass: Credits not covered by the below definitions are pass credits, which are not considered to be adversely rated.

Special Mention: Loans classified as special mention, or watch credits, have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution may sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The table below presents loan balances classified within each risk rating category by primary loan type and based on year of origination or most recent renewal as of December 31, 2023:

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans	Total
Construction and land development:						
Pass	$ 6,379,941	$ 9,145,425	$ 3,253,912	$ 2,913,758	$ 2,417,584	$ 24,110,620
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total construction and land development	$ 6,379,941	$ 9,145,425	$ 3,253,912	$ 2,913,758	$ 2,417,584	$ 24,110,620
Current period gross write offs	-	-	-	-	-	-
Residential real estate:						
Pass	$ 17,648,161	$ 22,516,325	$ 12,644,273	$ 27,851,882	$ 14,547,180	$ 95,207,821
Special Mention	-	-	-	52,024	-	52,024
Substandard	-	-	-	23,174	-	23,174
Doubtful	-	-	-	-	-	-
Total residential real estate	$ 17,648,161	$ 22,516,325	$ 12,644,273	$ 27,927,080	$ 14,547,180	$ 95,283,019
Current period gross write offs	-	-	-	-	-	-
Commercial real estate:						
Pass	$ 24,653,175	$ 12,564,209	$ 15,140,823	$ 26,357,924	$ 3,571,549	$ 82,287,680
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	1,031,833	-	1,031,833
Doubtful	-	-	-	-	-	-
Total commercial real estate	$ 24,653,175	$ 12,564,209	$ 15,140,823	$ 27,389,757	$ 3,571,549	$ 83,319,514
Current period gross write offs	-	118,137	-	-	-	118,137
Commercial other:						
Pass	$ 7,739,125	$ 7,831,912	$ 10,587,137	$ 4,867,473	$ 23,741,119	$ 54,766,766
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	4,644	-	4,644
Doubtful	-	-	-	-	-	-
Total commercial other	$ 7,739,125	$ 7,831,912	$ 10,587,137	$ 4,872,116	$ 23,741,119	$ 54,771,409
Current period gross write offs	-	-	-	-	-	-
Farmland real estate:						
Pass	$ 9,078,279	$ 35,675,127	$ 38,229,712	$ 28,991,502	$ 12,232,969	$124,207,589
Special Mention	-	-	-	321,429	-	321,429
Substandard	-	-	-	483,635	-	483,635
Doubtful	-	-	-	-	-	-
Total farmland real estate	$ 9,078,279	$ 35,675,127	$ 38,229,712	$ 29,796,566	$ 12,232,969	$125,012,654
Current period gross write offs	-	-	-	-	-	-
Agriculture other:						
Pass	$ 1,713,189	$ 613,662	$ 1,453,579	$ 7,715,355	$ 26,025,795	$ 37,521,579
Special Mention	-	-	-	-	-	-
Substandard	-	-	1,141,799	-	-	1,141,799
Doubtful	-	-	-	-	-	-
Total agriculture other	$ 1,713,189	$ 613,662	$ 2,595,378	$ 7,715,355	$ 26,025,795	$ 38,663,378
Current period gross write offs	-	-	-	14,740	-	14,740

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

As of December 31, 2023	2023	2022	2021	Prior	Revolving Loans	Total
Consumer:						
Pass	$ 1,115,447	$ 802,132	$ 459,915	$ 516,094	$ 312,438	$ 3,206,027
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total consumer	$ 1,115,447	$ 802,132	$ 459,915	$ 516,094	$ 312,438	$ 3,206,027
Current period gross write offs	-	-	-	-	-	-
Total loans:						
Pass	$ 68,327,316	$ 89,148,793	$ 81,769,352	$ 99,213,987	$ 82,848,635	$421,308,083
Special Mention	-	-	-	373,453	-	373,453
Substandard	-	-	1,141,799	1,543,286	-	2,685,085
Doubtful	-	-	-	-	-	-
Total loans	$ 68,327,316	$ 89,148,793	$ 82,911,151	$101,130,727	$ 82,848,635	$424,366,621
Current period gross write offs	-	118,137	-	14,740	-	132,877

The Company's credit quality indicators, by loan segment and class, at December 31, 2022 are summarized below:

	Year ended December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$ 30,224,918	$ -	$ -	$ -	$ 30,224,918
Residential real estate	88,369,160	52,940	118,082	-	88,540,182
Commercial					
Commercial real estate	79,569,733	-	4,868,859	-	84,438,592
Commercial other	48,228,241	-	-	-	48,228,241
Agriculture					
Farmland real estate	118,330,873	-	-	-	118,330,873
Agriculture other	38,229,895	-	604,237	-	38,834,132
Consumer	3,097,866	-	-	-	3,097,866
	$ 406,050,686	$ 52,940	$ 5,591,178	$ -	$ 411,694,804

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Company's credit quality indicator is internally assigned risk ratings. Each loan is assigned a risk rating upon origination. This risk is reviewed on commercial and commercial real estate loans 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.

The following tables present the recorded investment in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2023 and 2022:

	December 31, 2023		December 31, 2022	
	Nonaccrual by Class	Over 89 Days Past Due Still Accruing	Nonaccrual by Class	Over 89 Days Past Due Still Accruing
Residential real estate	$ -	$ -	$ 10,194	$ -
Commercial other	4,644	-	604,237	-
Farmland real estate	483,635	-	-	-
Agriculture other	1,141,799	-	-	-
Total	$ 1,630,078	$ -	$ 614,431	$ -

The following tables present the aging of the recorded investment in past due loans as of December 31, 2023 and 2022 by class of loans:

	Year ended December 31, 2023				
	30-59 Days Past Due	60-89 Days Past Due	Over 89 Days Past Due	Not Past Due	Total
Construction and land development	$ -	$ -	$ -	$ 24,110,620	$ 24,110,620
Residential real estate	52,024	-	-	95,230,995	95,283,019
Commercial					
Commercial real estate	-	-	-	83,319,514	83,319,514
Commercial other	-	-	-	54,771,409	54,771,409
Agriculture					
Farmland real estate	-	-	483,635	124,529,019	125,012,654
Agriculture other	-	-	1,141,799	37,521,579	38,663,378
Consumer	2,931	-	-	3,203,096	3,206,027
	$ 54,955	$ -	$ 1,625,434	$ 422,686,232	$ 424,366,621

	Year ended December 31, 2022				
	30-59 Days Past Due	60-89 Days Past Due	Over 89 Days Past Due	Not Past Due	Total
Construction and land development	$ -	$ -	$ -	$ 30,224,918	$ 30,224,918
Residential real estate	190,729	91,030	10,194	88,248,229	88,540,182
Commercial					
Commercial real estate	-	-	-	84,438,592	84,438,592
Commercial other	-	-	-	48,228,241	48,228,241
Agriculture					
Farmland real estate	-	-	-	118,330,873	118,330,873
Agriculture other	1,883	45,062	-	38,787,187	38,834,132
Consumer	-	-	-	3,097,866	3,097,866
	$ 192,612	$ 136,092	$ 10,194	$ 411,355,906	$ 411,694,804

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale of the collateral. The collateral on the loans is a significant portion of what secured the collateral-dependent loans and significant changes to the fair value of the collateral can impact the allowance for credit losses. The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	December 31, 2023	
	Other Real Estate	Business Assets
Commercial other	$ -	$ 4,644
Farmland real estate	483,635	-
Agriculture other	-	1,141,799
Total	$ 483,635	$ 1,146,443

The following table presents information for impaired loans for the years ended December 31, 2022:

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate	$ 1,078,471	$ 1,078,471	$ -	$ 755,977
Agriculture other	604,237	604,237	-	394,065
Subtotal	1,682,708	1,682,708	-	1,150,042
With an allowance recorded:				
Commercial real estate	3,790,388	3,790,388	446,888	947,777
Total	$ 5,473,096	$ 5,473,096	$ 446,888	$ 2,097,819

Impaired loans for which no allowance has been provided as of December 31, 2023 and 2022 have adequate collateral based on management's current estimates. Interest income recognized for the years ended December 31, 2023 and 2022 on these impaired loans is not material.

Non-accrual loans and loans past due over 89 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired (i.e., individually classified impaired loans) as well as TDRs for all portfolio segments. The sum of non-accrual loans and loans past due over 89 days still on accrual will differ from the total impaired loan amount.

During 2023, the Company did not modify any additional loans to borrowers in financial distress. As of December 31, 2022, the Company had a recorded investment in troubled debt restructurings of $1,078,471. The Company has allocated no specific allowance for this loan as of December 31, 2022 and has committed to lend no additional amounts to those borrowers.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.

(Continued)

NOTE 4 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2023	2022
Land	$ 1,055,868	$ 1,075,482
Buildings and building improvements	11,367,832	11,671,136
Furniture, fixtures and equipment	5,368,475	5,285,450
Vehicles	204,829	91,493
Construction in progress	-	21,445
	17,997,004	18,145,006
Less: accumulated depreciation	(9,440,910)	(8,909,078)
Net premises and equipment	$ 8,556,094	$ 9,235,928

Buildings and building improvements include right of use assets of $1,167,546 and $1,261,594 at December 31, 2023 and 2022, respectively. Depreciation expense was approximately $569,000 and $617,000 for 2023 and 2022, respectively.

NOTE 5 – LEASES

Operating leases are recorded as right of use assets and lease liabilities are included in premises and equipment, net and accrued expenses and other liabilities, respectively, in the Consolidated Balance Sheets. The Company is obligated under an operating lease from a related party for the Bank's full-service branch office in Colorado Springs, Colorado, expiring in 2031. The Company has the option to renew this lease for one additional term of 36 months. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The right of use asset and related lease liability have been calculated using a discount rate of 3.63%, which is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The lease requires the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $181,625 and $177,637 for 2023 and 2022, respectively, and is included in occupancy and equipment in the Consolidated Statements of Operations.

(Continued)

NOTE 5 – LEASES (Continued)

The Company has made a policy election to not separate lease and nonlease components for the operating lease. Therefore, the full amount of the lease payment is included in the recorded right of use asset and lease liability.

The following is a schedule by year of future undiscounted lease payments under the operating lease, together with the present value of net minimum lease payments at year-end 2023.

2024	$ 183,144
2025	161,734
2026	157,452
2027	157,452
2028	157,452
Thereafter	826,623
Total undiscounted lease payments	1,643,857
Less: imputed interest	(123,127)
Net lease liabilities	$ 1,520,730

Right of use assets and lease liabilities, by lease type, and the associated balance sheet classifications are as follows:

		December 31, 2023	December 31, 2022
Right of use assets:			
Operating leases	Premises, and equipment, net	$ 1,167,546	$ 1,261,594
Lease liabilities:			
Operating leases	Accrued expenses and other liabilities	$ 1,520,730	$ 1,649,620

Supplemental Lease Information

	December 31, 2023	December 31, 2022
Operating lease weighted average remaining lease term (years)	9.0	9.9
Operating lease weighted average discount rate	3.63%	3.63%
Cash paid for amounts included in the measurement of lease liabilities	183,144	183,144
Right of use assets obtained in exchange for new lease liabilities	-	-

(Continued)

NOTE 6 – DEPOSITS

The following is a summary of the distribution of deposits at December 31, 2023 and 2022:

	2023	2022
Non-interest bearing deposits	$ 126,891,305	$ 164,154,943
Interest-bearing deposits	200,244,402	150,482,591
Savings	38,751,283	38,729,972
Money market savings	9,734,770	13,700,593
Time deposits	96,370,559	53,624,132
	$ 471,992,319	$ 420,692,232

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2023 and 2022 totaled $19,799,678 and $8,372,671, respectively.

Scheduled maturities of time deposits for the next five years are as follows:

2024	$ 83,001,229
2025	6,940,230
2026	4,002,485
2027	1,421,186
2028	456,193

NOTE 7 – 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 $836,123 and $863,961 as of December 31, 2023 and 2022, respectively. Repurchase agreements are secured by securities of the Bank pledged at FHLB for that purpose with a carrying amount of $836,123 and $863,961 at year-end 2023 and 2022. The agreements mature daily and carry a weighted-average interest rate of 0.50% at December 31, both 2023 and 2022.

NOTE 8 – BORROWINGS

Advances from the Federal Home Loan Bank were $0 at both December 31, 2023 and 2022. At December 31, 2023, the Company had outstanding letters of credit at the FHLB of approximately $20,400,000. Advances and letters of credit were collateralized by a blanket collateral pledge agreement under which the Company had pledged loans with a carrying value of approximately $55,085,000 at December 31, 2023. Based on this collateral and the Company’s holdings of FHLB stock, the Company is eligible to borrow up to a total of $22,016,000.

The Company entered into a line of credit on November 30, 2021 with Bankers' Bank of the West for an amount up to $5,000,000. The line of credit is collateralized by the stock of the Bank and matures on November 30, 2025. At December 31, 2023, there was no outstanding balance on the line of credit with a variable interest rate based on the national prime rate with a floor of 3.25%. As of December 31, 2023, the interest rate was 8.50%.

(Continued)

NOTE 8 – BORROWINGS (Continued)

On March 20, 2023 the Company participated in the Bank Term Funding Program (BTFP) authorized by the Board of Governors of the Federal Reserve System. The advance is collateralized by the Company's agency security portfolio and matures on March 19, 2024. At December 31, 2023 the outstanding balance on the BTFP advance was $11,000,000 with a fixed rate of 4.37% and the pledged collateral had a market value of $9,943,740.

NOTE 9 – INCOME TAXES

The components of the income tax provision included in the consolidated statement of operations are all attributable to continuing operations and are detailed as follows:

	2023	2022
Current income tax expense	$ 2,235,548	$ 2,261,945
Deferred income tax benefit	(48,847)	(406,131)
Total	$ 2,186,701	$ 1,855,814

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	2023	2022
Income tax expense, computed at 21% of pretax income	$ 1,870,400	$ 1,499,111
State income tax expense	391,592	328,788
Tax-exempt income	(11,435)	(11,303)
Bank-owned life insurance	(57,719)	(54,926)
Other, net	(6,137)	94,144
Total provision for income taxes	$ 2,186,701	$ 1,855,814

The details of the net deferred tax asset are as follows:

	2023	2022
Deferred tax assets:		
Allowance for credit losses on loans	$ 1,564,480	$ 1,658,058
Allowance for credit losses on unfunded commitments	219,638	-
Loan fair value adjustments	-	41,007
Net unrealized loss on available-or-sale securities	314,640	429,203
Lease liability	362,424	412,620
Other	(1)	81,255
Gross deferred tax assets	2,461,181	2,622,143
Deferred tax liabilities:		
Premises and equipment	(384,004)	(424,213)
Core deposit intangible	(53,943)	(92,140)
Investment in partnership interest	(100,297)	(105,001)
FHLB stock dividends	(6,924)	(7,249)
Right of Use Asset	(278,253)	(314,768)
Prepaid expenses	(63,658)	(37,525)
Deferred loan costs, net of fees	(57,050)	(34,573)
Other	-	(60,454)
Gross deferred tax liabilities	(944,129)	(1,075,923)
Net deferred tax asset	$ 1,517,052	$ 1,546,220

(Continued)

NOTE 9 – INCOME TAXES (Continued)

No valuation allowance for the realization of deferred tax assets is considered necessary.

The Company has no unrecognized tax benefits as of December 31, 2023 and 2022. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2023 and 2022. The Company and its subsidiaries file U.S. Corporation federal, Colorado, Nebraska, and Missouri tax returns. The following schedule summarizes the years that remain subject to examination as of December 31, 2023:

	Years ended December 31,
Federal	2020, 2021, 2022
Missouri	2020, 2021, 2022
Colorado	2019, 2020, 2021, 2022

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets of the Company as and for the years ended December 31, 2023 and 2022 are summarized as follows:

	2023		2022	
	Net Carrying Amount	Amortization Expense	Net Carrying Amount	Amortization Expense
Amortized intangible assets				
Core deposit intangible	$ 226,345	$ 142,955	$ 369,300	$ 142,955

The balance of goodwill for the years ended December 31, 2023 and 2022 was the result of the Stockmens Bank acquisition in 2017. Goodwill has an indefinite life.

The recorded amounts of goodwill at December 31, 2023 and 2022 are as follows:

	2023	2022
Goodwill	$ 1,431,179	$ 1,431,179

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2023, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

(Continued)

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. On December 18, 2023 the Company executed a buyout of the pension plan which transferred the assets and liabilities to the succeeding insurer. Pension expense for the years ended December 31, 2023 and 2022 was approximately $278,156 and $32,934, respectively.

The Stockmens Bank Employee Stock Ownership Plan and Trust and the Stockmens Bank 401(k) Savings Plan (together replacing the First Home Bank Employee Stock Ownership and 401(k) Plan as of January 1, 2022) cover all employees who are age 21 and have completed one year of service (age 18 and 90 days of service until January 1, 2022). The Company makes contributions on a matching basis of 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) plans for the years ended December 31, 2023 and 2022 was $426,885 and $139,353, respectively.

NOTE 12 – STOCK OPTION PLAN

During 2019, the Company approved the First Bancshares, Inc. 2019 Stock Option Plan (the "Plan"), which permits the grant of incentive stock or nonqualified stock options to its participants for up to 100,000 shares of common stock. There have been no stock option grants under this plan, therefore there are no shares outstanding, vested, or expected to vest and no compensation expense for the years ended December 31, 2023 or 2022. Eligible participants in the Plan consist of directors, emeritus directors, or employees of the Company. The Company believes that such awards better align the interests of its participants with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. Compensation expense for stock-based awards is recorded over the vesting period at the fair value of the award at the time of grant. Separate from the 2019 Stock Option Plan, the Company recorded stock based compensation expense of $149,985 through a share bonus to select employees. There are no additional shares outstanding, vested, or expected to vest because of this transaction.

NOTE 13 – 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 be conducted at arm’s length and that all loans and commitments included in such transactions be 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, 2023 and 2022 were $7,224,050 and $6,693,680, respectively. Deposits from officers and directors as of December 31, 2023 and 2022 were $5,361,686 and $4,061,784, respectively.

(Continued)

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Credit – Related Financial Instruments

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

Contract Amounts

As of December 31, 2023 and 2022, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2023	2022
Commitments to grant loans	$ 14,472,000	$ 39,559,000
Unfunded commitments under lines of credit	95,304,000	105,084,000
Standby letters of credit	3,100,000	2,991,000
Total	$ 112,876,000	$ 147,634,000

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company or by another party on the Company's behalf to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

The Company assessed the off-balance sheet credit exposures as of December 31, 2023 and determined its ACL of $921,598 and associated provision for credit loss expense of $225,345 were adequate to absorb the estimated credit losses. Such ACL is included in other liabilities.

(Continued)

NOTE 15 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2023, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of March 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio greater than 8%.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of June 30, 2022, the Bank reverted back to the risk-weighting framework and continued with that framework through December 31, 2023.

(Continued)

NOTE 15 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year-end for the Bank. Under the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules), the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer of 2.50% is not included in the required rates of the table presented below as of December 31, 2023.

December 31, 2023	Bank's Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Total Capital to Risk Weighted Assets	$ 58,133	13.12%	$ 35,434	8.0%	$ 44,292	10.0%
Tier 1 (Core) Capital to Risk Weighted Assets	52,572	11.87%	26,575	6.0%	35,434	8.0%
Common Equity Tier 1 (CET 1)	52,572	11.87%	19,931	4.5%	28,790	6.5%
Tier 1 (Core) Capital to Average Assets	52,572	9.89%	21,258	4.0%	26,572	5.0%

December 31, 2022	Bank's Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
Total Capital to Risk Weighted Assets	$ 52,045	12.10%	$ 34,407	8.0%	$ 43,009	10.0%
Tier 1 (Core) Capital to Risk Weighted Assets	46,652	10.85%	25,805	6.0%	34,407	8.0%
Common Equity Tier 1 (CET 1)	46,652	10.85%	19,354	4.5%	27,956	6.5%
Tier 1 (Core) Capital to Average Assets	46,652	10.00%	18,655	4.0%	23,319	5.0%

Dividend Restrictions - The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. As of December 31, 2023, $11,626,000 of retained earnings is available to pay dividends.

NOTE 16 – FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

The following tables present information about the Company's assets measured at fair value on a recurring basis at December 31, 2023 and 2022 and the valuation techniques used by the Company to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Significant Unobservable Inputs (Level 3)	Balance at December 31, 2023
Securities available for sale:				
Agencies	$ -	$ 9,943,740	$ -	$ 9,943,740
Municipal securities	-	2,821,068	-	2,821,068
Total	$ -	$ 12,764,808	$ -	$ 12,764,808

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
Securities available for sale:				
Agencies	$ -	$ 9,574,860	$ -	$ 9,574,860
Municipal securities	-	2,976,734	-	2,976,734
Total	$ -	$ 12,551,594	$ -	$ 12,551,594

The fair value of securities available for sale at December 31, 2023 and 2022 was determined primarily based on Level 2 inputs. The Company estimates the fair value of these investments based on quoted prices for similar assets in active markets.

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets include the following:

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 credit 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, it is measured at the observable market price of the discounted loan based upon appraisals by qualified licensed appraisers hired by the Company. Loan impairments are generally considered Level 3 measurements. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal, age of comparable sales 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.

Real Estate Owned and Other Repossessed Assets: Real estate owned and other repossessed assets are carried at the estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals and market valuations. 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 Company has estimated the fair values of these assets based primarily on Level 3 inputs, as summarized below:

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Collateral-dependent loans				
Commercial	$ -	$ -	$ -	$ -

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans				
Commercial	$ -	$ -	$ 3,343,500	$ 3,343,500

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices; however, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Fair value accounting standards exclude certain financial instruments and all nonfinancial instruments from their disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The carrying amounts and fair values of financial instruments are as follows:

	Fair Value Measurements at December 31, 2023			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 79,031,538	$ 79,031,538	$ -	$ -
Term deposits in other financial institutions	245,874	245,874	-	-
Available-for-sale securities	12,764,808	-	12,764,808	-
Held-to-maturity securities	90,278	-	92,932	-
Loans, net of allowance for loan losses	418,044,104	-	-	434,852,075
Accrued interest receivable	4,319,072	-	4,319,072	-
Financial liabilities				
Deposits	$ 471,992,319	$ 126,891,305	$ 304,005,501	$ -
Repurchase agreements	836,123	-	745,579	-
Accrued interest payable	735,210	16,816	718,394	-

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at December 31, 2022			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 21,781,333	$ 21,781,333	$ -	$ -
Term deposits in other financial institutions	980,733	980,733	-	-
Available-for-sale securities	12,551,594	-	12,551,594	-
Held-to-maturity securities	100,640	-	100,640	-
Loans, net of allowance for loan losses	405,187,845	-	-	419,762,689
Accrued interest receivable	3,497,662	2,469	3,495,193	-
Financial liabilities				
Deposits	$ 420,692,232	$ 164,154,943	$ 202,900,192	$ -
Repurchase agreements	863,961	-	792,367	-
Accrued interest payable	107,298	12,228	95,070	-

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 11, 2024, there were 263 registered stockholders and 2,428,224 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 $0.35/share cash dividend to the shareholders of record as of April 1st, 2024, payable on April 15th, 2024.

Dividend payments by the Company are dependent on its cash flows, which include reimbursement from 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 October 2019 and extended the plan several times to repurchase up to 241,849 shares of the Company’s stock. As of March 11, 2024, 206,002 authorized shares had been repurchased at an average price of $15.21 per share.

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

Year Ended December 31, 2022	High	Low	Dividend
First Quarter	$ 18.00	$ 16.83	0.30
Second Quarter	$ 17.50	$ 17.05	N/A
Third Quarter	$ 20.00	$ 17.18	N/A
Fourth Quarter	$ 19.00	$ 17.87	N/A

Year Ended December 31, 2023	High	Low	Dividend
First Quarter	$ 20.00	$ 18.80	0.30
Second Quarter	$ 22.00	$ 19.10	N/A
Third Quarter	$ 25.49	$ 21.44	N/A
Fourth Quarter	$ 23.01	$ 22.99	N/A

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. Edward Sauer
Director
First Bancshares, Inc.

John G. Moody
Director
First Bancshares, Inc.

Bradley M. Segebarth
Chief Operating Officer
Lebanon Auto Transport

Jeffrey Timmerman
Owner/Operator
Sunset Land & Cattle

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

STOCKMENS BANK

DIRECTORS:
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Chairman and Chief Executive Officer

D. Edward Sauer
Vice Chairman

Robert J. Breidenthal, Jr.
Director

Bradley M. Segebarth
Director

Jeffrey Timmerman
Director

Thomas M. Sutherland, Jr.
Director

E. Steve Moody
Executive Director

Brady J. Nachtrieb, CPA
Chief Operating Officer

W. Jared Balady, CPA
Chief Financial Officer

Elaine Durham
CO President

Judith Ingels
Executive Vice President

John F. Gumper
Executive Vice President

ADVISORY DIRECTORS:
John G. Moody
Matthew Springer
Steven McConville
Thomas M. Sutherland, Sr.

EXECUTIVE OFFICERS

FIRST BANCSHARES, INC.

OFFICERS:
Robert M. Alexander
Chairman and Chief Executive Officer

Brady J. Nachtrieb, CPA
President

W. Jared Balady, CPA
Chief Financial Officer

E. Steve Moody
Vice President

Shannon Peterson
Corporate Secretary

Judith Ingels
Assistant Corporate Secretary

STOCKMENS BANK

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Robert M. Alexander
Chairman and Chief Executive Officer

Brady J. Nachtrieb, CPA
Chief Operating Officer

W. Jared Balady, CPA
Chief Financial Officer

John F. Gumper
Chief Credit Officer
Assistant Corporate Secretary

E. Steve Moody
Executive Director

Elaine Durham
CO President

Garith Dedmon
MO President

Judith Ingels
Executive Vice President

Shannon Peterson
Senior Vice President
Corporate Secretary

CORPORATE INFORMATION

CORPORATE HEADQUARTERS:
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Denver, Colorado

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Dallas, Texas

SPECIAL COUNSEL:
Lowther Johnson Attorneys at Law, LLC
Springfield, Missouri

TRANSFER AGENT:
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COMMON STOCK:
Traded on the Over-the-Counter Bulletin
OTCQX Symbol: **FBSI**

ANNUAL MEETING

The Annual Meeting of Stockholders will be held Tuesday, April 30, 2024, at 11:00 a.m., Mountain Time, via virtual WebEx conference.

Please email annualmeeting@thestockmensbank.com by April 16, 2024 to receive the WebEx meeting details and invitation.

Stockmens Bank is the wholly owned subsidiary of First Bancshares, Inc. with 11 convenient locations to serve the residents of Southern Colorado, Northeastern Colorado, Southern Missouri, and Southwestern Nebraska.

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