

2023 ANNUAL REPORT



FIRST BANCSHARES, INC. AND SUBSIDIARIES

**FIRST BANCSHARES, INC.
AND SUBSIDIARIES
MERRILLVILLE, INDIANA**

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS.....	4
CONSOLIDATED STATEMENTS OF INCOME	5
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME.....	6
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	7
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	9



201 N. Illinois Street, Suite 700 / Indianapolis, IN 46244

P 317.383.4000 / F 317.383.4200

forvis.com

Independent Auditor's Report

Board of Directors, Audit and Risk Committee and Management
First Bancshares, Inc.
Merrillville, Indiana

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of First Bancshares, Inc. (the Corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, 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 the Corporation 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.

We also have audited the Corporation's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on COSO.

Basis for Opinions

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 Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of the Corporation 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 opinions.

Emphasis of Matter

As discussed in Notes 1 and 4 to the consolidated financial statements, in 2023, the Corporation changed its method of accounting for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

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 the Corporation's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

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 about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 to be 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 of consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- 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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's 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 financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Corporation's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C).

An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

FORVIS, LLP

Indianapolis, Indiana
March 28, 2024

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(Dollars in thousands, except for per share data)

	2023	2022
ASSETS		
Cash and due from financial institutions	\$ 74,199	\$ 65,141
Interest-bearing deposits in financial institutions	108,913	141,983
Total cash and cash equivalents	183,112	207,124
Certificates of deposit in other financial institutions	2,945	5,824
Securities available for sale	1,212,540	871,107
Federal Home Loan Bank (FHLB) stock	28,575	24,532
Loans, net of deferred costs and allowance for credit losses of \$78,402 in 2023 and \$69,080 in 2022	6,902,120	5,219,078
Loans held for sale	2,895	3,480
Premises and equipment, net	30,091	29,212
Other real estate, net	17	-
Investment in bank owned life insurance	142,384	138,244
Deferred tax assets	39,108	37,198
Accrued interest receivable and other assets	184,848	196,424
Total assets	<u>\$ 8,728,635</u>	<u>\$ 6,732,223</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing	\$ 1,520,780	\$ 1,757,276
Interest bearing	5,654,561	3,687,228
Total deposits	7,175,341	5,444,504
Advances from Federal Home Loan Bank (FHLB)	560,000	475,000
Federal funds purchased	50,000	-
Subordinated debentures	60,000	60,000
Securities purchased not settled	18,750	19,336
Allowance for credit losses on off-balance sheet credit exposures	3,714	-
Accrued interest payable and other liabilities	160,607	165,837
Total liabilities	8,028,412	6,164,677
Stockholders' equity		
Common stock, no par value; \$1 stated value:		
150,000 shares authorized; 113,431 shares issued and outstanding at December 31, 2023 and 2022	113	113
Capital surplus	27,695	27,695
Retained earnings	745,552	625,374
Accumulated other comprehensive income, net	(73,137)	(85,636)
Total stockholders' equity	700,223	567,546
Total liabilities and stockholders' equity	<u>\$ 8,728,635</u>	<u>\$ 6,732,223</u>

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2023 and 2022
(Dollars in thousands, except for per share data)

	2023	2022
Interest income		
Loans including fees	\$ 398,154	\$ 226,675
Taxable securities	32,100	12,606
Nontaxable securities	5,185	7,109
Other	4,314	1,562
Total interest income	<u>439,753</u>	<u>247,952</u>
Interest expense		
Deposits	132,573	19,806
Advances from FHLB	16,779	5,097
Federal funds purchased	3,084	628
Subordinated debentures	2,400	1,754
Other borrowings	-	1,058
Total interest expense	<u>154,836</u>	<u>28,343</u>
Net interest income	284,917	219,609
Provision for credit loss expense		
Loans	14,035	7,525
Off-balance-sheet credit exposures	(1,260)	-
Total provision for credit loss expense	<u>12,775</u>	<u>7,525</u>
Net interest income after provision for credit loss expense	272,142	212,084
Noninterest income		
Deposit service fees, net	13,719	12,842
Card interchange fees	16,178	20,529
Wealth management fees	10,310	9,651
Mortgage banking income	4,742	5,533
Net gains (losses) on securities	163	(561)
Losses on sales of other real estate	-	(68)
Gains on interest rate swaps	5,079	5,068
Other income	7,515	7,366
Total noninterest income	<u>57,706</u>	<u>60,360</u>
Noninterest expense		
Salaries and benefits	91,214	83,114
Occupancy expenses, net	16,859	16,630
Data processing expenses	13,635	13,571
Other expenses	28,688	20,917
Total noninterest expense	<u>150,396</u>	<u>134,232</u>
Income before income tax expense	179,452	138,212
Income tax expense	<u>40,089</u>	<u>30,446</u>
Net income	<u>\$ 139,363</u>	<u>\$ 107,766</u>
Earnings per share:		
Basic and diluted	\$ 1,228.62	\$ 950.46

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022
(Dollars in thousands, except for per share data)

	2023	2022
Net income	\$ 139,363	\$ 107,766
Other comprehensive income (loss)		
Change in unrealized losses on securities available for sale	16,018	(117,307)
Reclassification adjustment for losses (gains) on sale of securities included in net income (1)	(163)	561
Tax effect	(3,356)	24,635
Total other comprehensive income (loss)	12,499	(92,111)
Comprehensive income	\$ 151,862	\$ 15,655

(1) Reclassifications are included in net gains (losses) on securities in the consolidated statements of income. Related tax effects, included in income tax expense, were \$34 and (\$118) for the years ended December 31, 2023 and 2022.

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
(Dollars in thousands, except for per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2022	\$ 113	\$ 26,202	\$ 533,477	\$ 6,475	\$ 566,267
Net income	-	-	107,766	-	107,766
Conversion of subordinated debt to common stock (168 shares)	-	1,493	-	-	1,493
Other comprehensive loss	-	-	-	(92,111)	(92,111)
Cash dividends (\$140.00 per share)	-	-	(15,869)	-	(15,869)
Balances, December 31, 2022	\$ 113	\$ 27,695	\$ 625,374	\$ (85,636)	\$ 567,546
Net income	-	-	139,363	-	139,363
Cumulative effect of adoption of ASU No. 2016-13	-	-	(1,036)	-	(1,036)
Other comprehensive income	-	-	-	12,499	12,499
Cash dividends (\$160.00 per share)	-	-	(18,149)	-	(18,149)
Balances, December 31, 2023	<u>\$ 113</u>	<u>\$ 27,695</u>	<u>\$ 745,552</u>	<u>\$ (73,137)</u>	<u>\$ 700,223</u>

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
Cash flows from operating activities		
Net income	\$ 139,363	\$ 107,766
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	3,392	3,808
Provision for credit losses	12,775	7,525
Net (gains) losses on securities	(163)	561
Net losses on sales of other real estate	-	68
Net gains on sales of loans held for sale	(1,547)	(2,558)
Loans originated for sale	(74,445)	(137,591)
Loan sale proceeds	76,577	147,601
Net amortization (accretion) of securities	(3,607)	5,624
Earnings on life insurance	(4,139)	(3,671)
Net change in:		
Interest receivable and other assets	11,576	(68,886)
Deferred tax assets	(4,925)	(413)
Interest payable and other liabilities	(5,230)	33,157
Net cash from operating activities	149,627	92,991
Cash flows from investing activities		
Proceeds from calls and maturities of certificates of deposit in other financial institutions	2,879	4,667
Purchase of certificates of deposit in other financial institutions	-	(2,450)
Proceeds from sales, calls and maturities of securities available for sale	211,845	159,826
Purchases of securities available for sale	(534,239)	(382,648)
Purchase of FHLB stock	(4,043)	-
Proceeds from sale of FHLB stock	-	2,468
Loans made to customers and principal collections, net	(1,603,531)	(386,217)
Loans purchased	(89,967)	(69,594)
Proceeds from BOLI death benefit	-	391
Purchase of BOLI	-	(105,000)
Proceeds from sales of other real estate	-	182
Net property and equipment expenditures	(4,271)	(494)
Net cash used in investing activities	(2,021,327)	(778,869)
Cash flows from financing activities		
Net increase in deposits	1,730,837	196,172
Net change in federal funds purchased	50,000	-
Proceeds from long-term FHLB advances	240,000	-
Payments on long-term FHLB advances	-	(140,000)
Net change in short-term FHLB advances	(155,000)	355,000
Payments on long-term borrowings	-	(49,800)
Proceeds from issuance of subordinated debt	-	60,000
Repayment of subordinated debentures partial shares	-	(2,507)
Cash dividends paid	(18,149)	(15,869)
Net cash from financing activities	1,847,688	402,996
Net change in cash and cash equivalents	(24,012)	(282,882)
Cash and cash equivalents at the beginning of the year	207,124	490,006
Cash and cash equivalents at the end of the year	\$ 183,112	\$ 207,124
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$ 132,847	\$ 28,032
Income taxes	47,434	27,837
Noncash activities		
Transfer from loans to other real estate	17	-
Securities purchased but not settled	586	19,336
Conversion of subordinated debt to common stock	-	1,493

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of First Bancshares, Inc. (the Corporation), its wholly owned subsidiaries, Centier Risk Management LLC (CRM) and Centier Bank (the Bank), and the Bank's wholly owned subsidiaries, Centier Nevada 2, LLC; Centier Investments Nevada 2, Inc.; and Centier Holdings Nevada 2, Inc. Centier Nevada 2, LLC; Centier Investments Nevada 2, Inc.; and Centier Holdings Nevada 2, Inc. are a Nevada limited liability partnership and Nevada corporations that manage a portion of the Bank's investment portfolio. CRM is an insurance company incorporated in Nevada for the purpose of insuring the Corporation and its subsidiaries against certain risks unique to the operations of the Corporation and for which insurance may not be currently available or economically feasible in today's insurance marketplace. In 2023 management determined the supplemental insurance coverage between the Corporation and subsidiaries with CRM was no longer warranted. As a result, Centier Risk Management was dissolved in December 2023. All significant intercompany balances and transactions have been eliminated in the consolidation.

Nature of Operations: The Corporation's revenues, operating income and assets are primarily from the banking industry. The accounting and reporting policies of the Corporation conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. The Bank grants credit and accepts deposits from its customers in the normal course of business primarily in northern Indiana. The following is a summary of the more significant policies.

Subsequent Events: The Corporation has evaluated subsequent events for recognition or disclosure through March 28, 2024, which is the date that the Corporation's financial statements were available to be issued.

Certain Significant Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

Certificates of Deposits in Other Financial Institutions: Certificates of deposits in other financial institutions have original maturities greater than 3 months and are carried at cost.

Securities: 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 separately in stockholders' equity, net of tax.

Interest income includes amortization of purchase premiums or discounts. Premiums or 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.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and the allowance for credit losses (ACL). Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term, without anticipating prepayments.

Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired, or payments are past due over 89 days (180 days for residential). Past due status is based on the contractual terms of the loan. All interest accrued but not received for loans placed on nonaccrual 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. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has identified the following loan segments; commercial, residential, and installment loans. Commercial loans may be subject to adverse market conditions which may impact the borrower's ability to make repayments on the loan or could cause a decline in the value of the collateral that secures the loan; the potential for environmental impairment from events occurring on subject or neighboring properties; and obsolescence in location or function. Residential and installment loans may be subject to adverse employment conditions in the local economy leading to increased default rates; decreased market values from oversupply in a geographic area; and impact to borrowers' ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

Allowance for Credit Losses - Loans: The ACL on loans replaces the allowance for loan losses as a credit accounting estimate, as of January 1, 2023, with the adoption of ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans. Loans are charged off against the ACL when management believes the loan balance is verified to be no longer collectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the ACL 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. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, changes in economic conditions, or other relevant factors.

The Corporation considers the following when estimating credit losses: 1. available information relevant to assessing the collectability of cash flows including internal information, external information or a combination of both relating to past events, current conditions and reasonable and supportable forecasts; 2. relevant qualitative and quantitative factors relating to the environment in which the Company operates and factors specific to the borrower; 3. off-balance-sheet credit exposures; and credit support.

ACL on loans is measured on a collective basis and reflects impairment in groups of loans aggregated based on similar risk characteristics which may include any one or a combination of the following: internal credit ratings, risk ratings or classification, financial asset type, collateral type, size, industry of the borrower, historical or expected credit loss patterns, and reasonable and supportable forecast periods. The loan portfolio is segmented by Collateral Type as this pools loans with similar risk characteristics and sensitivities

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and there is quality data readily available. The ACL for a specific portfolio segment is computed by multiplying the historical loss rate, as calculated through a Discounted Cash Flow methodology, by the amortized cost balance of the segment with adjustments for other qualitative factors as described above. As appropriate, newer credit products or portfolios with limited historical loss may use applicable external data for determining the ACL until experience justifies that sufficient product maturity supports the estimate of expected credit losses.

Pursuant to ASC 326–20–30–9, an entity shall not rely solely on past events to estimate expected credit losses and should consider adjustments to historical information to reflect the extent to which management expects current conditions and forecasted conditions to differ from the periods utilized for the historical loss rate calculation. Management has incorporated quantitative economic variables in the model and adjustments of the historical loss rate to reflect current and forecasted condition and has applied necessary qualitative adjustments to arrive at an appropriate, aggregate loss rate for each segment.

The qualitative adjustment is based on a combination of external econometric data and internal factors including but not limited to portfolio composition, changes in management, and changes in loan policy. Economic forecasts are based in part on economic indexes, statistical analysis, and reasonable inferences. The qualitative adjustment is calculated based on current and forecasted conditions and evaluated each quarter by management, and therefore is dynamic in nature.

Specific reserves reflect collateral shortfalls on loans identified for evaluation or individually considered nonperforming, including troubled debt restructurings and receivables where the Corporation has determined foreclosure is probable. These loans no longer have similar risk characteristics to collectively evaluated loans due to changes in credit risk, borrower circumstances, recognition of write-offs, or cash collections that have been fully applied to principal based on non-accrual policies. At a minimum, the population of loans subject to individual evaluation include individual loans where it is probable the Corporation will be unable to collect all amounts due, according to the original contractual terms.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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 at the reporting date that a troubled debt restructuring will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Corporation.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Off-Balance-Sheet Credit Exposures: The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The allowance for credit losses on off-balance-sheet credit exposures is adjusted through credit loss expense. 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.

Allowance for Credit Losses – Available for Sale Securities: For available for sale debt securities in an unrealized loss position, the Corporation 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 Corporation 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 amortized cost, any changes to the rating of the security by a 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 cash flows 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 ACL 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 ACL is recorded in other comprehensive income.

Changes in the ACL are recorded as provision for, or reversal of, credit loss expense. 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. As of December 31, 2023, the Corporation had no reserve against available for sale securities. Accrued interest receivable on available for sale debt securities is excluded from the estimate of credit losses.

Loans Held for Sale: Loans held for sale, for which the fair value option has been elected, are recorded at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk: The Bank is a full-service bank headquartered in Merrillville, Indiana with 56 branch offices located in Lake, Porter, LaPorte, Marion, Marshall, St. Joseph, Allen, Hamilton, Boone, Elkhart, and Tippecanoe Counties. The Bank makes a variety of loans including real estate mortgage, consumer, and commercial loans. Substantially all the Bank's loans are made within the eleven Indiana county trade areas. The loan portfolio at December 31, 2023 had a concentration of 54% of total loans classified as commercial real estate (13% commercial construction, 10% multifamily, 8% office including medical, 8% retail, 5% in other commercial industries, 5% hospitality, and 5% industrial). The remainder of the portfolio was well diversified and substantially all loans are secured by specific items of collateral including business assets, consumer assets, and real estate.

Premises and Equipment: Land is carried at cost. Asset cost is reported net of accumulated depreciation. Depreciation and amortization expense is calculated by the straight-line method over the useful lives of the related assets ranging from three years to twenty years, or for leasehold improvements over the term of the lease, if less. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Corporation leases retail branches, office space, and land. The Corporation 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 Corporation uses a risk-free borrowing rate at the lease commencement date in determining the present value of lease payments when the rate implicit in a lease is not known. The Corporation typically does not record leases on the consolidated balance sheets that are classified as short-term (less than one year).

At lease inception, the Corporation determines the lease term by considering the minimum lease term and all optional renewal periods that the Corporation 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 Corporation's leases do not contain residual value guarantees or material variable lease payments that will impact the Corporation's ability to pay dividends or cause the Corporation 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 Corporation's consolidated statements of income. The Corporation'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.

Advertising Expense: Advertising costs are expensed as incurred. Advertising expenses were approximately \$3,641 and \$2,115 for year-end December 31, 2023 and 2022, respectively.

Other Real Estate: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loan Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in net gains (losses) on sales of loans held for sale. Fair value is based on market prices for comparable mortgage servicing contracts. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. The carrying value of loan servicing rights was \$7,166 and \$7,070 at December 31, 2023 and 2022, respectively, and are included in accrued interest receivable and other assets on the consolidated balance sheets. There was no valuation allowance at December 31, 2023 and 2022. Mortgage servicing rights fair value approximated the carrying value as of December 31, 2023 and 2022.

Servicing fees, late fees, and ancillary fees related to loan servicing are not material.

Loans serviced for others, principally the Federal Home Loan Mortgage Corporation (FHLMC), are not included in loans on the consolidated balance sheets and were \$983,623 and \$1,023,072 at year-end 2023 and 2022.

Bank Owned Life Insurance: The Bank has purchased life insurance policies for certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Stock-Based Compensation: Compensation cost is recognized in salaries and benefits on the consolidated statements of income for stock appreciation rights issued to employees, based on the intrinsic value method of accounting for the estimated fair value of the awards. The cost is recognized over the three-year vesting period and accrued on a straight-line basis to accrued interest payable and other liabilities on the consolidated balance sheets. The Corporation's accounting policy is to adjust the value of the awards for forfeitures as they occur. More information on the Corporation's stock-based compensation can be found in the Employee Benefit Plans note.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on an examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives: The Corporation enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as other noninterest income. The Corporation is exposed to losses if a counterparty fails to make its payments under a contract in which the Corporation is in the net receiving position. At December 31, 2023, the Corporation anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, the Corporation obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which the Corporation is a party settle monthly. Further, the Corporation has netting agreements with the dealers with which it does business.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives.

The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Corporation enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into. Fair value of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair value of these derivatives are included in net gains on sales of loans.

Cash Flow Reporting: Cash and cash equivalents are defined as cash and due from banks, short-term interest-bearing deposits in banks, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, federal funds purchased, and securities sold under agreements to repurchase.

Retirement Plans: Employee 401(k) and profit-sharing plan expense is the amount of matching and other discretionary contributions. Deferred compensation plan expense allocates the benefits over years of service.

Associate Stock Ownership Plan (ASOP): The cost of shares issued to the ASOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ASOP shares reduce retained earnings; dividends on unearned ASOP shares reduce any related debt and accrued interest. At December 31, 2023 and 2022, there were no unearned ASOP shares.

Earnings Per Share: Basic earnings per share is based on the weighted average common shares outstanding. The weighted average number of common shares outstanding was 113,431 and 113,383 for 2023 and 2022. There was no dilution in 2023 and 2022.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of stockholders' equity.

Financial Instruments with Off-Balance-Sheet Risk: The Corporation, in the normal course of business, makes commitments to extend credit which are not reflected in the financial statements and are recorded when funded. See the note on Commitments and Contingencies for a summary of these commitments.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

General Litigation: The Corporation is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flow of the Corporation.

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

Fair Values 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 the estimates. The fair value estimates of existing on- and off-balance-sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

Revenue Recognition: ASU 2014-09 establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Corporation's revenue-generating transactions are not subject to ASU 2014-09, including revenue generated from financial instruments, such as loans, letters of credit, derivatives and investment securities, as well as revenue related to mortgage servicing activities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Corporation has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. Descriptions of revenue-generating activities that are within the scope of ASU 2014-09, which are presented in our income statements are as follows:

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service charges on deposit accounts - The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees and service charges (such as ATM use fees, stop payment charges, statement rendering, and ACH fees) are recognized at the time the transaction is executed, which is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned monthly, representing the period which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Fiduciary activities – This represents monthly fees due from wealth management customers as consideration for managing the customers' assets. Wealth management and trust services include custody of assets, investment management, fees for trust services, and similar fiduciary activities. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on the market value of assets under management at month-end. Fees that are transaction-based are recognized at the point in time that the transaction is executed.

Investment brokerage fees – The Corporation earns fees from investment brokerage services provided to its customers by a third-party service provider. The Corporation receives commissions from the third-party provider monthly based upon customer activity for the month. The fees are paid to us by the third party monthly and are recognized when received.

Interchange income – The Corporation earns interchange fees from debit cardholder transactions conducted through the Visa payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrent with the transaction processing services provided to the cardholder.

Reclassifications: Some items in the prior year financial statements may have been reclassified to conform to the current presentation. Such reclassifications had no impact on net income or stockholders' equity.

Adoption of new accounting standards: On January 1, 2023, the Corporation adopted ASU No. 2016–13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (CECL). The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity securities. It also applies to off-balance sheet (OBS) credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar agreements). 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 believe that it is not more likely than not they will be required to sell.

The Corporation adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and OBS credit exposures. Results for reporting periods beginning after December 31, 2022, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Corporation recorded a net decrease to retained earnings of \$1,036 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:			
Loans			
Commercial	\$ 59,069	\$ 63,085	\$ (4,016)
Residential	3,746	3,631	115
Installment	2,669	2,364	305
Allowance for credit losses on loans	<u>\$ 65,484</u>	<u>\$ 69,080</u>	<u>\$ (3,596)</u>
Liabilities:			
Allowance for credit losses on OBS credit exposures	<u>\$ 4,974</u>	<u>\$ -</u>	<u>\$ 4,974</u>

Accounting policies stated in Note 1 reflect the adoption of Topic 326 as it relates to investment securities, loans, and off-balance sheet credit exposures as of January 1, 2023.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. As of December 31, 2023 cash and cash equivalents is defined to include cash on hand and deposits in other institutions.

At December 31, 2023, the Corporation's interest-bearing cash accounts and non-interest bearing transaction deposits held at other institutions exceeded the \$250 federally insured limits by approximately \$107,969. The Federal Home Loan Bank and Federal Reserve Bank are government sponsored entities not insured by the FDIC. Of the \$107,969 the Corporation held approximately \$103,738 with the Federal Home Loan Bank and Federal Reserve Bank. Each correspondent bank's financial performance and market rating are reviewed on a quarterly basis to ensure the Corporation has deposits only at institutions providing minimal risk for those exceeding the federally insured limits.

The Federal Reserve Board announced on March 15, 2020 the reduction of the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated any restriction on the Bank's cash and cash equivalents for December 31, 2023 and 2022.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities at December 31, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2023:				
U.S. treasuries	\$ 2,178	\$ -	\$ (14)	\$ 2,164
U.S. government agencies	113,973	-	(7,205)	106,768
State and political subdivisions	269,206	108	(35,935)	233,379
Mortgage-backed - residential	205,308	552	(21,334)	184,526
Collateralized mortgage obligations	693,973	6,308	(31,627)	668,654
Other	20,606	-	(3,557)	17,049
	<u>\$ 1,305,244</u>	<u>\$ 6,968</u>	<u>\$ (99,672)</u>	<u>\$ 1,212,540</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2022:				
U.S. treasuries	\$ 3,713	\$ -	\$ (47)	\$ 3,666
U.S. government agencies	97,840	6	(7,031)	90,815
State and political subdivisions	346,359	781	(49,080)	298,060
Mortgage-backed - residential	193,961	1	(24,746)	169,216
Collateralized mortgage obligations	317,178	13	(26,083)	291,108
Other	20,615	-	(2,373)	18,242
	<u>\$ 979,666</u>	<u>\$ 801</u>	<u>\$ (109,360)</u>	<u>\$ 871,107</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 3 - SECURITIES (Continued)

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2023 and December 31, 2022, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At year end 2023:						
U.S. treasuries	\$ 2,178	\$ (14)	\$ -	\$ -	\$ 2,178	\$ (14)
U.S. government agencies	45,106	(980)	61,661	(6,225)	106,767	(7,205)
State and political subdivisions	2,476	(14)	207,524	(35,921)	210,000	(35,935)
Mortgage-backed - residential	5,446	(120)	150,842	(21,214)	156,288	(21,334)
Collateralized mortgage obligations	101,326	(3,751)	257,655	(27,876)	358,981	(31,627)
Other	885	(115)	16,164	(3,442)	17,049	(3,557)
Total available-for-sale	<u>\$ 157,417</u>	<u>\$ (4,994)</u>	<u>\$ 693,846</u>	<u>\$ (94,678)</u>	<u>\$ 851,263</u>	<u>\$ (99,672)</u>
At year end 2022:						
U.S. treasuries	\$ 3,713	\$ (47)	\$ -	\$ -	\$ 3,713	\$ (47)
U.S. government agencies	72,480	(4,171)	15,564	(2,860)	88,044	(7,031)
State and political subdivisions	70,698	(4,923)	169,928	(44,157)	240,626	(49,080)
Mortgage-backed - residential	55,313	(3,467)	113,902	(21,279)	169,215	(24,746)
Collateralized mortgage obligations	205,201	(9,227)	78,579	(16,856)	283,780	(26,083)
Other	8,006	(994)	8,736	(1,379)	16,742	(2,373)
Total available-for-sale	<u>\$ 415,411</u>	<u>\$ (22,829)</u>	<u>\$ 386,709</u>	<u>\$ (86,531)</u>	<u>\$ 802,120</u>	<u>\$ (109,360)</u>

Certain available for sale securities are reported in the financial statements at amounts less than their historical cost. The historical cost of these securities totaled \$950,935 and \$911,480 at December 31, 2023 and 2022, respectively. Total fair value of these securities was \$851,263 and \$802,120, which is approximately 70% and 92% of the Corporation's available for sale portfolio at December 31, 2023 and 2022, respectively.

The unrealized losses on the Corporation's securities were caused by interest rate increases and have not been recognized into income because the securities are of high credit quality, have undisrupted cash flows, or have been independently evaluated for other-than-temporary impairment. Management has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is largely due to changes in interest rates and volatility in the securities markets. The fair values are expected to recover as the securities approach maturity.

Since the Corporation does not intend to sell the investments and it is not more than likely that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider these investments to have any credit related impairment at December 31, 2023.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 3 - SECURITIES (Continued)

The proceeds from sales and calls of securities and the associated gains/(losses) are listed below:

	<u>2023</u>	<u>2022</u>
Proceeds	\$ 118,956	\$ 69,325
Gross gains	1,639	92
Gross losses	(1,476)	(653)

The amortized cost and fair value of debt securities at December 31, 2023 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	<u>Available For Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,178	\$ 2,164
Due from one to five years	5,816	5,248
Due from five to ten years	51,322	43,956
Due after ten years	232,674	201,224
U.S. government agencies	113,973	106,768
Mortgage-backed - residential	205,308	184,526
Collateralized mortgage obligations	693,973	668,654
	<u>\$ 1,305,244</u>	<u>\$ 1,212,540</u>

Securities with a carrying value of \$20,311 and \$19,263 at December 31, 2023 and 2022, were specifically pledged to secure borrowed funds, securities sold under agreements to repurchase, public deposits and for other purposes as required or permitted by law.

At year-end 2023 and 2022, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans by major categories at year-end are summarized as follows:

	2023	2022
Commercial, substantially secured by real estate	\$ 5,675,817	\$ 4,200,150
Residential	664,882	469,215
Installment	559,415	558,781
Subtotal	6,900,114	5,228,146
Allowance for credit losses	(78,402)	(69,080)
Net deferred loan (fees) costs	80,408	60,012
 Loans, net	 \$ 6,902,120	 \$ 5,219,078

Included in commercial loans at both December 31, 2023 and 2022 were \$1,130,802 and \$626,855 of mortgage warehouse lines. At December 31, 2023, there were 50 lines with maximum individual limits ranging between \$3,000 and \$300,000. Activity transacted through these mortgage warehouse lines during the years 2023 and 2022 totaled \$9,670,136 and \$8,739,196.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year-ending December 31, 2023:

December 31, 2023	Commercial	Residential	Installment	Total
Allowance for credit losses:				
Beginning balance, prior to adoption of ASC 326	\$ 63,085	\$ 3,631	\$ 2,364	\$ 69,080
Impact of adopting ASC 326	(4,016)	115	305	(3,596)
Credit loss expense	12,126	511	1,398	14,035
Loans charged-off	(306)	(38)	(1,207)	(1,551)
Recoveries collected	326	24	84	434
Total ending allowance balance	\$ 71,215	\$ 4,243	\$ 2,944	\$ 78,402

The following table presents the activity in the allowance for loan losses by portfolio segment for the year-ending December 31, 2022:

December 31, 2022	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Beginning balance	\$ 58,701	\$ 3,039	\$ 1,375	\$ 63,115
Provision for loan losses	5,102	478	1,945	7,525
Loans charged-off	(885)	(8)	(1,006)	(1,899)
Recoveries	167	122	50	339
Total ending allowance balance	\$ 63,085	\$ 3,631	\$ 2,364	\$ 69,080

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022:

December 31, 2022	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$ 151	\$ 139	\$ 162	\$ 452
Collectively evaluated for impairment	62,934	3,492	2,202	68,628
Total ending allowance balance	<u>\$ 63,085</u>	<u>\$ 3,631</u>	<u>\$ 2,364</u>	<u>\$ 69,080</u>
Loans:				
Loans individually evaluated for impairment	\$ 3,890	\$ 4,230	\$ 669	\$ 8,789
Loans collectively evaluated for impairment	4,193,277	467,027	619,065	5,279,369
Total ending loans balance	<u>\$ 4,197,167</u>	<u>\$ 471,257</u>	<u>\$ 619,734</u>	<u>\$ 5,288,158</u>

The manufactured home class, which is part of the installment segment, is presented at recorded investment which includes \$78,563 and \$56,992 of deferred dealer reserve costs at December 31, 2023 and 2022. The dealer reserve costs range from 1.00% to 1.50% premium established at the origination of the manufactured home loans. The dealer earns the premium over the life of the loan. The Corporation retains 70% of this premium in a deposit account. Accrued interest receivable associated with those accounts was deemed immaterial for adjustment to recorded investments.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present information related to impaired loans by class of loans as of and for the year-end December 31, 2022. For purposes of this presentation, unpaid principal balance is not adjusted for prior charge-offs, due to immateriality.

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial non-real estate	3,284	3,285	-	3,516	63	-
Residential	1,572	1,587	-	1,511	18	-
Other consumer	126	128	-	128	2	-
Manufactured housing	-	-	-	-	-	-
Credit lines	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
Subtotal	4,982	5,000	-	5,155	83	-
With an allowance recorded:						
Commercial real estate	433	435	132	461	7	-
Commercial non-real estate	168	170	19	175	8	-
Residential	2,676	2,643	139	2,716	79	-
Other consumer	314	319	97	338	10	-
Manufactured housing	35	36	11	38	3	-
Credit lines	183	186	54	192	1	-
Overdrafts	-	-	-	-	-	-
Subtotal	3,809	3,789	452	3,920	108	-
Total	\$ 8,791	\$ 8,789	\$ 452	\$ 9,075	\$ 191	\$ -

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual 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.

The following tables present the amortized cost basis of loans on nonaccrual and loans past due over 89 days still accruing as of December 31, 2023:

	2023		
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
	Commercial real estate	\$ 131	\$ 6,858
Commercial non-real estate	2,238	24	-
Residential	2,002	925	500
Other consumer	204	182	208
Manufactured housing	-	-	285
Credit lines	-	207	-
Overdrafts	-	-	-
Total	<u>\$ 4,575</u>	<u>\$ 8,196</u>	<u>\$ 993</u>

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, 2022:

	2022	
	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial real estate	\$ 419	\$ -
Commercial non-real estate	3,458	4
Residential	1,714	195
Other consumer	352	32
Manufactured housing	-	310
Credit lines	173	-
Overdrafts	-	-
Total	<u>\$ 6,116</u>	<u>\$ 541</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	2023		
	Commercial Real Estate	Residential Real Estate	SBA Guaranty
Commercial real estate	\$ 7,006	\$ -	\$ -
Commercial non-real estate	-	-	2,233
Residential	-	2,182	-
Other consumer	-	227	-
Manufactured housing	-	-	-
Credit lines	-	-	-
Overdrafts	-	-	-
Total	<u>\$ 7,006</u>	<u>\$ 2,409</u>	<u>\$ 2,233</u>

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 2023 and 2022 by class of loans:

	Loans Past			Total Past Due	Loans Not Past Due	Total
	Due 30-59 Days	Due 60-89 Days	Due Over 89 Days			
December 31, 2023						
Commercial real estate	\$ 3	\$ -	\$ 6,842	\$ 6,845	\$ 3,088,810	\$ 3,095,655
Commercial non-real estate	47	4	2,249	2,300	2,572,895	2,575,195
Residential	8,018	2,072	1,693	11,783	550,176	561,959
Other consumer	695	249	367	1,311	42,681	43,992
Manufactured housing	3,248	1,183	285	4,716	482,488	487,204
Credit lines	782	177	110	1,069	213,947	215,016
Overdrafts	2	-	-	2	1,499	1,501
Total	<u>\$ 12,795</u>	<u>\$ 3,685</u>	<u>\$ 11,546</u>	<u>\$ 28,026</u>	<u>\$ 6,952,496</u>	<u>\$ 6,980,522</u>
December 31, 2022						
Commercial real estate	\$ 175	\$ -	\$ 243	\$ 418	\$ 2,484,009	\$ 2,484,427
Commercial non-real estate	20	57	3,303	3,380	1,709,360	1,712,740
Residential	4,007	1,657	885	6,549	464,708	471,257
Other consumer	430	187	761	1,378	44,280	45,658
Manufactured housing	2,243	1,549	309	4,101	385,489	389,590
Credit lines	241	-	37	278	182,728	183,006
Overdrafts	-	-	-	-	1,480	1,480
Total	<u>\$ 7,116</u>	<u>\$ 3,450</u>	<u>\$ 5,538</u>	<u>\$ 16,104</u>	<u>\$ 5,272,054</u>	<u>\$ 5,288,158</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Occasionally, the Corporation modifies loans to borrowers in financial distress by providing other-than-insignificant payment delay or interest rate reduction.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year-ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below:

	2023		Total Class of Financing Receivable
	Payment Delay	Interest Rate Reduction	
Commercial real estate	\$ -	\$ -	0.00%
Commercial non-real estate	-	-	0.00%
Residential	147	455	0.11%
Other consumer	17	-	0.04%
Manufactured housing	-	-	0.00%
Credit lines	-	-	0.00%
Overdrafts	-	-	0.00%
Total	\$ 164	\$ 455	0.01%

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. All loans that were modified in the last 12 months are performing to contractual terms.

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	2023 Weighted Average Interest Rate Reduction
Commercial real estate	0.00%
Commercial non-real estate	0.00%
Residential	2.63%
Other consumer	0.00%
Manufactured housing	0.00%
Credit lines	0.00%
Overdrafts	0.00%
Total	2.63%

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the amortized cost basis of loans that had a payment default during the year-ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	2023
	Payment Delay
Commercial real estate	\$ -
Commercial non-real estate	-
Residential	-
Other consumer	-
Manufactured housing	30
Credit lines	-
Overdrafts	-
	<hr/>
Total	<u>\$ 30</u>

Upon the Corporation's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. All commercial loans are evaluated individually at origination by classifying the loans as to credit risk. On a go-forward basis commercial relationships greater than \$2,000 are subject to an annual review process and loans between \$250 and \$2,000 are also subjected to review on a random sampling basis. The Corporation uses the following definitions for risk ratings:

Watch. Loans classified as watch may demonstrate early indicators of increasing credit risk. The exposure is acceptable, but should include a clear plan for preventing deterioration.

Special Mention. Loans classified as special mention have a potential weakness that deserves 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 will sustain some loss if the deficiencies are not corrected.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. Loans listed as not rated are included in groups of homogeneous loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31, 2023:

December 31, 2023	Pass	Watch	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial real estate	\$ 2,850,714	\$ 191,705	\$ 46,246	\$ 6,990	\$ -	\$ -	\$ 3,095,655
Commercial non-real estate	2,475,502	87,827	9,605	2,261	-	-	2,575,195
Residential	-	59	-	-	-	561,900	561,959
Other consumer	-	-	-	-	-	43,992	43,992
Manufactured housing	-	-	-	-	-	487,204	487,204
Credit lines	-	-	-	-	-	215,016	215,016
Overdrafts	-	-	-	-	-	1,501	1,501
Total	<u>\$ 5,326,216</u>	<u>\$ 279,591</u>	<u>\$ 55,851</u>	<u>\$ 9,251</u>	<u>\$ -</u>	<u>\$ 1,309,613</u>	<u>\$ 6,980,522</u>

The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2023:

December 31, 2023	Residential	Other Consumer	Manufactured Housing	Credit Lines
Performing	\$ 559,032	\$ 43,606	\$ 487,204	\$ 214,809
Nonperforming	2,927	386	-	207
Total	<u>\$ 561,959</u>	<u>\$ 43,992</u>	<u>\$ 487,204</u>	<u>\$ 215,016</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Troubled Debt Restructurings:

Included in the impaired loan totals previously presented for 2022 is \$3,122 of loans for which the terms have been modified in troubled debt restructurings. The Corporation has allocated \$20 of reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022. The Corporation has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2022.

During the year ending December 31, 2022, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans were a combination of forbearance with period of short-term payment relief followed by period of increased payments and lowering of the contractual interest rate for a period of time to arrive at an affordable payment.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2022:

December 31, 2022	Number of loans	Outstanding balance	Pre- Modification Weighted Rate	Post- Modification Weighted Rate
Troubled Debt Restructurings:				
Commercial real estate	-	\$ -	-	-
Commercial non-real estate	-	-	-	-
Residential	2	242	4.46%	4.46%
Other consumer	2	26	6.92%	6.92%
Manufactured housing	-	-	-	-
Credit lines	1	13	6.50%	6.50%
Overdrafts	-	-	-	-
Total	<u>5</u>	<u>\$ 281</u>	4.78%	4.78%

The troubled debt restructurings described above for the year ending December 31, 2022 did not have an impact on the allowance for loan losses or result in charge-offs as the modified loans had allowance allocations in excess of any concession amounts previously assigned.

A loan is generally considered to be in payment default once it is 90 days contractually past due under the modified terms.

There were no troubled debt restructurings that subsequently defaulted during 2022.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31, 2022:

December 31, 2022	Pass	Watch	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial real estate	\$ 2,308,091	\$ 146,267	\$ 29,651	\$ 418	\$ -	\$ -	\$ 2,484,427
Commercial non-real estate	1,663,590	44,261	1,431	3,458	-	-	1,712,740
Residential	-	64	-	-	-	471,193	471,257
Other consumer	-	-	-	-	-	45,658	45,658
Manufactured housing	-	-	-	-	-	389,590	389,590
Credit lines	25	-	-	-	-	182,981	183,006
Overdrafts	-	-	-	-	-	1,480	1,480
Total	<u>\$ 3,971,706</u>	<u>\$ 190,592</u>	<u>\$ 31,082</u>	<u>\$ 3,876</u>	<u>\$ -</u>	<u>\$ 1,090,902</u>	<u>\$ 5,288,158</u>

The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2022:

December 31, 2022	Residential	Other Consumer	Manufactured Housing	Credit Lines
Performing	\$ 469,543	\$ 45,306	\$ 389,590	\$ 182,833
Nonperforming	1,714	352	-	173
Total	<u>\$ 471,257</u>	<u>\$ 45,658</u>	<u>\$ 389,590</u>	<u>\$ 183,006</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 5 - PREMISES AND EQUIPMENT, NET

Year-end premises and equipment, net was as follows:

	2023	2022
Land	\$ 11,206	\$ 11,736
Buildings and improvements	30,314	30,204
Furniture, fixtures and equipment	50,457	46,981
Total cost	91,977	88,921
Accumulated depreciation and amortization	(61,886)	(59,709)
	\$ 30,091	\$ 29,212

NOTE 6 – LEASES

The Corporation enters into operating leases for certain retail branches, office space, and land. The Corporation does not have any finance leases.

Right-of-use (ROU) assets represent the Corporation's right to use an underlying asset for the lease term and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Corporation uses a risk-free borrowing rate at the lease commencement date in determining the present value of lease payments when the rate implicit in a lease is not known.

The Corporation's leases are generally for periods of five to ten years with various renewal options. The exercise of such lease renewal options is not included in the present value of lease obligations unless it is reasonably certain that the option will be exercised. The Corporation has lease agreements which contain both lease and non-lease components such as common area maintenance charges, real estate taxes, and insurance. Non-lease components are not included in the measurement of the lease liability and are recognized in expense when incurred. The Corporation has elected not to recognize short-term leases, with original lease terms of twelve months or less, on the Corporation's balance sheet. Certain of the Corporation's lease agreements include rental payments adjusted periodically for inflation. The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Right-of-use assets are included in accrued interest receivable and other assets and the lease liability is included in accrued interest payable and other liabilities on the balance sheet. Supplemental balance sheet information related to leases is presented in the table below as of year-end:

	2023	2022
Operating lease right-of-use assets	\$ 25,932	\$ 25,761
Operating lease liabilities	\$ 26,690	\$ 26,190
Weighted average remaining lease terms (years)		
Operating leases	5.7	5.9
Weighted average discount rate		
Operating leases	2.46%	2.30%

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 6 – LEASES (continued)

Operating lease costs were \$5,996 and \$5,709 for years ended December 31, 2023 and 2022, respectively, and are included in occupancy expense in the consolidated statements of income.

Supplemental cash flow information related to leases is presented in the tables below.

Maturity of lease liabilities:

	Operating Leases
2024	\$ 6,204
2025	5,846
2026	5,232
2027	4,823
2028	2,876
2029 and after	4,070
Total lease payments	<u>\$ 29,051</u>
Less: Present value discount	2,361
Present value of lease liabilities	<u>\$ 26,690</u>

Other information:

	Twelve Months Ended December 31, 2023	Twelve Months Ended December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 5,653	\$ 5,281
ROU assets obtained in exchange for operating lease liabilities	\$ 5,542	\$ 30,809

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 7 - TIME DEPOSITS

The aggregate amount of certificates of deposit with a balance of \$250 or more was approximately \$228,541 at December 31, 2023 and \$195,814 at December 31, 2022.

At year-end 2023, stated maturities of time deposits were as follows:

2024	\$1,919,857
2025	34,510
2026	111,435
2027	103,826
2028	<u>1,607</u>
	<u>\$2,171,235</u>

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

At year-end, advances from the Federal Home Loan Bank were as follows:

	<u>2023</u>	<u>2022</u>
Fixed rate advances - 2023 average rate of 3.96% (1.07% to 5.55%) and 2022 average rate of 3.77% (1.07% to 4.28%)	\$ 560,000	\$ 475,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by \$1,310,708 and \$904,272 of one to four family residential mortgage loans, multifamily residential mortgage loans and commercial real estate loans under a blanket lien arrangement at year-end 2023 and 2022. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to a total of \$635,000 at year-end 2023.

Payments over the next five years are as follows:

2024	\$ 200,000
2025	30,000
2026	120,000
2027	-
2028	85,000
Thereafter	<u>125,000</u>
	<u>\$ 560,000</u>

The Federal Home Loan Bank holds put options on \$125,000 of advances that have scheduled maturities ranging from 2029 to 2030.

At December 31, 2023, the Corporation had available \$25,000 in a credit line with the FHLB.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 9 - SUBORDINATED DEBENTURES

On April 5, 2022, the Corporation issued subordinated debentures totaling \$60,000. The debentures are unsecured and pay interest at a fixed-to-floating rate. From years 2022 to May 1, 2027, the debentures bear interest at a fixed rate of 4.00% paid semi-annually on May 1st and November 1st. Starting on May 1, 2027, the debentures will bear interest at a floating rate of Three-Month Term SOFR plus 126 basis points paid quarterly February 1st, May 1st, August 1st, and November 1st. Starting with the first quarterly floating interest payment, and on any interest payment thereafter, the Corporation has the option to redeem the debentures in whole or in part. The debentures mature on May 1, 2032.

The subordinated debentures may be included in the Corporation's total risk-based capital (with certain limitations) under current regulatory guidelines and interpretations.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Bank has a trustee contributory profit-sharing plan covering substantially all employees. All contributions to the plan are funded with the trustee and are made at the discretion of the Bank's Board of Directors. The Bank did not make a contribution to the plan for year-end December 31, 2023 or 2022. The Bank's profit-sharing plan also includes a 401(k) feature for the exclusive benefit of its employees. The 401(k) feature is a voluntary benefit and participation is at the discretion of the employee.

For 2023 and 2022, the Bank matched 66.67% of the employee contributions to a maximum of 6% of employee qualified earnings. For the years ended December 31, 2023 and 2022, these matching funds amounted to \$2,719 and \$2,545.

The Corporation has an Associate Stock Ownership Plan (ASOP). All contributions to the plan are funded with a trustee and are at the discretion of the Corporation's Board of Directors. The Corporation's contributions and expense for the years ended December 31, 2023 and 2022 were \$6,000 and \$5,000.

During the year-ended December 31, 2023, no shares were purchased, and 211 shares were distributed from the plan and during the year-ended December 31, 2022, no shares were purchased, and 311 shares were distributed from the plan. As of December 31, 2023 and 2022, the ASOP held 10,750 and 10,961 shares of the Corporation's stock of which 686 shares and 427 shares are unallocated to employees. Upon distribution of shares to a participant, the participant has the right to require the Corporation to purchase shares at the most recent appraised value in accordance with the terms and conditions of the plan. The fair value of the shares held by the ASOP approximated \$146,705 and \$123,498 on December 31, 2023 and 2022.

The Bank has a Stock Appreciation Rights Plan in which awards are granted with a strike price equal to the market value of the Corporation's common stock on the date of grant. These awards have a contractual term of 3 years at which time the difference between the market value at maturity and the strike price is paid to recipients in cash. The awards do not represent actual shares nor confer any rights as a shareholder of the Corporation to the recipient. The liability for the plan is being recorded utilizing an intrinsic value method to estimate the fair value at maturity and straight-lining the remaining expense over the remainder of the term. At year-end December 31, 2023 and 2022, the accrued liability for the plan was \$1,778 and \$438, respectively.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 11 - INCOME TAXES

Income tax expense was as follows:

	<u>2023</u>	<u>2022</u>
Federal		
Current	\$ 37,777	\$ 25,010
Deferred	(3,980)	(166)
	<u>33,797</u>	<u>24,844</u>
State		
Current	7,237	5,849
Deferred	(945)	(247)
	<u>6,292</u>	<u>5,602</u>
Total	<u>\$ 40,089</u>	<u>\$ 30,446</u>

Effective tax rates differ from federal statutory rate of 21% for 2023 and 2022 applied to income before income tax expense due to the following:

	<u>2023</u>	<u>2022</u>
Income taxes computed at statutory federal income tax rate	\$ 37,685	\$ 29,025
Increase (decrease) in taxes resulting from:		
Tax-exempt interest income	(1,267)	(1,649)
Bank owned life insurance	(869)	(771)
Captive insurance income not subject to tax	(111)	(441)
State income tax, net of federal income tax	4,971	4,426
Tax credits	(230)	(124)
Other	(90)	(20)
	<u>(90)</u>	<u>(20)</u>
Total	<u>\$ 40,089</u>	<u>\$ 30,446</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 11 - INCOME TAXES (continued)

Year-end deferred tax assets and liabilities was due to the following:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for credit losses	\$ 20,324	\$ 17,097
Nonaccrual loan and security interest	221	220
Deferred compensation liability	440	113
Retirement benefits liability	234	254
Fixed asset depreciation	396	196
Lease liability	6,605	6,482
Net unrealized loss on securities available for sale	19,567	22,923
Other	904	199
	<u>48,691</u>	<u>47,484</u>
Deferred tax liabilities:		
Prepaid assets	(845)	(1,311)
Right of use asset	(6,418)	(6,376)
Stock dividends	(81)	(81)
Mortgage servicing rights	(1,774)	(1,750)
Deferred loan fees and costs	(457)	(747)
Other	(8)	(21)
	<u>(9,583)</u>	<u>(10,286)</u>
Net deferred tax assets	<u>\$ 39,108</u>	<u>\$ 37,198</u>

The Corporation evaluated its deferred tax asset at year-end 2023 and has concluded that it is more likely than not that it will be realized. The Corporation expects to have taxable income in the future such that the deferred tax asset will be realized. Therefore, no valuation allowance is required.

Included in accrued interest payable and other liabilities in the consolidated balance sheets at December 31, 2023 and 2022, was an income tax contingency reserve in the amount of \$1,375 and \$1,000, respectively, related to uncertain matters from state income tax returns. The Corporation does not expect a significant change in unrecognized tax benefits in the next twelve months.

The total amount of interest and penalties recorded in the consolidated statements of income for the years ended December 31, 2023 and 2022 was \$0 and \$0, and the amount accrued for interest and penalties at December 31, 2023 and 2022 were \$0 and \$0, respectively.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the State of Indiana and various other states. The Corporation is no longer subject to examination by taxing authorities for years before 2020.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 12 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Bank, as well as companies and partnerships with which they are affiliated, are customers of the Bank in the ordinary course of business.

At December 31, 2023 and 2022, the outstanding loans to directors, executive officers and their interests amounted to \$155,250 and \$77,133, which includes loans originated by the Bank sold servicing retained.

In addition, there are related parties that have ownership interest in certain assets which are leased on a long-term basis by the Bank. These lease commitments are included in Note 6 and are as follows:

Related Party Leases	Lease Start Date	Lease End Date	Monthly Payments as of 12/31/2023
Schererville East Branch	January 2016	December 2025	\$ 21
Retail Operations Department	January 2022	December 2026	\$ 7
Loan Review	October 2022	September 2027	\$ 4
Highland Branch - Land	October 2023	October 2026	\$ 3
Operations Center	November 2017	June 2028	\$ 273
Dyer Branch	May 2023	April 2028	\$ 10
Talent Development	July 2023	June 2028	\$ 3
Mortgage Center	August 2020	July 2025	\$ 20
Storage Space	September 2020	July 2025	\$ 3

The aggregate rent expense under all related party leases was \$3,908 in 2023 and \$3,641 in 2022.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to make loans, lines of credit, overdraft protection, and standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party for these financial instruments is represented by the contractual amount of the commitments. The Bank follows the same credit policy to make such commitments as it uses for on-balance-sheet items.

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk at year-end follows:

	<u>2023</u>	<u>2022</u>
Commitments to extend credit	\$ 8,345	\$ 9,358
Lines of credit	1,464,037	655,901
Standby letters of credit	38,937	29,536

Since many commitments to make loans expire without being used, the amount does not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower and may include real estate, vehicles, business assets, deposits, and other items. The risk of loss is limited to the contractual amount of the financial instruments.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

There are various contingent liabilities that are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's financial condition or results of operations.

As part of the Corporation's liquidity management, we leverage our FHLB borrowing relationship as well as correspondent lines of credits with several other financial institutions. As of December 31, 2023, there was approximately \$164,854 of capacity at the FHLB and \$105,000 of capacity with the other correspondent banks. In addition to these firm commitments the Corporation also has access to various overnight funds markets that typically offer between \$150,000 and \$650,000 of capacity on any given day.

NOTE 14 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and assumptions to estimate fair value:

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value 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)

Mortgage Loans Held for Sale, at Fair Value:

The fair value of mortgage loans held for sale is determined using quoted prices from similar assets adjusted for specific attributes of that loan. (Level 2).

Derivatives: The fair value of derivative financial instruments is based on derivative valuation models using market data inputs as of the valuation date. (Level 2).

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 14 - FAIR VALUE (Continued)

Collateral-Dependent Loans, Net of ACL: At the time a loan is considered collateral-dependent, it is valued at the lower of cost or fair value. Collateral-dependent loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral-dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Collateral-dependent loans are evaluated on a quarterly basis for additional valuation adjustments.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Corporation typically applies a discount for liquidation and other considerations.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 14 - FAIR VALUE (Continued)

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2023 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Financial Assets:</u>				
Securities available-for-sale:				
U.S. treasuries	\$ 2,164	\$ 2,164	\$ -	\$ -
U.S. government agencies	106,768	-	106,768	-
State and political subdivisions	233,379	-	233,379	-
Mortgage-backed - residential	184,526	-	184,526	-
Collateralized mortgage obligations	668,654	-	668,654	-
Other	17,049	-	17,049	-
Total securities available-for-sale	<u>\$ 1,212,540</u>	<u>\$ 2,164</u>	<u>\$ 1,210,376</u>	<u>\$ -</u>
Mortgage loans held for sale	\$ 2,895	\$ -	\$ 2,895	\$ -
Mortgage banking derivative asset	\$ 209	\$ -	\$ 209	\$ -
Interest rate swaps - assets	\$ 88,883	\$ -	\$ 88,883	\$ -
<u>Financial Liabilities:</u>				
Interest rate swaps - liabilities	\$ 88,883	\$ -	\$ 88,883	\$ -
Forward contracts related to mortgage loans held for sale	\$ 36	\$ -	\$ 36	\$ -

	Fair Value Measurements at December 31, 2022 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Financial assets:</u>				
Securities available-for-sale:				
U.S. government agencies	\$ 94,481	\$ -	\$ 94,481	\$ -
State and political subdivisions	298,060	-	298,060	-
Mortgage-backed - residential	169,216	-	169,216	-
Collateralized mortgage obligations	291,108	-	291,108	-
Other	18,242	-	18,242	-
Total securities available-for-sale	<u>\$ 871,107</u>	<u>\$ -</u>	<u>\$ 871,107</u>	<u>\$ -</u>
Mortgage loans held for sale	\$ 3,480	\$ -	\$ 3,480	\$ -
Mortgage banking derivative asset	\$ 119	\$ -	\$ 119	\$ -
Interest rate swaps - assets	\$ 116,642	\$ -	\$ 116,642	\$ -
<u>Financial liabilities:</u>				
Interest rate swaps - liabilities	\$ 116,642	\$ -	\$ 116,642	\$ -
Forward contracts related to mortgage loans held for sale	\$ 1	\$ -	\$ 1	\$ -

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 14 - FAIR VALUE (Continued)

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2023 and 2022.

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at December 31, 2023 Using:				
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent loans	\$ 7,308	\$ -	\$ -	\$ 7,308

Fair Value Measurements at December 31, 2022 Using:				
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent loans	\$ 3,687	\$ -	\$ -	\$ 3,687

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2023 and 2022:

December 31, 2023	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Collateral-dependent loans	\$ 7,308	Collateral based and SBA guarantee measurements	Discount to reflect current market conditions and ultimate collectibility	0% - 8.80% (5.88%)

December 31, 2022	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Collateral-dependent loans	\$ 3,687	Collateral based and SBA guarantee measurements	Discount to reflect current market conditions and ultimate collectibility	0%

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 14 - FAIR VALUE (Continued)

Financial Instruments Recorded Using Fair Value Option

The Corporation records loans held for sale at fair value. These loans are intended for sale and the Corporation believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Corporation's policy on loans held for investment. None of these loans are 90 days or more past due nor classified as nonaccrual as of December 31, 2023 and December 31, 2022.

As of December 31, 2023 and December 31, 2022, the aggregate fair value, contractual balance (including accrued interest), and gain or loss included in mortgage banking income on the consolidated statements of income was as follows:

	<u>2023</u>	<u>2022</u>
Aggregate fair value	\$ 2,895	\$ 3,480
Contractual fair value	<u>2,790</u>	<u>3,361</u>
Gain (loss)	<u>\$ 105</u>	<u>\$ 119</u>

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2023 and December 31, 2022 for loans held for sale was:

	<u>2023</u>	<u>2022</u>
Interest income	\$ -	\$ -
Interest expense	-	-
Change in fair value	<u>(13)</u>	<u>(196)</u>
Total change in fair value	<u>\$ (13)</u>	<u>\$ (196)</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 15 - REGULATORY MATTERS

The Corporation and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, for the Bank, 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 about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the fully phased Basel III rules, the Bank must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. 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 Corporation and the Bank met all capital adequacy requirements to which they are subject.

The Bank's prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration 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.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 15 - REGULATORY MATTERS (continued)

At year-end, the Corporation and Bank's actual capital levels and minimum required levels, including the capital conversion buffer, were:

	<u>Actual</u>		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Requirements	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2023</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 915,476	12.11%	\$ 793,686	10.50%	N/A	N/A
Bank	\$ 885,703	11.73%	\$ 792,800	10.50%	\$ 755,047	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated	\$ 773,360	10.23%	\$ 642,508	8.50%	N/A	N/A
Bank	\$ 803,587	10.64%	\$ 641,790	8.50%	\$ 604,038	8.00%
Common tier 1 capital (CET1)						
Consolidated	\$ 773,360	10.23%	\$ 529,124	7.00%	N/A	N/A
Bank	\$ 803,587	10.64%	\$ 528,533	7.00%	\$ 490,781	6.50%
Tier 1 capital (to average total assets)						
Consolidated	\$ 773,360	9.10%	\$ 340,050	4.00%	N/A	N/A
Bank	\$ 803,587	9.47%	\$ 339,521	4.00%	\$ 424,402	5.00%
<u>2022</u>						
Total capital (to risk weighted assets)						
Consolidated	\$ 782,263	13.41%	\$ 612,447	10.50%	N/A	N/A
Bank	\$ 761,087	13.06%	\$ 611,983	10.50%	\$ 582,841	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated	\$ 653,183	11.20%	\$ 495,790	8.50%	N/A	N/A
Bank	\$ 692,007	11.87%	\$ 495,415	8.50%	\$ 466,273	8.00%
Common tier 1 capital (CET1)						
Consolidated	\$ 653,183	11.20%	\$ 408,298	7.00%	N/A	N/A
Bank	\$ 692,007	11.87%	\$ 407,989	7.00%	\$ 378,847	6.50%
Tier 1 capital (to average total assets)						
Consolidated	\$ 653,183	9.98%	\$ 261,833	4.00%	N/A	N/A
Bank	\$ 692,007	10.59%	\$ 261,427	4.00%	\$ 326,784	5.00%

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation enters into derivative instruments for the benefit of its customers. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps. Commonly, the Corporation will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Corporation's exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in the agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Corporation minimizes credit risk through credit approvals, limits, and monitoring procedures.

The following table reflects the notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments and fair value swaps included in the Consolidated Balance Sheets as of December 31:

	2023		2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Interest rate swaps	\$ 2,501,257	\$ 88,883	\$ 2,657,514	\$ 116,642
Included in other liabilities:				
Interest rate swaps	\$ 2,501,257	\$ 88,883	\$ 2,657,514	\$ 116,642

The effect of derivative instruments on the Consolidated Statement of Income for the twelve months ended December 31 are as follows:

	Amount of Gain Recognized on Derivative	
	2023	2022
	Interest rate swaps:	
Gains on interest rate swaps	\$ 5,079	\$ 5,068

Mortgage Banking Derivatives:

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Corporation's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships.

At year-end 2023, the Corporation had approximately \$5,527 of interest rate lock commitments and \$6,586 of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$209 and a derivative liability of \$36.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At year-end 2022, the Corporation had approximately \$3,501 of interest rate lock commitments and \$6,765 of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$119 and a derivative liability of \$1.

Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in fair values of these mortgage banking derivatives are included in mortgage banking income.

The net gains (losses) relating to free-standing derivative instruments used for risk management are summarized below as of December 31:

	2023	2022
Forward contracts related to:		
mortgage loans held for sale	\$ (35)	\$ 6
Interest rate lock commitments	\$ 90	\$ (661)

The following table reflects the amount and market value of mortgage banking derivatives included in the Consolidated Balance Sheet as of December 31:

	2023		2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Forward contracts related to mortgage loans held for sale	\$ 1,866	\$ -	\$ 6,590	\$ 19
Interest rate lock commitments	5,527	209	3,501	100
Total included on other assets:		\$ 209		\$ 119
Included in other liabilities:				
Forward contracts related to mortgage loans held for sale	\$ 4,720	\$ 36	\$ 175	\$ 1
Interest rate lock commitments	-	-	-	-
Total included on other liabilities:		\$ 36		\$ 1

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 17 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

Condensed financial statements for First Bancshares, Inc. (parent company only) follow:

CONDENSED BALANCE SHEETS
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 19,665	\$ 13,257
Securities available for sale	2,164	-
Investment in subsidiaries	730,460	609,965
Other assets	8,444	4,725
	<hr/>	<hr/>
Total assets	<u>\$ 760,733</u>	<u>\$ 627,947</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other borrowings	\$ 60,000	\$ 60,000
Accrued interest payable and other liabilities	510	401
Total stockholders' equity	<hr/>	<hr/>
	700,223	567,546
	<hr/>	<hr/>
Total liabilities and stockholders' equity	<u>\$ 760,733</u>	<u>\$ 627,947</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 17 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Dividends from subsidiaries	\$ 28,864	\$ 19,304
Interest income	2	-
Interest expense	(2,400)	(2,812)
Other expense	<u>(1,131)</u>	<u>(374)</u>
Income before income tax and undistributed subsidiary income	25,335	16,118
Equity in undistributed subsidiary income	113,146	90,851
Income tax benefits	<u>882</u>	<u>797</u>
Net income	<u>\$ 139,363</u>	<u>\$ 107,766</u>
Comprehensive income	<u>\$ 151,862</u>	<u>\$ 15,655</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022
(Dollars in thousands)

NOTE 17 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income	\$ 139,363	\$ 107,766
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed subsidiary income	(113,146)	(90,851)
Accretion of securities	(7)	-
Change in other assets	229	47
Change in other liabilities	78	(701)
Net cash from operating activities	<u>26,517</u>	<u>16,261</u>
Cash flows from investing activities		
Increase in loan receivable from ASOP	(3,930)	-
Proceeds from subsidiary divestiture	1,970	-
Net cash used in investing activities	<u>(1,960)</u>	<u>-</u>
Cash flows from financing activities		
Proceeds of borrowings	-	60,000
Repayments of borrowings	-	(52,307)
Dividends paid	(18,149)	(15,869)
Net cash used in financing activities	<u>(18,149)</u>	<u>(8,176)</u>
Net change in cash and cash equivalents	6,408	8,085
Beginning cash and cash equivalents	<u>13,257</u>	<u>5,172</u>
Ending cash and cash equivalents	<u>\$ 19,665</u>	<u>\$ 13,257</u>

— OFFICE LOCATIONS —

ALLEN COUNTY

FORT WAYNE

803 S. Calhoun St. (Suite 100)

BOONE COUNTY

WHITESTOWN

6378 Crane Drive

ZIONSVILLE

*50 N. Ford Rd.

ELKHART COUNTY

ELKHART

*100 S. Main St.

*303 County Rd. 17

*2809 Emerson Dr.

GOSHEN

*1716 Elkhart Rd.

HAMILTON COUNTY

CARMEL

*568 E. Carmel Dr.

FISHERS CROSSING

*11684 Allisonville Rd.

WESTFIELD

*3002 IN-32

LAKE COUNTY

CEDAR LAKE

*9704 Lincoln Plaza

(Inside Strack & Van Til)

CROWN POINT

*117 E. Joliet St.

*1276 N. Main St.

*1501 S. Court St.

DYER

*1121 Sheffield Ave.

EAST CHICAGO

*720 W. 145th St.

GARY

*504 Broadway (Suite 102)

*650 S. Lake St.

*4883 Broadway

LAKE COUNTY (CONT.)

GRIFFITH

*500 N. Broad St.

HAMMOND

*5433 Hohman Ave.

*2635 169th St.

(Inside Van Til's)

HIGHLAND

*9701 Indianapolis Blvd.

*9102 Indianapolis Blvd.

HOBART

*433 Main St.

*7760 E. 37th Ave.

(Inside Strack & Van Til)

LOWELL

*1914 E. Commercial Ave.

MERRILLVILLE

*8310 Broadway

*3198 E. 81st Ave.

(Corner of Colorado and U.S. 30)

MUNSTER

*9716 White Oak Ave.

SCHERERVILLE

*5191 W. Lincoln Hwy.

ST. JOHN

*9621 Wicker Ave. (U.S. Hwy. 41)

WHITING

*1500 119th St.

WINFIELD

*8020 E. 109th Ave.

LAPORTE COUNTY

LA PORTE

*73 Pine Lake Ave.

MICHIGAN CITY

*5501 Franklin St. (U.S. Rt. 421)

MARION COUNTY

INDIANAPOLIS

*50 S. Meridian St.

MARSHALL COUNTY

PLYMOUTH

*537 N. Oak Dr.

PORTER COUNTY

CHESTERTON

103 Broadway

*104 Grant St.

*1600 S. Calumet Rd.

PORTAGE

*3220 Willowcreek Rd.

*6046 Central Ave.

(Inside Strack & Van Til)

SOUTH HAVEN

*390 West U.S. Hwy. 6

VALPARAISO

*150 Lincolnway

*1802 Calumet Ave.

*360 Morthland Dr.

*2707 La Porte Ave.

ST. JOSEPH COUNTY

GRANGER

*7108 Gumwood Rd.

MISHAWAKA

*255 E. Day Rd.

SOUTH BEND

*108 N. Main St. (Suite 102)

*2850 W. Cleveland Rd.

TIPPECANOE COUNTY

LAFAYETTE

*323 Columbia St. (Suite 1A)

*1921 Veterans Memorial Pkwy S.

*5 Executive Dr. (Suite A)

WEST LAFAYETTE

*1020A Sagamore Pkwy. West

*2636 U.S. 52

(Inside Meijer)

CORPORATE HEADQUARTERS - MERRILLVILLE - 600 E. 84TH AVE.

219-756-BANK | 1-888-Centier | Centier.com

*ATM Locations

