U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file no. 333-94288

THE FIRST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Mississippi	64-0862173
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
6480 U.S. Hwy. 98 West, Suite A Hattiesburg, Mississippi	39402
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (601) 268-8998

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	FBMS	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “non-accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Based on the price at which the registrant's Common Stock was last sold on June 30, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was $492,335,524.

On March 6, 2020, the registrant had outstanding 18,851,955 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrant's proxy statement to be filed for the Annual Meeting of Shareholders to be held May 28, 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K. Other than those portions of the proxy statement specifically incorporated by reference pursuant to Items 10-14 of Part III hereof, no other portions of the proxy statement shall be deemed so incorporated.

THE FIRST BANCSHARES, INC.
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THE FIRST BANCSHARES, INC.
FORM 10-K

PART I

This Annual Report on Form 10-K, including information incorporated by reference herein, contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), which statements are inherently subject to risks and uncertainties. These statements are based on assumptions and estimates and are not guarantees of future performance. Forward-looking statements are statements that include projections, predictions, expectations, or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifying words (and their derivatives) such as "may," "would," "could," "should," "will," "expect," "anticipate," "predict," "project," "potential," "continue," "assume," "believe," "intend," "plan," "forecast," "goal," "estimate," or other statements concerning opinions or judgments of the Company, the Bank, and management about possible future events or outcomes. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, competitive pressures among financial institutions increasing significantly; economic conditions, either nationally or locally, in areas in which the Company conducts operations being less favorable than expected; interest rate risk; legislation or regulatory changes which adversely affect the ability of the consolidated Company to conduct business combinations or new operations; financial success or changing strategies of the Bank's customers or vendors; actions of government regulators; and the risk that anticipated benefits from the recent acquisitions are not realized in the time frame anticipated or at all as a result of changes in general economic and market conditions.

Potential risks and uncertainties that could cause our actual results to differ materially from those anticipated in any forward-looking statements include, but are not limited to, the following:

- reduced earnings due to higher credit losses generally and specifically because losses in the sectors of our loan portfolio secured by real estate are greater than expected due to economic factors, including declining real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors occurring in those areas;
- general economic conditions, either nationally or regionally and especially in our primary service areas, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;
- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- ability of borrowers to repay loans, which can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or layoffs, natural disasters, and international instability;
- changes in monetary and tax policies, including potential impacts from the Tax Cuts and Jobs Act;
- changes in political conditions or the legislative or regulatory environment;
- the adequacy of the level of our allowance for loan losses and the amount of loan loss provision required to replenish the allowance in future periods;
- reduced earnings due to higher credit losses because our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- increased funding costs due to market illiquidity, increased competition for funding, higher interest rates, and increased regulatory requirements with regard to funding;

- results of examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses through additional loan loss provisions or write-down of our assets;
- the rate of delinquencies and amount of loans charged-off;
- the impact of our efforts to raise capital on our financial position, liquidity, capital, and profitability;
- risks and uncertainties relating to not successfully integrating the currently contemplated acquisitions within our currently expected timeframe and other terms;
- significant increases in competition in the banking and financial services industries;
- changes in the securities markets; and
- loss of consumer confidence and economic disruptions resulting from national disasters or terrorist activities;
- our ability to retain our existing customers, including our deposit relationships;
- changes occurring in business conditions and inflation;
- changes in technology or risks related to cybersecurity;
- changes in deposit flows;
- changes in accounting principles, policies, or guidelines, including the impact of the new current expected credit loss ("CECL") standard;
- our ability to maintain adequate internal control over financial reporting;
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission ("SEC").

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in and the assumptions underlying our forward-looking statements are reasonable, we cannot guarantee that these expectations will be achieved or the assumptions will be accurate. The Company disclaims any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments. Additional information concerning these risks and uncertainties is contained in this Annual Report on Form 10-K for the year ended December 31, 2019, included in Item 1A. Risk Factors and in our future filings with the SEC. Further information on The First Bancshares, Inc. is available in its filings with the Securities and Exchange Commission, available at the SEC's website, http://www.sec.gov.

ITEM 1. BUSINESS

BUSINESS OF THE COMPANY

Overview and History

The First Bancshares, Inc. ("Company") was incorporated on June 23, 1995 to serve as a bank holding company for The First, A National Banking Association ("The First"), headquartered in Hattiesburg, Mississippi. The Company is a Mississippi corporation and is a registered financial holding company. The First began operations on August 5, 1996 from our main office in the Oak Grove community, which is now incorporated within the city of Hattiesburg. As of December 31, 2019, The First operated its main office and 72 full-service branches, one motor branch, and four loan production offices in Mississippi, Alabama, Florida, Georgia and Louisiana. Our principal executive offices are located at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402, and our telephone number is (601) 268-8998.

The Company is a community-focused financial institution that offers a full range of financial services to individuals, businesses, municipal entities, and nonprofit organizations in the communities that it serves. These services include consumer and commercial loans, deposit accounts and safe deposit services.

We have benefitted from historically strong asset quality metrics compared to most of our peers, which we believe illustrates our historically disciplined underwriting and credit culture. As such, we benefited from our strength by taking advantage of growth opportunities when many of our peers were unable to do so. We have also focused on growing earnings per share and increasing our tangible common equity and tangible book value per share.

In recent years, we have developed and executed a regional expansion strategy to take advantage of growth opportunities through several acquisitions, which has allowed us to expand our footprint to Alabama, Florida Louisiana and Georgia. We believe the conversion and integration of these acquisitions have been successful to date, and we are optimistic that these markets will continue to contribute to our future growth and success. In addition, we continue to experience organic loan growth by continuing to strengthen our relationships with existing clients and creating new relationships.

On March 2, 2019, we completed the acquisition of FPB Financial Corp., ("FPB"), and immediately thereafter merged its wholly-owned subsidiary, Florida Parishes Bank, with and into The First. The Company paid a total consideration of approximately $78.2 million to the former FPB shareholders as consideration in the merger, which included 2,377,501 shares of the Company's common stock, and $5 thousand in cash.

On November 1, 2019, we completed the acquisition of First Florida Bancorp, Inc., ("FFB"), and immediately thereafter merged its wholly-owned subsidiary, First Florida Bank, with and into The First. The Company paid a total consideration of approximately $89.5 million to the former FFB shareholders as consideration in the merger, which included 1,682,889 shares of the Company's common stock, and approximately $34.1 million in cash.

As of December 31, 2019, we had 676 full-time employees and 21 part-time employees.

Unless otherwise indicated or unless the context requires otherwise, all references in this report to "the Company", "we", "us", "our", or similar references, mean The First Bancshares, Inc. and our subsidiaries, including our banking subsidiary, The First, on a consolidated basis. References to "The First" or the "Bank" mean our wholly owned banking subsidiary, The First.

Market Areas

As of December 31, 2019, The First had 78 locations across Mississippi, Louisiana, Alabama, Florida and Georgia.

Recent Developments

On December 18, 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Southwest Georgia Financial Corporation, a Georgia corporation ("SWG"), whereby SWG will be merged with and into the Company. Pursuant to and simultaneously with entering into the Merger Agreement, The First, and SWG's wholly owned subsidiary bank, Southwest Georgia Bank, entered into a Plan of Bank Merger whereby Southwest Georgia Bank will be merged with and into The First immediately following the merger of SWG with and into the Company with a purchase price, on the announcement date, of approximately $88.0 million. At December 31, 2019, SWG had approximately $555.4 million in assets, $398.1 million in loans, and $473.4 million in deposits.

Banking Services

We strive to provide our customers with the breadth of products and services offered by large regional banks, while maintaining the timely response and personal service of a locally owned and managed bank. In addition to offering a full range of deposit services and commercial and personal loans, we have a mortgage division. The following is a description of the products and services we offer.

Deposit Services. We offer a full range of deposit services that are typically available in most banks and savings institutions, including checking accounts, NOW accounts, savings accounts, and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to our principal market areas at rates competitive to those offered by other banks in these areas. All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law. We solicit these accounts from individuals, businesses, associations, organizations, and governmental authorities. In addition, we offer certain retirement account services, such as Individual Retirement Accounts (IRAs) and health savings accounts.

Loan Products. We offer a full range of commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including loans secured by inventory and accounts receivable), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include equity lines of credit, secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. We also make real estate construction and acquisition loans. Our lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the bank), in general we are subject to an aggregate loans-to-one-borrower limit of 15% of our unimpaired capital and surplus.

Mortgage Loan Division. We have a residential mortgage loan division which originates conventional or government agency insured loans to purchase existing residential homes, construct new homes or refinance existing mortgages.

Private Banking Division. We have a private banking division, which offers financial services and wealth management services to individuals who meet certain criteria.

Other Services. Other bank services we offer include on-line internet banking services, automated teller machines, voice response telephone inquiry services, commercial sweep accounts, cash management services, safe deposit boxes, merchant services, mobile deposit, direct deposit of payroll and social security checks, and automatic drafts for various accounts. We network with other automated teller machines that may be used by our customers throughout our market area and other regions. The First also offers credit card services through a correspondent bank.

Competition

The First generally competes with other financial institutions through the selection of banking products and services offered, the pricing of services, the level of service provided, the convenience and availability of services, and the degree of expertise and the personal manner in which services are offered. State law permits statewide branching by banks and savings institutions, and many financial institutions in our market area have branch networks. Consequently, commercial banking in Mississippi, Alabama, Louisiana, Florida, and Georgia is highly competitive. Many large banking organizations currently operate in our market area, several of which are controlled by out-of-state ownership. In addition, competition between commercial banks and thrift institutions (savings institutions and credit unions) has been intensified significantly by the elimination of many previous distinctions between the various types of financial institutions and the expanded powers and increased activity of thrift institutions in areas of banking which previously had been the sole domain of commercial banks. Federal legislation, together with other regulatory changes by the primary regulators of the various financial institutions, has resulted in the almost total elimination of practical distinctions between a commercial bank and a thrift institution. Consequently, competition among financial institutions of all types is largely unlimited with respect to legal ability and authority to provide most financial services. Currently there are numerous other commercial banks, savings institutions, and credit unions operating in The First's primary service area.

We face increased competition from both federally-chartered and state-chartered financial and thrift institutions, as well as credit unions, consumer finance companies, insurance companies, and other institutions in the Company's market area. Some of these competitors are not subject to the same degree of regulation and restriction imposed upon the Company. Many of these competitors also have broader geographic markets and substantially greater resources and lending limits than the Company and offer certain services such as trust banking that the Company does not currently provide. In addition, many of these competitors have numerous branch offices located throughout the extended market areas of the Company that may provide these competitors with an advantage in geographic convenience that the Company does not have at present.

We also compete with numerous financial and quasi-financial institutions for deposits and loans, including providers of financial services over the internet, and financial technology, or fintech companies. Recent technology advances and other changes have allowed parties to effect financial transactions that previously required the involvement of banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks.

Available Information

Pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”) we are required to file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and other filings pursuant to Section 13(a) or 15(d) of the Exchange Act, and amendments to such filings. The SEC maintains a website at www.sec.gov that contains the reports, proxy statements, and other filings we electronically file with the SEC. Such information is also available free of charge on or through our website www.thefirstbank.com as soon as reasonably practicable after each is electronically filed with, or furnished to, the SEC. Information appearing on the Company’s website is not part of any report that it files with the SEC.

SUPERVISION AND REGULATION

The Company and The First are subject to state and federal banking laws and regulations which impose specific requirements or restrictions on and provide for general regulatory oversight with respect to virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, the deposit insurance fund ("DIF") of the FDIC and the stability of the U.S. banking system as a whole, rather than for the protection of our shareholders and non-deposit creditors. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company.

Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and following with the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), and now most recently the sweeping Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), numerous regulatory requirements have been placed on the banking industry in the recent years. A significant number of financial services regulations required by the Dodd-Frank Act have not yet been finalized by banking regulators, Congress continues to consider legislation that would make significant changes to the law and courts are addressing significant litigation arising under the Dodd-Frank Act, making it difficult to predict the ultimate effect of the Dodd-Frank Act on our business The operations of the Company and The First may be affected by legislative changes and the policies of various regulatory authorities. We are unable to predict the nature or the extent of the effect on our business and earnings that fiscal or monetary policies, economic control, or new federal or state legislation may have in the future.

Bank Holding Company Regulation

The Company is subject to extensive regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve") pursuant to the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). We file quarterly reports and other information with the Federal Reserve. We file reports with the SEC and are subject to its regulation with respect to our securities, financial reporting and certain governance matters. Our securities are listed on the Nasdaq Global Market, and we are subject to Nasdaq rules for listed companies.

The Company is registered with the Federal Reserve as a bank holding company and has elected to be treated as a financial holding company under the Bank Holding Company Act. As such, the Company and its subsidiaries are subject to the supervision, examination and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

The Bank Holding Company Act generally prohibits a corporation that owns a federally insured financial institution ("bank") from engaging in activities other than banking and managing or controlling banks or other subsidiaries engaging in permissible activities. Also prohibited is acquiring or obtaining control 5% or more of the voting interests of any company that engages in activities other than those activities determined by the Federal Reserve to be so closely related to banking, managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve considers whether the performance of the activity can reasonably be expected to produce benefits to the public that outweigh possible adverse effects. Examples of activities that the Federal Reserve has determined to be permissible are making, acquiring or servicing loans; leasing personal property; providing certain investment or financial advice; performing certain data processing services; acting as agent or broker in selling credit life insurance; and performing certain insurance underwriting activities. The Bank Holding Company Act does not place territorial limits on permissible bank-related activities of bank holding companies. Even with respect to permissible activities, however, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or its control of any subsidiary when the Federal Reserve has reasonable cause to believe that continuation of such activity or control of such subsidiary would pose a serious risk to the financial safety, soundness or stability of any bank subsidiary of that holding company.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it: (1) acquires ownership or control of any voting shares of any bank if, after such acquisition, such bank holding company will own or control 5% or more of the voting shares of such bank, (2) causes any of its non-bank subsidiaries to acquire all of the assets of a bank, (3) merges with any other bank holding company, or (4) engages in permissible non-banking activities. In reviewing a proposed covered acquisition, the Federal Reserve considers a bank holding company's financial, managerial and competitive posture. The future prospects of the companies and banks concerned and the convenience and needs of the community to be served are also considered. The Federal Reserve also reviews any indebtedness to be incurred by a bank holding company in connection with the proposed acquisition to ensure that the bank holding company can service such indebtedness without adversely affecting its ability, and the ability of its subsidiaries, to meet their respective regulatory capital requirements. The Bank Holding Company Act further requires that consummation of approved bank holding company or bank acquisitions or mergers must be delayed for a period of not less than 15 or more than 30 days following the date of Federal Reserve approval. During such 15 to 30-day period, the Department of Justice has the right to review the competitive aspects of the proposed transaction. The Department of Justice may file a lawsuit with the relevant United States District Court seeking an injunction against the proposed acquisition.

The Federal Reserve has adopted capital adequacy guidelines for use in its examination and regulation of bank holding companies and financial holding companies. The regulatory capital of a bank holding company or financial holding company under applicable federal capital adequacy guidelines is particularly important in the Federal Reserve's evaluation of the overall safety and soundness of the bank holding company or financial holding company and are important factors considered by the Federal Reserve in evaluating any applications made by such holding company to the Federal Reserve. If regulatory capital falls below minimum guideline levels, a financial holding company may lose its status as a financial holding company and a bank holding company or bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open additional facilities. Additionally, each bank subsidiary of a financial holding company as well as the holding company itself must be well capitalized and well managed as determined by the subsidiary bank's primary federal regulator, which in the case of The First, is the Office of the Comptroller of the Currency (the "OCC"). To be considered well managed, the bank and holding company must have received at least a satisfactory composite rating and a satisfactory management rating at its most recent examination. The Federal Reserve rates bank holding companies through a confidential component and composite 1-5 rating system, with a composite rating of 1 being the highest rating and 5 being the lowest. This system is designed to help identify institutions requiring special attention. Financial institutions are assigned ratings based on evaluation and rating of their financial condition and operations. Components reviewed include capital adequacy, asset quality, management capability, the quality and level of earnings, the adequacy of liquidity and sensitivity to interest rate fluctuations. As of December 31, 2019, the Company and The First were both well capitalized and well managed.

A financial holding company that becomes aware that it or a subsidiary bank has ceased to be well capitalized or well managed must notify the Federal Reserve and enter into an agreement to cure the identified deficiency. If the deficiency is not cured timely, the Federal Reserve may order the financial holding company to divest its banking operations. Alternatively, to avoid divestiture, a financial holding company may cease to engage in the financial holding company activities that are unrelated to banking or otherwise impermissible for a bank holding company. See "*Capital Requirements*" below for more information.

The Gramm-Leach-Bliley Act of 1999 established a comprehensive framework that permits affiliations among qualified bank holding companies, commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the Bank Holding Company Act framework to permit a holding company to engage in a full range of financial activities through a financial holding company.

Federal Reserve Oversight

The Company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company's consolidated net worth. The Federal Reserve may disapprove such a transaction if it determines that the proposed redemption or stock purchase would constitute an unsafe or unsound practice, would violate any law, regulation, Federal Reserve order or directive or any condition imposed by, or written agreement with, the Federal Reserve.

The Federal Reserve has issued its "Policy Statement on Cash Dividends Not Fully Covered by Earnings" (the "Policy Statement") which sets forth various guidelines that the Federal Reserve believes a bank holding company should follow in establishing its dividend policy. In general, the Federal Reserve stated that bank holding companies should pay dividends only out of current earnings. The Federal Reserve also stated that dividends should not be paid unless the prospective rate of earnings retention by the holding company appears consistent with its capital needs, asset quality and overall financial condition.

The Company is required to file annual and quarterly reports with the Federal Reserve, and such additional information as the Federal Reserve may require pursuant to the Bank Holding Company Act. The Federal Reserve may examine a bank holding company or any of its subsidiaries.

Source of Strength Doctrine

Under the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed to engage in interstate transactions. In the past, only the subsidiary banks were required to meet those standards. The Federal Reserve Board's "source of strength doctrine" has now been codified, mandating that bank holding companies such as the Company serve as a source of strength for their subsidiary banks, such that the bank holding company must be able to provide financial assistance in the event the subsidiary bank experiences financial distress.

Capital Requirements

Federal banking regulators have adopted a system using risk-based capital guidelines to evaluate the capital adequacy of banks and bank holding companies that is based upon the 1988 capital accord of the Bank for International Settlements' Basel Committee on Banking Supervision (the "Basel Committee"), a committee of central banks and bank regulators from the major industrialized countries that coordinates international standards for bank regulation. Under the guidelines, specific categories of assets and off-balance-sheet activities such as letters of credit are assigned risk weights, based generally on the perceived credit or other risks associated with the asset. Off-balance-sheet activities are assigned a credit conversion factor based on the perceived likelihood that they will become on-balance-sheet assets. These risk weights are multiplied by corresponding asset balances to determine a "risk weighted" asset base which is then measured against various measures of capital to produce capital ratios.

An organization's capital is classified in one of two tiers, Core Capital, or Tier 1, and Supplementary Capital, or Tier 2. Tier 1 capital includes common stock, retained earnings, qualifying non-cumulative perpetual preferred stock, minority interests in the equity of consolidated subsidiaries, a limited amount of qualifying trust preferred securities and qualifying cumulative perpetual preferred stock at the holding company level, less goodwill and most intangible assets. Tier 2 capital includes perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, mandatory convertible debt securities, subordinated debt, and allowances for loan and lease losses. Each category is subject to a number of regulatory definitional and qualifying requirements.

The Basel Committee in 2010 released a set of international recommendations for strengthening the regulation, supervision and risk management of banking organizations, known as Basel III. In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules became effective for us on January 1, 2015, with certain transition provisions phasing in over a period that ended on January 1, 2019. The Basel III Capital Rules established a new category of capital measure, Common Equity Tier 1 capital, which includes a limited number of capital instruments from the existing definition of Tier 1 Capital, as well as raised minimum thresholds for Tier 1 Leverage capital (100 basis points), and Tier 1 Risk-based capital (200 basis points).

The Basel III Capital Rules established the following minimum capital ratios: 4.5 percent CET1 to risk-weighted assets; 6.0 percent Tier 1 capital to risk-weighted assets; 8.0 percent total capital to risk-weighted assets; and 4.0 percent Tier 1 leverage ratio to average consolidated assets. In addition, the Basel III Capital Rules also introduced a minimum "capital conservation buffer" equal to 2.5% of an organization's total risk-weighted assets, which exists in addition to these new required minimum CET1, Tier 1, and total capital ratios. The "capital conservation buffer," which must consist entirely of CET1, is designed to absorb losses during periods of economic stress. The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1, which include the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

The Company and The First elected in 2015 to exclude the effects of accumulated other comprehensive income items included in stockholders' equity from the determination of regulatory capital under the Basel III Capital Rules. Based on estimated capital ratios using Basel III definitions, the Company and The First currently exceed all capital requirements of the new rule, including the fully phased-in conservation buffer.

Certain regulatory capital ratios of the Company and The First, as of December 31, 2019, are shown in the following table:

	Capital Adequacy Ratios			
	Regulatory Minimums	Regulatory Minimums to be Well Capitalized	The First Bancshares, Inc.	The First
Common Equity Tier 1 risk-based capital ratio	4.50%	6.50%	12.5%	15.1%
Tier 1 risk-based capital ratio	6.00%	8.00%	13.0%	15.1%
Total risk-based capital ratio	8.00%	10.00%	15.8%	15.6%
Leverage ratio	4.00%	5.00%	10.3%	11.8%

The essential difference between the leverage capital ratio and the risk-based capital ratios is that the latter identify and weight both balance sheet and off-balance sheet risks. Tier 1 capital generally includes common equity, retained earnings, qualifying minority interests (issued by consolidated depository institutions or foreign bank subsidiaries), accounts of consolidated subsidiaries and an amount of qualifying perpetual preferred stock, limited to 50% of Tier 1 capital. In calculating Tier 1 capital, goodwill and other disallowed intangibles and disallowed deferred tax assets and certain other assets are excluded. Tier 2 capital is a secondary component of risk-based capital, consisting primarily of perpetual preferred stock that may not be included as Tier 1 capital, mandatory convertible securities, certain types of subordinated debt and an amount of the allowance for loan losses (limited to 1.25% of risk weighted assets).

The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to take into account off-balance sheet exposure and to minimize disincentives for holding liquid assets. Under the risk-based capital guidelines, assets are assigned to one of four risk categories: 0%, 20%, 50% and 100%. For example, U.S. Treasury securities are assigned to the 0% risk category while most categories of loans are assigned to the 100% risk category. Off-balance sheet exposures such as standby letters of credit are risk-weighted and all or a portion thereof are included in risk-weighted assets based on an assessment of the relative risks that they present. The risk-weighted asset base is equal to the sum of the aggregate dollar values of assets and off-balance sheet items in each risk category, multiplied by the weight assigned to that category.

Prompt Corrective Action and Undercapitalization

The FDICIA established a system of prompt corrective action regulations and policies to resolve the problems of undercapitalized insured depository institutions. Under this system, insured depository institutions are ranked in one of five capital categories as described below. Regulators are required to take mandatory supervisory actions and are authorized to take other discretionary actions of increasing severity with respect to insured depository institutions in the three undercapitalized categories. The five capital categories for insured depository institutions under the prompt corrective action regulations consist of:

- Well capitalized - equals or exceeds a 10% total risk-based capital ratio, 8% Tier 1 risk-based capital ratio, and 5% leverage ratio and is not subject to any written agreement, order or directive requiring it to maintain a specific level for any capital measure;
- Adequately capitalized - equals or exceeds an 8% total risk-based capital ratio, 6% Tier 1 risk-based capital ratio, and 4% leverage ratio;
- Undercapitalized - total risk-based capital ratio of less than 8%, or a Tier 1 risk-based ratio of less than 6%, or a leverage ratio of less than 4%;
- Significantly undercapitalized - total risk-based capital ratio of less than 6%, or a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 3%; and
- Critically undercapitalized - a ratio of tangible equity to total assets equal to or less than 2%.

The prompt corrective action regulations provide that an institution may be downgraded to the next lower category if its regulator determines, after notice and opportunity for hearing or response, that the institution is in an unsafe or unsound condition or has received and not corrected a less-than-satisfactory rating for any of the categories of asset quality, management, earnings or liquidity in its most recent examination.

Federal bank regulatory agencies are required to implement arrangements for prompt corrective action for institutions failing to meet minimum requirements to be at least adequately capitalized. FDICIA imposes an increasingly stringent array of restrictions, requirements and prohibitions as an organization’s capital levels deteriorate. A bank rated "adequately capitalized" may not accept, renew or roll over brokered deposits. A "significantly undercapitalized" institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The OCC has only very limited discretion in dealing with a "critically undercapitalized" institution and generally must appoint a receiver or conservator (the FDIC) if the capital deficiency is not corrected promptly.

Under the Federal Deposit Insurance Act (“FDIA”), “critically undercapitalized” banks may not, beginning 60 days after becoming critically undercapitalized, make any payment of principal or interest on their subordinated debt (subject to certain limited exceptions). In addition, under Section 18(i) of the FDIA, banks are required to obtain the advance consent of the FDIC to retire any part of their subordinated notes. Under the FDIA, a bank may not pay interest on its subordinated notes if such interest is required to be paid only out of net profits, or distribute any of its capital assets, while it remains in default on any assessment due to the FDIC.

Federal bank regulators may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve and OCC guidelines provide that banking organizations experiencing significant growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. Concentration of credit risks, interest rate risk (imbalances in rates, maturities or sensitivities) and risks arising from non-traditional activities, as well as an institution’s ability to manage these risks, are important factors taken into account by regulatory agencies in assessing an organization’s overall capital adequacy.

The OCC and the Federal Reserve also use a leverage ratio as an additional tool to evaluate the capital adequacy of banking organizations. The leverage ratio is a company’s Tier 1 capital divided by its average total consolidated assets. A minimum leverage ratio of 3.0% is required for banks and bank holding companies that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority’s risk-adjusted measure for market risk. All other banks and bank holding companies are required to maintain a minimum leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In order to be considered well capitalized the leverage ratio must be at least 5.0%.

Our Bank’s leverage ratio was 11.8% at December 31, 2019 and, as a result, it is currently classified as “well capitalized” for purposes of the OCC’s prompt corrective action regulations.

The risk-based and leverage capital ratios established by federal banking regulators are minimum supervisory ratios generally applicable to banking organizations that meet specified criteria, assuming that they otherwise have received the highest regulatory ratings in their most recent examinations. Banking organizations not meeting these criteria are expected to operate with capital positions in excess of the minimum ratios. Regulators can, from time to time, change their policies or interpretations of banking practices to require changes in risk weights assigned to our Bank's assets or changes in the factors considered in order to evaluate capital adequacy, which may require our Bank to obtain additional capital to support existing asset levels or future growth or reduce asset balances in order to meet minimum acceptable capital ratios.

Additional Regulatory Issues

In June 2010, the Federal Reserve, the OCC and the FDIC issued joint guidance on executive compensation designed to help ensure that a banking organization's incentive compensation policies do not encourage imprudent risk taking and are consistent with the safety and soundness of the organization. In addition, the Dodd-Frank Act required those agencies, along with the SEC, to adopt rules to require reporting of incentive compensation and to prohibit certain compensation arrangements. The objective of the guidance is to assure that incentive compensation arrangements (i) provide incentives that do not encourage excessive risk-taking, (ii) are compatible with effective internal controls and risk management and (iii) are supported by strong corporate governance, including oversight by the board of directors. In 2016, the Federal Reserve and the FDIC proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2019, these rules have not been implemented.

The Company is a legal entity separate and distinct from The First. There are various restrictions that limit the ability of The First to finance, pay dividends or otherwise supply funds to the Company or other affiliates. In addition, subsidiary banks of holding companies are subject to certain restrictions under Sections 23A and 23B of the Federal Reserve Act on any extension of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing of services.

Stress Testing

The Dodd-Frank Act requires stress testing of certain bank holding companies and banks. On May 24, 2018 the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") was signed into law, which amended portions of the Dodd-Frank Act and immediately raised the asset threshold for stress testing from $10 billion to $100 billion for bank holding companies. On December 18, 2018, the OCC proposed regulations that would raise the stress testing threshold for national banks from $10 billion to $250 billion. Because the consolidated assets of the Company and The First are less than these threshold levels, the stress test requirements are not currently applicable to the Company or to The First.

The First, A National Banking Association

OCC Regulation. The First operates as a national banking association incorporated under the laws of the United States and subject to supervision, inspection and examination by the OCC. The OCC regulates or monitors virtually all areas of The First's operations, including security devices and procedures, adequacy of capitalization and loan loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC imposes limitations on The First's aggregate investment in real estate, bank premises, and furniture and fixtures. The First is required by the OCC to prepare quarterly reports on its financial condition and to conduct an annual audit of its financial affairs in compliance with minimum standards and procedures prescribed by the OCC.

Safe and Sound Banking Practices; Enforcement. Banks and bank holding companies are prohibited from engaging in unsafe and unsound banking practices. Bank regulators have broad authority to prohibit and penalize activities of bank holding companies and their subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws, regulations or written directives of or agreements with regulators. Regulators have considerable discretion in identifying what they deem to be unsafe and unsound practices and in pursuing enforcement actions in response to them.

Under FDICIA, all insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC and the appropriate agency. FDICIA also directs the FDIC to develop with other appropriate agencies a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition, or any other report of any insured depository institution. FDICIA also requires the federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to: (i) internal controls, information systems, and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset quality.

National banks and their holding companies which have been chartered or registered or undergone a change in control within the past two years or which have been deemed by the OCC or the Federal Reserve Board, respectively, to be troubled institutions must give the OCC or the Federal Reserve Board, respectively, thirty days prior notice of the appointment of any senior executive officer or director. Within the thirty-day period, the OCC or the Federal Reserve Board, as the case may be, may approve or disapprove any such appointment.

Deposit Insurance. The FDIC establishes rates for the payment of premiums by federally insured banks and thrifts for deposit insurance. Deposits in The First are insured by the FDIC up to a maximum amount (generally $250,000 per depositor, subject to aggregation rules). The DIF is maintained by the FDIC for commercial banks and thrifts and funded with insurance premiums from the industry that are used to offset losses from insurance payouts when banks and thrifts fail. Since 1993, insured depository institutions like The First have paid for deposit insurance under a risk-based premium system. Assessments are calculated based on the depository institution's average consolidated total assets, less its average amount of tangible equity.

Transactions With Affiliates and Insiders. The First is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans to, and certain other transactions with, affiliates, as well as on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of The First's capital and surplus and, as to all affiliates combined, to 20% of The First's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements.

The First is also subject to Section 23B of the Federal Reserve Act, which prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution, as those prevailing at the time for comparable transactions with nonaffiliated companies. The First is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Change in Control. With certain limited exceptions, the BHCA and the Change in Bank Control Act, together with regulations promulgated thereunder, prohibit a person or company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve.

Dividends. The principal source of funds from which we pay cash dividends are the dividends received from our bank subsidiary, The First. Federal banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless the bank has transferred to surplus no less than one-tenth of its net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, under FDICIA, the banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized. See "Capital Requirements" above.

Interstate Branching and Acquisitions. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Formerly, under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, a bank's ability to branch into a particular state was largely dependent upon whether the state "opted in" to de novo interstate branching. Under the Dodd-Frank Act, de novo interstate branching by national banks is permitted if, under the laws of the state where the branch is to be located, a state bank chartered in that state would be permitted to establish a branch. Further, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, as long as neither of the states have opted out of such interstate merger authority, and subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years and certain deposit market-share limitations. Under current Mississippi, Alabama, Louisiana, Florida and Georgia law, The First may open branches or acquire existing banking operations throughout these states with the prior approval of the OCC. The Dodd-Frank Act permits out of state acquisitions by bank holding companies (subject to veto by new state law), interstate branching by banks if allowed by state law, interstate merging by banks, and de novo branching by national banks if allowed by state law. All branching in which The First may engage remains subject to regulatory approval and adherence to applicable legal and regulatory requirements.

Community Reinvestment Act. The Community Reinvestment Act (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the Community Reinvestment Act, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit, making investments and providing community development services to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. In order for a financial holding company to commence new activity permitted by the BHCA, each insured depository institution subsidiary of the financial holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. These factors are considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

USA Patriot Act. In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") was signed into law. The USA Patriot Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA Patriot Act require that regulated financial institutions, including banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. The USA Patriot Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations. Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal and reputational consequences for the institution. The First has adopted policies, procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulations.

Office of Foreign Assets Control. The U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") is responsible for administering and enforcing economic and trade sanctions against specified foreign parties, including countries and regimes, foreign individuals and other foreign organizations and entities. OFAC publishes lists of prohibited parties that are regularly consulted by our Bank in the conduct of its business in order to assure compliance. We are responsible for, among other things, blocking accounts of, and transactions with, prohibited parties identified by OFAC, avoiding unlicensed trade and financial transactions with such parties and reporting blocked transactions after their occurrence. Failure to comply with OFAC requirements could have serious legal, financial and reputational consequences for our Bank.

Consumer Protection Regulations. Interest and certain other charges collected or contracted for by The First are subject to state usury laws and certain federal laws concerning interest rates. The First's loan operations are subject to certain federal laws applicable to credit transactions, such as the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs community it serves; the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, color, religion, national origin or other prohibited factors in extending credit; the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; the Fair Debt Collection Practices Act, concerning the manner in which consumer debts may be collected by collection agencies; and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of The First also are subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Other Regulatory Matters

Risk-retention rules. Under the final risk-retention rules, banks that sponsor the securitization of asset-backed securities and residential-mortgage backed securities are required to retain 5% of any loan they sell or securitize, except for mortgages that meet low-risk standards to be developed by regulators.

Changes to federal preemption. The Dodd-Frank Act created a new independent supervisory body, the Consumer Financial Protection Bureau (the "CFPB") that is housed within the Federal Reserve. The CFPB is the primary regulator for federal consumer financial statutes. State attorneys general are authorized to enforce new regulations issued by the CFPB. Although the application of most state consumer financial laws to The First will continue to be preempted under the National Bank Act, OCC determinations of such preemption are made on a case-by-case basis. As a result, it is possible that state consumer financial laws enacted in the future may be held to apply to our business activities. The cost of complying with any such additional laws could have a negative impact on our financial results.

Mortgage Rules. During 2013, the CFPB finalized a series of rules related to the extension of residential mortgage loans by banks. Among these rules are requirements that a bank make a good faith determination that a borrower has the ability to repay a mortgage loan prior to extending such credit, a requirement that certain mortgage loans provide for escrow payments, new appraisal requirements, and specific rules regarding how loan originators may be compensated and the servicing of residential mortgage loans. The implementation of these new rules began in January 2014.

Volcker Rule. In December 2013, the Federal Reserve, the FDIC, the OCC, the Commission, and the Commodity Futures Trading Commission issued the "Prohibitions And Restrictions On Proprietary Trading And Certain Interests In, And Relationships With, Hedge Funds And Private Equity Funds," commonly referred to as the Volcker Rule, which regulates and restricts investments which may be made by banks. The Volcker Rule was adopted to implement a portion of the Dodd-Frank Act and new Section 13 of the Bank Holding Company Act, which prohibits any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in, or sponsoring or having certain relationships with, a hedge fund or private equity fund ("covered funds"), subject to certain exemptions. The Regulatory Relief Act narrowed the "banking entity" definition under the Volcker Rule by excluding from the term "insured depository institution" an institution that does not have, and is not controlled by a company that has more than $10 billion in total consolidated assets, and does not have total trading assets and trading liabilities of more than 5% of total consolidated assets. The intended effect of narrowing the scope of the "banking entity" definition is to reduce the regulatory burden imposed by the Volcker Rule on community banks, which generally include banks such as The First with total consolidated assets of less than $10 billion and limited trading activities.

Debit Interchange Fees

Interchange fees, or "swipe" fees, are fees that merchants pay to credit card companies and card-issuing banks such as The First for processing electronic payment transactions on their behalf. The maximum permissible interchange fee that an issuer may receive for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, subject to an upward adjustment of 1 cent if an issuer certifies that it has implemented policies and procedures reasonably designed to achieve the fraud-prevention standards set forth by the Federal Reserve.

In addition, the legislation prohibits card issuers and networks from entering into exclusive arrangements requiring that debit card transactions be processed on a single network or only two affiliated networks, and allows merchants to determine transaction routing. Due to the Company's size, the Federal Reserve rule limiting debit interchange fees has not reduced our debit card interchange revenues.

Summary

The foregoing is a brief summary of certain statutes, rules and regulations affecting the Company and The First. It is not intended to be an exhaustive discussion of all statutes and regulations having an impact on the operations of such entities.

Increased regulation generally has resulted in increased legal and compliance expense.

Finally, additional bills may be introduced in the future in the U.S. Congress and state legislatures to alter the structure, regulation and competitive relationships of financial institutions. It cannot be predicted whether and in what form any of these proposals will be adopted or the extent to which the business of the Company and The First may be affected thereby.

Effect of Governmental Monetary and Fiscal Policies

The difference between the interest rate paid on deposits and other borrowings and the interest rate received on loans and securities comprises most of a bank's earnings. In order to mitigate the interest rate risk inherent in the industry, the banking business is becoming increasingly dependent on the generation of fee and service charge revenue.

The earnings and growth of a bank are affected by both general economic conditions and the monetary and fiscal policy of the U.S. government and its agencies, particularly the Federal Reserve. The Federal Reserve sets national monetary policy such as seeking to curb inflation and combat recession. This is accomplished by its open-market operations in U.S. government securities, adjustments in the amount of reserves that financial institutions are required to maintain and adjustments to the discount rates on borrowings and target rates for federal funds transactions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits and also affect interest rates on loans and deposits. The nature and timing of any future changes in monetary policies and their potential impact on the Company cannot be predicted.

ITEM 1A. RISK FACTORS

Our business is subject to risk. The following discussion, along with management's discussion and analysis and our financial statements and footnotes, sets forth the most significant risks and uncertainties that we believe could adversely affect our business, financial condition or results of operations. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also have a material adverse effect on our business, financial condition or results of operations. There is no assurance that this discussion covers all potential risks that we face. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made herein.

Risk Factors Associated With Our Business

General economic conditions in the areas where our operations or loans are concentrated may adversely affect our financial results or liquidity.

A sudden or severe downturn in the economy in the geographic markets we serve in the states of Mississippi, Louisiana, Alabama, Florida or Georgia may affect the ability of our customers to meet loan payment obligations on a timely basis. The local economic conditions in these areas have a significant impact on our commercial, real estate, and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing such loans. Any deterioration in the economic conditions of these market areas could negatively impact the financial results of the Company's banking operations, earnings, and profitability.

Our Bank requires liquidity in the form of available funds to meet its deposit, debt and other obligations as they come due, borrower requests to draw on committed credit facilities as well as unexpected demands for cash payments. Adverse economic changes may cause customers to withdraw deposit balances, thereby causing a strain on our liquidity. We have historically had access to a number of alternative sources of liquidity, but if there is an increase in volatility in the credit and liquidity markets there is no assurance that we will be able to obtain such liquidity on terms that are favorable to us, or at all.

We may be vulnerable to certain sectors of the economy, including real estate.

A significant portion of our loan portfolio is secured by real estate. The market value of real estate can fluctuate significantly in a relatively short period of time as a result of market conditions in the geographic area in which the real estate is located. If the economy deteriorates and real estate values decline materially, a significant part of our loan portfolio could become under-collateralized and losses incurred upon borrower defaults would increase. This could result in additional loan loss accruals which would negatively impact our earnings. Our ability to dispose of foreclosed real estate at prices above the respective carrying values could also be impacted, which could cause our results of operations to be adversely affected.

Unpredictable market conditions may adversely affect the industry in which we operate.

The capital and credit markets are subject to volatility and disruption. Dramatic declines in the housing market in years past caused home prices to fall and increased foreclosures, unemployment and under-employment. These events, if they were to happen again, could negatively impact the credit performance of mortgage loans and result in significant write-downs of asset values, including government-sponsored entities as well as major commercial and investment banks. Market turmoil and tightening of credit could lead to an increased level of commercial and consumer delinquencies, lack of consumer confidence and widespread reduction of business activity generally. A worsening of these conditions would have an adverse effect on us and others in the financial institution industry generally, particularly in our real estate markets, as lower home prices and increased foreclosures would result in higher charge-offs and delinquencies.

The state of the economy and various economic factors, including inflation, recession, unemployment, interest rates and the level of U.S. debt, as well as governmental action and uncertainty resulting from U.S. and global political trends, may directly and indirectly, have a destabilizing effect on our financial condition and results of operations. An unfavorable or uncertain national or regional political or economic environment could drive losses beyond those which are provided for in our allowance for loan losses and could negatively impact our results of operations.

We must maintain an appropriate allowance for loan losses.

The First, as lender, is exposed to the risk that its customers will be unable to repay their loans in accordance with their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on our operating results. Credit risk with respect to our real estate and construction loan portfolio relates principally to the creditworthiness of the borrower corporations and the value of the real estate serving as security for the repayment of loans. Credit risk with respect to our commercial and consumer loan portfolio will relate principally to the general creditworthiness of the borrower businesses and individuals within our local markets.

The First makes various assumptions and judgments about the collectability of its loan portfolio based on a number of factors. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense each quarter, that is consistent with management's assessment of the collectability of the loan portfolio in light of the amount of loans committed and outstanding and current economic conditions, market trends and other factors. When specific loan losses are identified, the amount of the expected loss is removed, or charged-off, from the allowance. The First believes that its current allowance for loan losses is appropriate and is consistent with our methodology. However, if our assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. We may have to increase the allowance in the future in response to the request of one of our primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of the loan portfolio. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions. Any increase in the allowance for loan losses or in the amount of loan charge-offs required by regulatory agencies or for other factors could have a negative effect on our results of operations and financial condition.

In addition, the Company will adopt ASU 2016 "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* as amended on January 1, 2020. This standard makes significant changes to the accounting for credit losses on financial instruments presented on an amortized cost basis such as our loans held for investment, and disclosures about them. The new CECL impairment model will require an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgement with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. Providing for losses over the life of our portfolio is a change to the previous method of providing allowances for loan losses that are probable and incurred. This change may require us to increase our allowance for loan losses rapidly in future periods, and greatly increases the type of data we need to collect and review to determine the appropriate level of allowance for loan losses. In addition, there can be no assurance that the Company's policies and procedures will reduce certain lending risks or that the Company's allowance for loan losses will be adequate to cover actual losses. See note B – Summary of Significant Accounting Policies in the notes to consolidated financial statements.

We are subject to risks related to changes in market interest rates.

Our assets and liabilities are primarily monetary in nature, and as a result we are subject to significant risks resulting from changes in interest rates. Our profitability is largely dependent upon net interest income. Unexpected movement in interest rates markedly changing the slope of the current yield curve could cause net interest margins to decrease, subsequently decreasing net interest income. In addition, such changes could adversely affect the valuation of our assets and liabilities.

The fair market value of the securities portfolio and the investment income from these securities also fluctuates depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

At present the Company's one-year interest rate sensitivity position is asset sensitive. As with most financial institutions, the Company's results of operations are affected by changes in interest rates and the Company's ability to manage this risk. The difference between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities may be affected by changes in market interest rates, changes in relationships between interest rate indices, and/or changes in the relationships between long-term and short-term market interest rates. A change in this difference might result in an increase in interest expense relative to interest income, or a decrease in the Company's interest rate spread.

We may be adversely affected by changes in the method of determining the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, for our variable rate loans and the interest expense paid on our subordinated notes and our subordinated debentures.

On July 27, 2017, the Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the LIBOR administration after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the LIBOR administrator, whether LIBOR will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere; however, it does appear highly likely that LIBOR will discontinued or modified by 2021. At this time, no consensus exists as to what reference rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of securities based on LIBOR such as our subordinated notes and our subordinated debentures.

Uncertainty as to the nature of such potential changes, alternative reference rates, the replacement or disappearance of LIBOR or other reforms may adversely affect the value of and the return on our subordinated notes and our subordinated debentures, as well as the interest we pay on those securities.

At December 31, 2019, approximately 2.1% of our total loan portfolio was indexed to 30-day, 90-day, and one-year LIBOR.

Certain changes in interest rates, inflation, or the financial markets could affect demand for our products and our ability to deliver products efficiently.

Loan originations, and therefore loan revenues, could be adversely impacted by rising interest rates. Increases in market interest rates can have negative impacts on our business, including reducing our customers' desire to borrow money from us or adversely affecting their ability to repay their outstanding loans by increasing their debt service obligations through the periodic reset of adjustable interest rate loans. If our borrowers' ability to repay their loans is impaired by increasing interest payment obligations, our level of nonperforming assets would increase, producing an adverse effect on operating results. Asset values, especially commercial real estate as collateral, securities or other fixed rate earning assets, can decline significantly with relatively minor changes in interest rates. If interest rates were to decrease, our yield on our variable rate loans and on our new loans would decrease, reducing our net interest income. In addition, lower interest rates may reduce our realized yields on investment securities, which would reduce our net interest income and cause downward pressure on net interest margin in future periods. A significant reduction in our net interest income could have a material adverse impact on our capital, financial condition and results of operations.

An unanticipated increase in inflation could cause operating costs related to salaries and benefits, technology, and supplies to increase at a faster pace than revenues.

Evaluation of investment securities for other-than-temporary impairment involves subjective determinations and could materially impact our results of operations and financial condition.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties, and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuers' financial condition or future recovery prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. Estimating future cash flows involves incorporating information received from third-party sources and making internal assumptions and judgments regarding the future performance of the underlying collateral and assessing the probability that an adverse change in future cash flows has occurred. The determination of the amount of other-than-temporary impairments is based upon the Company's quarterly evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

Additionally, our management considers a wide range of factors about the security issuer and uses its reasonable judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Impairments to the carrying value of our investment securities may need to be taken in the future, which could have a material adverse effect on our results of operations and financial condition.

Changes in the policies of monetary authorities and other government action could adversely affect profitability.

The results of operations of the Company are affected by credit policies of monetary authorities, particularly the Board of Governors of the Federal Reserve System, which we refer to as the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and monetary policy, we cannot predict the impact of future changes in interest rates, deposit levels, loan demand or the Company's business and earnings. Furthermore, the actions of the United States government and other governments in responding to developing situations or implementing new fiscal or trade policies may result in currency fluctuations, exchange controls, market disruption and other unanticipated economic effects. Such actions could have an adverse effect on our results of operations and profitability.

We are subject to regulation by various Federal and State entities.

The Company and The First are subject to extensive regulation by various regulatory agencies, including the Federal Reserve Board, the FDIC, the OCC and the CFPB. See *Supervision and Regulation* above for more information. New regulations issued by these agencies may adversely affect our ability to carry on our business activities. The Company is subject to various Federal and state laws and certain changes in these laws and regulations may adversely affect operations.

The Company and The First are also subject to the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of the Company and may also require extraordinary efforts or additional costs to implement. Any of these laws or regulations may be modified or changed from time to time, and we cannot be assured that such modifications or changes will not adversely affect the Company.

The full impact of the Tax Cuts and Jobs Act (the "Tax Act") on us and our customers is unknown at present, creating uncertainty and risk related to our customers' future demand for credit and our future results.

Increased economic activity expected to result from the decrease in tax rates on businesses generally could spur additional economic activity that would encourage additional borrowing. At the same time, some customers may elect to use their additional cash flow from lower taxes to fund their existing levels of activity, decreasing borrowing needs. The elimination of the federal income tax deductibility of business interest expense for a significant number of our customers effectively increases the cost of borrowing and makes equity or hybrid funding relatively more attractive. This could have a long-term negative impact on business customer borrowing. We realized an increase in our after-tax net income available to stockholders in 2018, however there is no guarantee that future years' results will have the same benefit. Some or all of this benefit could be lost to the extent that the banks and financial services companies we compete with elect to lower interest rates and fees and we are forced to respond in order to remain competitive. Additionally, the tax benefits could be repealed as a result of future regulatory actions. There is no assurance that presently anticipated benefits of the Tax Act for the Company will be realized.

We may be required to pay additional insurance premiums to the FDIC, which could negatively impact earnings.

Pursuant to the Dodd-Frank Act, the limit on FDIC coverage has been permanently increased to $250,000, causing the premiums assessed to The First by the FDIC to increase. Depending upon any future losses that the FDIC insurance fund may suffer, there can be no assurance that there will not be additional premium increases in order to replenish the fund. The FDIC may need to set a higher base rate schedule or impose special assessments due to future financial institution failures and updated failure and loss projections. Potentially higher FDIC assessment rates than those currently projected could have an adverse impact on our results of operations.

We are subject to industry competition which may have an adverse impact upon our success.

The profitability of the Company depends on its ability to compete successfully with other financial services companies. We operate in a highly competitive financial services environment. Certain competitors are larger and may have more resources than we do. We face competition in our regional market areas from other commercial banks, savings institutions, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of the nonbank competitors are not subject to the same extensive regulations that govern the Company or The First and may have greater flexibility in competing for business.

Many of these competitors also have broader geographic markets and substantially greater resources and lending limits than The First and offer certain services such as trust banking that The First does not currently provide. In addition, many of these competitors have numerous branch offices located throughout the extended market areas of The First that may provide these competitors with an advantage in geographic convenience that The First does not have at present. Currently there are numerous other commercial banks, savings institutions, and credit unions operating in The First's primary service area.

We also compete with numerous financial and quasi-financial institutions for deposits and loans, including providers of financial services over the internet. Recent technology advances and other changes have allowed parties to effectuate financial transactions that previously required the involvement of banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and access to lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that we can prevent any such failures, interruptions, cyber security breaches or other security breaches or, if they do occur, that they will be adequately addressed. We have been, and likely will continue to be, subject to various forms of external security breaches, which may include computer hacking, acts of vandalism or theft, malware, computer viruses or other malicious codes, phishing, employee error or malfeasance, catastrophes, unforeseen events or other cyber-attacks. To date, we have seen no material impact on our business or operations from these attacks or events. Any future significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

Natural disasters, public health emergencies, acts of war or terrorism and other external events could affect our ability to operate.

Our market areas are susceptible to natural disasters such as hurricanes and tornados. Natural disasters can disrupt operations, result in damage to properties that may be serving as collateral for our loan assets and negatively affect the local economies in which we operate. Climate change may be increasing the nature, severity and frequency of adverse weather conditions, making the impact from these types of natural disasters on our customers or us worse. We cannot predict whether or to what extent damage caused by future hurricanes, tornados or other natural disasters will affect operations or the economies in our market areas, but such weather events could cause a decline in loan originations, a decline in the value or destruction of properties serving as collateral for our loans and an increase in the risk of delinquencies, foreclosures or loan losses.

In addition, health emergencies, disease pandemics, acts of war or terrorism and other external events could cause disruption in our operations. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Our business is susceptible to fraud.

Our business exposes us to fraud risk from our loan and deposit customers, the parties they do business with, as well as from our employees, contractors and vendors. We rely on financial and other data from new and existing customers which could turn out to be fraudulent when accepting such customers, executing their financial transactions and making and purchasing loans and other financial assets. In times of increased economic stress we are at increased risk of fraud losses. We believe we have underwriting and operational controls in place to prevent or detect such fraud, but we cannot provide assurance that these controls will be effective in detecting fraud or that we will not experience fraud losses or incur costs or other damage related to such fraud, at levels that adversely affect our financial results or reputation. Our lending customers may also experience fraud in their businesses which could adversely affect their ability to repay their loans or make use of our services. Our exposure and the exposure of our customers to fraud may increase our financial risk and reputation risk as it may result in unexpected loan losses that exceed those that have been provided for in our allowance for loan losses.

***We may not be able to attract and retain skilled personnel*.**

Our success depends, in large part, on our ability to attract and retain key personnel. Competition for the best personnel in most activities we engage in can be intense, and we may not be able to hire personnel or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of the difficulty of promptly finding qualified replacement personnel with comparable skills, knowledge of our market, relationships in the communities we serve, and years of industry experience. Although we have employment agreements with certain of our executive officers, there is no guarantee that these officers and other key personnel will remain employed with the Company.

The failure of other financial institutions could adversely affect the Company.

Our ability to engage in routine funding transactions could be adversely affected by the actions and potential failures of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or concerns about, one or more financial institutions or the financial services industry generally could negatively impact market-wide liquidity and could lead to losses or defaults by the Company or by other institutions.

Merger-Related Risks

We may engage in acquisitions of other businesses from time to time, which may adversely impact our results.

From time to time, we may engage in acquisitions of other businesses. Difficulty in integrating an acquired business or company may cause us not to realize expected revenue increases, cost savings, increases in geographic or product presence, or other anticipated benefits from any acquisition. The integration could result in higher than expected deposit attrition (run-off), loss of key employees, disruption of the Company’s business or the business of the acquired company, or otherwise adversely affect the Company’s ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. The acquired companies may also have legal contingencies, beyond those that we are aware of, that could result in unexpected costs. The Company may need to make additional investment in equipment and personnel to manage higher asset levels and loan balances as a result of any significant acquisition, which may adversely impact earnings.

We may fail to realize the anticipated cost savings and other financial benefits of recent acquisitions in the timeframe we expect, or at all.

The Company completed the acquisition of two regional banks during 2019, including Florida Parishes Bank on March 2, 2019 and First Florida Bank on November 1, 2019, resulting in each bank merging with and into The First. The Company has also entered into an Agreement and Plan of Merger dated December 18, 2019, pursuant to which the Company would acquire Southwest Georgia Financial Corporation and its banking subsidiary, Southwest Georgia Bank. Achieving the anticipated cost savings and financial benefits of the mergers will depend, in part, on whether we can successfully integrate these businesses with and into the business of The First. It is possible that the integration process could result in the loss of key employees, the disruption of each company’s ongoing businesses or inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with clients, customers, depositors, and employees or to achieve the anticipated benefits of the mergers. In addition, the integration of certain operations following the mergers has required and will continue to require the dedication of significant management resources, which may temporarily distract management’s attention from the day-to-day business of the combined company. Any inability to realize the full extent of, or any of, the anticipated cost savings and financial benefits of the mergers, as well as any delays encountered in the integration process, could have an adverse effect on the business and results of operations of the combined company.

We have incurred and may continue to incur significant transaction and merger-related costs in connection with our recent acquisitions.

We have incurred and may continue to incur a number of non-recurring costs associated with our recent acquisitions and our pending acquisition of Southwest Georgia Financial Corporation. These costs and expenses include fees paid to financial, legal and accounting advisors, severance, retention bonus and other potential employment-related costs, filing fees, printing expenses and other related charges. There are also a large number of processes, policies, procedures, operations, technologies and systems that must be integrated in connection with the integration of these companies' businesses. While we have assumed that a certain level of expenses would be incurred in connection with the acquisitions, there are many factors beyond our control that could affect the total amount or the timing of the integration and implementation expenses.

There may also be additional unanticipated significant costs in connection with the acquisitions that we may not recoup. These costs and expenses could reduce the realization of efficiencies, strategic benefits and additional income we expect to achieve from the acquisitions. Although we expect that these benefits will offset the transaction expenses and implementation costs over time, the net benefit may not be achieved in the near term or at all, which could have a material adverse impact on our financial results.

We may incur impairment to goodwill.

We review our goodwill at least annually. Significant negative industry or economic trends, reduced estimates of future cash flows or disruptions to our business, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgements and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. In addition, if our analysis results is an impairment to our goodwill, we would be required to record a non-cash charge to earnings in our financial statements during the period in which such impairment is determined to exists. Any such charge could have a material adverse effect on our results of operations.

Risks Relating to Our Securities

The price of our common stock may fluctuate significantly, which may make it difficult for investors to resell shares of common stock at a time or price they find attractive.

Our stock price may fluctuate significantly as a result of a variety of factors, many of which are beyond our control. In addition to those described in "Special Cautionary Notice Regarding Forward-Looking Statements," these factors include, among others:

- actual or anticipated quarterly fluctuations in our operating results, financial condition or asset quality;
- changes in financial estimates or the publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to us or other financial institutions;
- failure to declare dividends on our common stock from time to time;
- failure to meet analysts' revenue or earnings estimates;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;

- strategic actions by us or our competitors, such as acquisitions, restructurings, dispositions or financings;
- fluctuations in the stock price and operating results of our competitors or other companies that investors deem comparable to us;
- future sales of our common stock or other securities;
- proposed or final regulatory changes or developments;
- anticipated or pending regulatory investigations, proceedings, or litigation that may involve or affect us;
- reports in the press or investment community generally relating to our reputation or the financial services industry;
- domestic and international economic and political factors unrelated to our performance;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- adverse weather conditions, including floods, tornadoes and hurricanes;
- public health emergencies, including disease pandemics; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

In addition, in recent years, the stock market in general has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results. We expect that the market price of our common stock will continue to fluctuate and there can be no assurances about the levels of the market prices for our common stock.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

We may need to rely on the financial markets to provide needed capital.

Our common stock is listed and traded on the Nasdaq stock market. Although we anticipate that our capital resources will be adequate for the foreseeable future to meet our capital requirements, at times we may depend on the liquidity of the capital markets to raise additional capital. Our historical ability to raise capital through the sale of capital stock and debt securities may be affected by economic and market conditions or regulatory changes that are beyond our control. Adverse changes in our operating performance or financial condition could make raising additional capital difficult or more expensive or limit our access to customary sources of funding. If the market should fail to operate, or if conditions in the capital markets are adverse, our efforts to raise capital could require the issuance of securities at times and with maturities, conditions and rates that are disadvantageous, and which could have a dilutive impact on our current stockholders. Should these risks materialize, the ability to further expand our operations through organic or acquisitive growth may be limited.

Securities issued by the Company, including the Company's common stock, are not FDIC insured.

Securities issued by the Company, including the Company's common stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the Deposit Insurance Fund, or any other governmental agency or instrumentality, or any private insurer, and are subject to investment risk, including the possible loss of principal.

Anti-takeover laws and certain agreements and charter provisions may adversely affect the price of our common stock.

Certain provisions of state and federal law and our articles of incorporation may make it more difficult for someone to acquire control of the Company. Under federal law, subject to certain exemptions, a person, entity, or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including the Company's shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquiror and the antitrust effects of the acquisition. There also are Mississippi statutory provisions and provisions in our articles of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in our articles of incorporation could result in the Company being less attractive to a potential acquiror.

The trading volume in our common stock is less than that of other larger financial services companies.

Although our common stock is listed for trading on the Nasdaq Global Market, the trading volume for our common stock is low relative to other larger financial services companies, and you are not assured liquidity with respect to transactions in our common stock. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

You may not receive dividends on our common stock.

Although we have historically declared quarterly cash dividends on our common stock, we are not required to do so and may reduce or cease to pay common stock dividends in the future. If we reduce or cease to pay common stock dividends, the market price of our common stock could be adversely affected.

The principal source of funds from which we pay cash dividends are the dividends received from The First. Federal banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Under certain conditions, dividends paid to us by The First are subject to approval by the OCC. A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless the bank has transferred to surplus no less than one-tenth of its net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, under The FDICIA, a bank may not pay a dividend if, after paying the dividend, the bank would be undercapitalized.

If we fail to pay dividends, capital appreciation, if any, of our common stock may be the sole opportunity for gains on an investment in our common stock. In addition, in the event The First becomes unable to pay dividends to us, we may not be able to service our debt or pay our other obligations or pay dividends on our common stock and preferred stock. Accordingly, our inability to receive dividends from The First could also have a material adverse effect on our business, financial condition and results of operations and the value of your investment in our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our Company's main office, which is the holding company headquarters, is located at 6480 U.S. Highway 98 West in Hattiesburg, Mississippi. As of year-end, we had 73 full service banking and financial service offices, one motor bank facility and four loan production offices across Mississippi, Alabama, Florida, Georgia and Louisiana. Management ensures that all properties, whether owned or leased, are maintained in suitable condition.

The following table sets forth banking office locations that are leased by the Company.

- Bayley's Corner
- Dauphin Island
- Destin
- Fairhope
- Gulfport Downtown
- Hardy Court
- Killern
- Mary Esther
- Metairie
- Niceville – 700 John Sims Parkway East
- Niceville – 750 John Sims Parkway East
- Ocean Springs
- Pascagoula
- Pensacola Downtown
- Spanish Fort
- Tallahassee – Apalachee Parkway
- The Mortgage Connection - Petal

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company and/or The First may be named as defendants in various lawsuits arising out of the normal course of business. At present, the Company is not aware of any legal proceedings that it anticipates may materially adversely affect its business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

There were approximately 2,611 record holders of the Company's common stock at March 6, 2020 and 18,851,955 shares outstanding.

Issuer Purchases of Equity Securities

The following table sets forth shares of our common stock we repurchased during the period ended December 31, 2019.

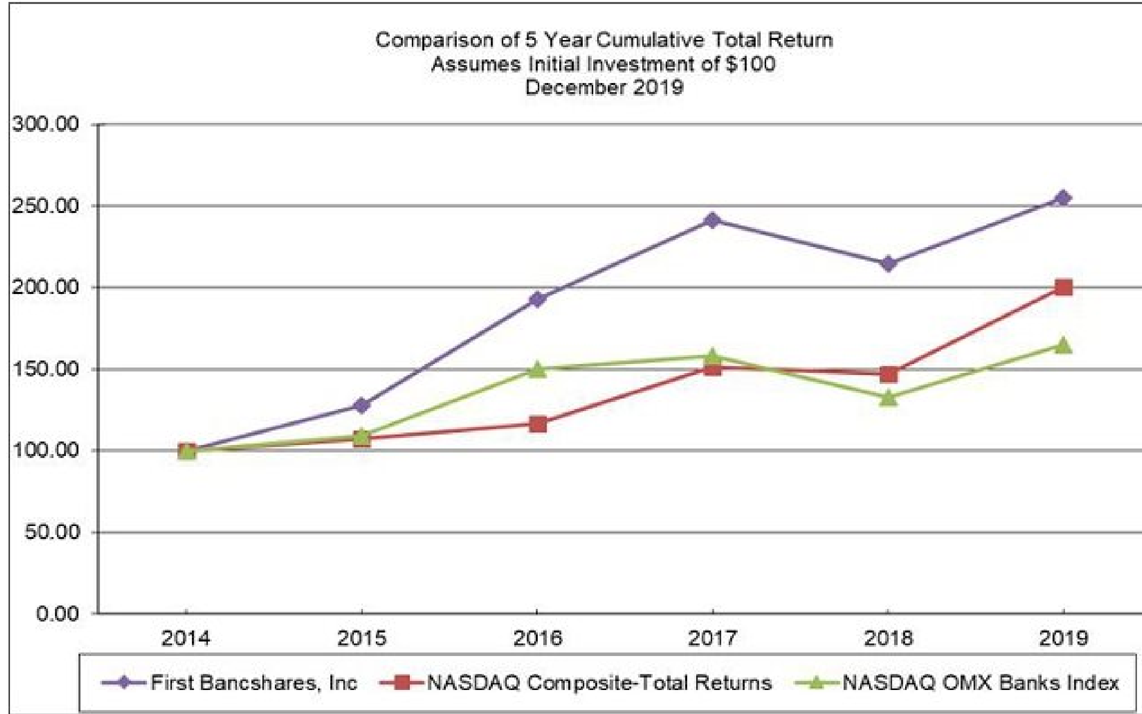
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
1st Quarter 2019	-	$ -	-	-
2nd Quarter 2019	143,566	31.09	143,566	498,336
3rd Quarter 2019	13,873	31.13	13,873	485,948
4th Quarter 2019	12,667(a)	32.64	10,749	468,050
Total	170,106	$ 31.62	168,188	

(a) Includes 1,918 shares withheld by the Company in order to satisfy employee tax obligations for vesting of restricted stock awards.

Stock Performance Graph

The following performance graph and related information are neither "soliciting material" nor "filed' with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent the Company specifically incorporates it by reference to such filing.

The performance graph compares the cumulative five-year shareholder return on the Company's common stock, assuming an investment of $100 on December 31, 2014 and the reinvestment of dividends thereafter, to that of the common stocks of United States companies reported in the Nasdaq Composite-Total Returns Index and the common stocks of the Nasdaq OMX Banks Index. The Nasdaq OMX Banks Index contains securities of Nasdaq- listed companies classified according to the Industry Classification Benchmark as banks. They include banks pro- viding a broad range of financial services, including retail banking, loans and money transmissions.



Legend

Symbol	Total Returns Index For:	2014	2015	2016	2017	2018	2019
◆	First Bancshares, Inc.	100.00	127.65	193.08	241.46	214.79	254.64
■	NASDAQ Composite-Total Returns	100.00	106.96	116.45	150.96	146.67	200.49
▲	NASDAQ OMX Banks Index	100.00	108.84	150.17	158.36	132.75	165.11

Notes:

A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
B. The indexes are reweighted daily, using the market capitalization on the previous trading day.
C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
D. The index level for all series was set to $100.0 on 12/31/2014.

ITEM 6. SELECTED FINANCIAL DATA

The following unaudited consolidated financial data is derived from The First Bancshares' audited consolidated financial statements as of and for the five years ended December 31, 2019.

SELECTED CONSOLIDATED FINANCIAL HIGHLIGHTS
($ in thousands, except per share data)

	December 31,				
	2019	2018	2017	2016	2015
Earnings:					
Net interest income	$ 121,806	$ 84,887	$ 59,160	$ 40,289	$ 36,994
Provision for loan losses	3,738	2,120	506	625	410
Non-interest income	26,947	20,561	14,363	11,247	7,588
Non-interest expense	88,569	76,311	55,446	36,862	32,161
Net income	43,745	21,225	10,616	10,119	8,799
Net income available to common stockholders	43,745	21,225	10,616	9,666	8,456
Per common share data:					
Basic net income per share	$ 2.57	$ 1.63	$ 1.12	$ 1.78	$ 1.57
Diluted net income per share	2.55	1.62	1.11	1.57	1.55
Per share data:					
Basic net income per share	$ 2.57	$ 1.63	$ 1.12	$ 1.86	$ 1.64
Diluted net income per share	2.55	1.62	1.11	1.64	1.62
Selected year end balances:					
Total assets	$ 3,941,863	$ 3,003,986	$ 1,813,238	$ 1,277,367	$ 1,145,131
Securities	791,777	514,928	372,862	255,799	254,959
Loans, net of allowance	2,597,260	2,055,195	1,221,808	865,424	769,742
Deposits	3,076,533	2,457,459	1,470,565	1,039,191	916,695
Stockholders' equity	543,658	363,254	222,468	154,527	103,436

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following provides a narrative discussion and analysis of The First Bancshares' financial condition and results of operations for the years ended December 31, 2019, 2018, and 2017. This discussion should be read in conjunction with the consolidated financial statements and the supplemental financial data included in Part II. Item 8.-Financial Statements and Supplementary Data – included elsewhere in this report.

Critical Accounting Policies

In the preparation of the Company's consolidated financial statements, certain significant amounts are based upon judgment and estimates. The most critical of these is the accounting policy related to the allowance for loan losses. The allowance is based in large measure upon management's evaluation of borrowers' abilities to make loan payments, local and national economic conditions, and other subjective factors. If any of these factors were to deteriorate, management would update its estimates and judgments which may require additional loss provisions.

Effective January 1, 2020, the Company adopted *ASU 2016-13, Financial Instruments – Measurement of Current Expected Credit Losses on Financial Instruments (CECL),* which will modify the accounting for the allowance for loan losses from an incurred loss model to an expected loss model, as discussed more fully under "Part II – Item 8. Financial Statements and Supplementary Data – Note B – Summary of Significant Accounting Policies" of this report.

Companies are required to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company's intent and ability to hold the security. Pursuant to these requirements, Management assesses valuation declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or market-related factors, such as interest rates. Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are recorded in earnings as realized losses.

Goodwill is assessed for impairment both annually and when events or circumstances occur that make it more likely than not that impairment has occurred. As part of its testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines the fair value of a reporting unit is less than its carrying amount using these qualitative factors, the Company compares the fair value of goodwill with its carrying amount, and then measures impaired loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Other intangibles are also assessed for impairment, both annually and when events or circumstances occur, that make it more likely than not that impairment has occurred. No impairment was indicated when the annual test was performed in December, 2019.

Overview

The First Bancshares, Inc. (the Company) was incorporated on June 23, 1995, and serves as a bank holding company for The First, A National Banking Association ("The First"), located in Hattiesburg, Mississippi. The First began operations on August 5, 1996, from its main office in the Oak Grove community, which is now incorporated within the city of Hattiesburg. Currently, the First has 78 locations in Mississippi, Alabama, Florida, Georgia and Louisiana. The Company and The First engage in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns, and individuals.

The Company's primary source of revenue is interest income and fees, which it earns by lending and investing the funds which are held on deposit. Because loans generally earn higher rates of interest than investments, the Company seeks to employ as much of its deposit funds as possible in the form of loans to individuals, businesses, and other organizations. To ensure sufficient liquidity, the Company also maintains a portion of its deposits in cash, government securities, deposits with other financial institutions, and overnight loans of excess reserves (known as "Federal Funds Sold") to correspondent banks. The revenue which the Company earns (prior to deducting its overhead expenses) is essentially a function of the amount of the Company's loans and deposits, as well as the profit margin ("interest spread") and fee income which can be generated on these amounts.

Highlights for the year ended December 31, 2019 include:

- On March 2, 2019, the Company closed its acquisition of FPB, parent company to Florida Parishes Bank, headquarter in Hammond, LA. The acquisition added 7 locations and expanded the First's footprint in the Gulf South and the greater New Orleans area. Systems integration was completed during the first quarter of 2019.

- On November 1, 2019, the Company closed its acquisition of FFB, parent company of First Florida Bank, headquartered in Destin, FL. The acquisition added 7 locations servicing the areas of Destin, Fort Walton, Crestview and Panama City, Florida. Systems integration was completed during the fourth quarter of 2019.

- On December 18, 2019, the Company announced the signing of an Agreement and Plan of Merger with Southwest Georgia Financial Corporation ("SWG"), parent company of Southwest Georgia Bank, headquartered in Moultrie, GA. Upon completion, the acquisition will add 8 full service offices servicing the areas of Moultrie, Valdosta, Albany and Tifton, Georgia. The closing of the transaction is expected to occur in the second quarter of 2020 and is subject to customary closing conditions, including regulatory approvals and approval by the shareholders of SWG.

- Operating net earnings increased 59.9%, or $18.0 million for the fiscal year ended December 31, 2019, totaling $48.0 million as compared to $30.0 million for the fiscal year ended December 31, 2018. Operating net earnings for fiscal year 2019 excludes merger-related costs of $4.9 million, net of tax, and income in the form of financial assistance grant from the U. S. Department of Treasury of $0.7 million, net of tax. Operating net earnings for fiscal year 2018 excludes merger-related costs of $10.6 million, net of tax, income in the form of financial assistance grant from the U. S. Department of Treasury of $1.6 million, net of tax, and income from the sale of securities of $0.3 million, net of tax. Operating net earnings increased 59.9% to $48.0 million for the fiscal year ended December 31, 2019 as compared to fiscal year ended December 31, 2018.

At December 31, 2019, the Company had approximately $3.942 billion in total assets, an increase of $937.9 million compared to $3.004 billion at December 31, 2018. Loans, net of the allowance for loan losses, increased to $2.597 billion at December 31, 2019 from $2.055 billion at December 31, 2018. Deposits increased to $3.077 billion at December 31, 2019 from $2.457 billion at December 31, 2018. Stockholders' equity increased to $543.7 million at December 31, 2019 from $363.3 million at December 31, 2018. The addition of Florida Parish Bank and First Florida Bank during 2019 contributed, at acquisition, $884.8 million, $492.0 million and $686.4 million in assets, loans, and deposits, respectively.

The First reported net income of $51.1 million, $26.9 million and $12.6 million for the years ended December 31, 2019, 2018, and 2017, respectively. For the years ended December 31, 2019, 2018 and 2017, the Company reported consolidated net income available to common stockholders of $43.7 million, $21.2 million and $10.6 million, respectively. The following discussion should be read in conjunction with the "Selected Consolidated Financial Data" and the Company's consolidated financial statements and the Notes thereto and the other financial data included elsewhere.

Results of Operations

The following is a summary of the results of operations for the years ended December 31, 2019, 2018, and 2017 ($ in thousands).

	2019	2018	2017
Interest income	$ 148,504	$ 99,967	$ 66,061
Interest expense	21,805	11,637	6,049
Net interest income	126,699	88,330	60,012
Provision for loan losses	3,738	2,120	506
Net interest income after provision for loan losses	122,961	86,210	59,506
Non-interest income	25,885	18,697	14,312
Non-interest expense	82,751	70,724	52,999
Income tax expense	14,992	7,288	8,177
Net income	$ 51,103	$ 26,895	$ 12,642

The following reconciles the above table to the amounts reflected in the consolidated financial statements of the Company at December 31, 2019, 2018, and 2017 ($ in thousands):

	2019	2018	2017
Net interest income:			
Net interest income of The First	$ 126,699	$ 88,330	$ 60,012
Intercompany eliminations	(4,893)	(3,443)	(852)
	$ 121,806	$ 84,887	$ 59,160
Net income available to common shareholders:			
Net income of The First	$ 51,103	$ 26,895	$ 12,642
Net loss of the Company	(7,358)	(5,670)	(2,026)
	$ 43,745	$ 21,225	$ 10,616

Consolidated Net Income

The Company reported consolidated net income available to common stockholders of $43.7 million for the year ended December 31, 2019, compared to a consolidated net income of $21.2 million for the year ended December 31, 2018. Operating net earnings increased $18.0 million or 59.9% from $30.0 million for the twelve months ended December 31, 2018 to $48.0 million for the same period ended December 31, 2019. Operating net earnings excludes merger-related costs of $4.9 million, net of tax, and financial assistance grants of $697 thousand, net of tax, for the year ended December 31, 2019, and merger-related costs of $10.6 million, net of tax, financial assistance grants of $1.6 million, net of tax, and gain on sale of securities of $256 thousand, net of tax, for the year ended December 31, 2018. Net interest income increased $36.9 million in year-over-year comparison, primarily due to interest income earned on a higher volume of loans and securities. Non-interest income was $26.9 million at December 31, 2019, an increase of $6.4 million in year-over-year comparison consisting of increases in service charges on deposit accounts, interchange fee income, mortgage income, as well as other charges and fees. Non-interest expense was $88.6 million at December 31, 2019, an increase of $12.3 million in year-over-year comparison, of which $4.3 million is related to the operations of Southwest, Sunshine, FMB, FPB and FFB. The remaining increase of $8.0 million in expenses are related to increases in salaries and employee benefits of $3.7 million and increases in other expenses of $4.3 million.

The Company reported consolidated net income available to common stockholders of $21.2 million for the year ended December 31, 2018, compared to a consolidated net income of $10.6 million for the year ended December 31, 2017. The increase in income was attributable to an increase in net interest income of $25.7 million or 43.5%, an increase in non-interest income of $6.2 million, or 43.2%, which was offset by an increase in non-interest expenses of $20.9 million or 37.6%. The increase in net interest income was primarily due to interest income earned on a higher volume of loans as well as increased interest rates. Purchase accounting adjustments accounted for only $2.1 million of the increase. Non-interest increased as a result of increases in service charges on deposit accounts of $2.2 million and interchange fee income of $1.5 million on the increased deposit base related to the acquisitions, as well as the receipt of the Financial Assistance and Bank Enterprise Awards in the amount of $2.1 million. The increase in non-interest expense can be attributed to increases in salaries and benefits of $5.9 million related to the acquisitions of Southwest, Sunshine, and FMB, along with increased acquisition charges of $7.1 million. Increases in occupancy, amortization of core deposit intangibles and other non-interest expense for the year-to-date period of 2018 were also attributable to the acquisitions.

See Note C – Business Combinations in the accompanying notes to the consolidated financial statements included elsewhere in this report for more information on how the Company accounts for business combinations.

Consolidated Net Interest Income

The largest component of net income for the Company is net interest income, which is the difference between the income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on the Company's interest-earning assets and the rates paid on its interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Consolidated net interest income was approximately $121.8 million for the year ended December 31, 2019, as compared to $84.9 million for the year ended December 31, 2018. This increase was the direct result of higher volume of loans and securities during 2019 as compared to 2018. Average interest-bearing liabilities for the year 2019 were $2.3 billion compared to $1.7 billion for the year 2018. At December 31, 2019, the fully tax equivalent ("FTE") net interest spread, which is the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.75% compared to 3.75% at December 31, 2018. Net interest margin, which is net interest income divided by average earning assets, was 4.02% for the year 2019 compared to 3.94% for the year 2018. At December 31, 2019, the FTE average yield on all earning assets increased 26 basis points to 4.89% compared to 4.63% at December 31, 2018. Rates paid on average interest-bearing liabilities increased to 1.14% for the year 2019 compared to 0.88% for the year 2018. Interest earned on assets and interest accrued on liabilities is significantly influenced by market factors, specifically interest rates as set by Federal agencies. Average loans comprised 76.5% of average earnings assets for the year 2019 compared to 77.0% the year 2018.

Consolidated net interest income was approximately $84.9 million for the year ended December 31, 2018, as compared to $59.2 million for the year ended December 31, 2017. This increase was the direct result of increased loan volumes during 2018 as compared to 2017, as well as increased interest rates. Average interest-bearing liabilities for the year ended December 31, 2018 were $1.7 billion compared to $1.2 billion for the year ended December 31, 2017. At December 31, 2018, the net interest spread was 3.75% compared to 3.72% at December 31, 2017. The net interest margin was 3.94% for the year 2018 compared to 3.83% for the year 2017. At December 31, 2018, the FTE average yield on all earning assets increased 36 basis points to 4.63% compared to 4.27% at December 31, 2017. Rates paid on average interest-bearing liabilities increased to 0.88% for the year 2018 compared to 0.55% for the year 2017. Average loans comprised 77.0% of average earnings assets for the year 2018 compared to 74.1% for the year 2017.

Average Balances, Income and Expenses, and Rates. The following tables depict, for the periods indicated, certain information related to the average balance sheet and average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

Average Balances, Income and Expenses, and Rates

	Years Ended December 31,								
	2019			2018			2017		
($ in thousands)	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate
Assets									
Earning Assets									
Loans (1)(2)	$ 2,341,202	$ 128,857	5.50%	$ 1,678,746	$ 86,822	5.17%	$ 1,168,882	$ 56,827	4.86%
Securities (4)	635,967	20,616	3.24%	442,722	13,521	3.05%	359,195	9,956	2.77%
Federal funds sold and interest bearing deposits with other banks (3)	84,171	264	0.31%	58,900	631	1.07%	50,049	553	1.10%
Total earning assets	3,061,340	149,737	4.89%	2,180,368	100,974	4.63%	1,578,126	67,336	4.27%
Other	401,614			248,289			185,277		
Total assets	$ 3,462,954			$ 2,428,657			$ 1,763,403		
Liabilities									
Interest-bearing liabilities	$ 2,344,755	$ 26,723	1.14%	$ 1,712,255	$ 15,091	0.88%	$ 1,247,823	$ 6,909	0.55%
Demand deposits (1)	327,805			254,118			318,339		
Other liabilities	331,693			182,525			26,404		
Stockholders' equity	458,701			279,759			170,837		
Total liabilities and stockholders' equity	$ 3,462,954			$ 2,428,657			$ 1,763,403		
Net interest spread			3.75%			3.75%			3.72%
Net yield on interest-earning assets		$ 123,014	4.02%		$ 85,883	3.94%		$ 60,427	3.83%

(1) All loans and deposits were made to borrowers or received from depositors in the United States. Includes nonaccrual loans of $38,835, $25,073, and $5,674 for the years ended December 31, 2019, 2018, and 2017, respectively. Loans include held for sale loans.
(2) Includes loan fees of $4,322, $3,603, and $1,333 for the years ended December 31, 2019, 2018, and 2017, respectively.
(3) Includes Excess Balance Account-Mississippi National Banker's Bank and Federal Reserve – New Orleans.
(4) Fully tax equivalent yield assuming a 25.3% tax rate.

Analysis of Changes in Net Interest Income. The following table presents the consolidated dollar amount of changes in interest income and interest expense attributable to changes in volume and to changes in rate. The combined effect in both volume and rate which cannot be separately identified has been allocated proportionately to the change due to volume and due to rate.

Analysis of Changes in Consolidated Net Interest Income

	Year Ended December 31, 2019 versus 2018 Increase (decrease) due to			Year Ended December 31, 2018 versus 2017 Increase (decrease) due to		
($ in thousands)	Volume	Rate	Net	Volume	Rate	Net
Earning Assets						
Loans	$ 34,294	$ 7,737	$ 42,031	$ 7,814	$ 22,181	$ 29,995
Securities (1)	5,894	1,208	7,102	2,320	1,245	3,565
Federal funds sold and interest bearing deposits with other banks	270	(640)	(370)	330	(252)	78
Total interest income	40,458	8,305	48,763	10,464	23,174	33,638
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	1,489	1,821	3,310	585	1,662	2,247
Money market accounts and savings	424	1,828	2,252	408	281	689
Time deposits	1,953	1,579	3,532	1,515	1,072	2,587
Borrowed funds	2,299	239	2,538	2,423	236	2,659
Total interest expense	6,165	5,467	11,632	4,931	3,251	8,182
Net interest income	$ 34,303	$ 2,828	$ 37,131	$ 5,533	$ 19,923	$ 25,456

(1) Fully tax equivalent yield assuming a 25.3% tax rate.

Interest Sensitivity. The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. A monitoring technique employed by the Company is the measurement of the Company's interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. The Company also performs asset/liability modeling to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. The Company evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and repricing, funding sources and pricing, and off-balance sheet commitments in order to decrease interest rate sensitivity risk.

The following tables illustrate the Company's consolidated interest rate sensitivity and consolidated cumulative gap position by maturity at December 31, 2019, 2018, and 2017 ($ in thousands).

	December 31, 2019				
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
Assets					
Earning Assets:					
Loans	$ 179,998	$ 272,741	$ 452,739	$ 2,158,429	$ 2,611,168
Securities (2)	9,125	25,282	34,407	757,370	791,777
Funds sold and other	-	79,128	79,128	-	79,128
Total earning assets	$ 189,123	$ 377,151	$ 566,274	$ 2,915,799	$ 3,482,073
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$ -	$ 941,597	$ 941,597	$ -	$ 941,517
Money market accounts	462,810	-	462,810	-	462,810
Savings deposits (1)	-	287,200	287,200	-	287,200
Time deposits	123,978	378,170	502,148	159,570	661,718
Total interest-bearing deposits	586,788	1,606,967	2,193,755	159,570	2,353,325
Borrowed funds (3)	207,965	1,000	208,965	5,354	214,319
Total interest-bearing liabilities	794,753	1,607,967	2,402,720	164,924	2,567,644
Interest-sensitivity gap per period	$ (605,630)	$ (1,230,816)	$ (1,836,446)	$ 2,750,875	$ 914,429
Cumulative gap at December 31, 2019	$ (605,630)	$ (1,836,466)	$ (1,836,446)	$ 914,429	$ 914,429
Ratio of cumulative gap to total earning assets at December 31, 2019	(17.4)%	(52.7)%	(52.7)%	26.3%	

	December 31, 2018				
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
Assets					
Earning Assets:					
Loans	$ 345,703	$ 175,228	$ 520,931	$ 1,544,329	$ 2,065,260
Securities (2)	18,627	19,616	38,243	476,685	514,928
Funds sold and other	-	87,751	87,751	-	87,751
Total earning assets	$ 364,330	$ 282,595	$ 646,925	$ 2,021,014	$ 2,667,939
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$ -	$ 835,433	$ 835,433	$ -	$ 835,433
Money market accounts	312,552	-	312,552	-	312,552
Savings deposits (1)	-	253,724	253,724	-	253,724
Time deposits	69,655	228,930	298,585	187,017	485,602
Total interest-bearing deposits	382,207	1,318,087	1,700,294	187,017	1,887,311
Borrowed funds (3)	75,000	10,500	85,500	-	85,500
Total interest-bearing liabilities	457,207	1,328,587	1,785,794	187,017	1,972,811
Interest-sensitivity gap per period	$ (92,877)	$ (1,045,992)	$ (1,138,869)	$ 1,833,997	$ 695,128
Cumulative gap at December 31, 2018	$ (92,877)	$ (1,138,869)	$ (1,138,869)	$ 695,128	$ 695,128
Ratio of cumulative gap to total earning assets at December 31, 2018	(3.5)%	(42.7)%	(42.7)%	26.1%	

	December 31, 2017				
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
Assets					
Earning Assets:					
Loans	$ 214,687	$ 119,492	$ 334,179	$ 895,917	$ 1,230,096
Securities (2)	24,716	17,823	42,539	330,323	372,862
Funds sold and other	475	48,466	48,941	-	48,941
Total earning assets	$ 239,878	$ 185,781	$ 425,659	$ 1,226,240	$ 1,651,899
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$ -	$ 601,694	$ 601,694	$ -	$ 601,694
Money market accounts	149,715	-	149,715	-	149,715
Savings deposits (1)	-	133,864	133,864	-	133,864
Time deposits	43,171	109,100	152,271	131,032	283,303
Total interest-bearing deposits	192,886	844,658	1,037,544	131,032	1,168,576
Borrowed funds (3)	75,000	18,572	93,572	10,500	104,072
Total interest-bearing liabilities	267,886	863,230	1,131,116	141,532	1,272,648
Interest-sensitivity gap per period	$ (28,008)	$ (677,449)	$ (705,457)	$ 1,084,708	$ 379,251
Cumulative gap at December 31, 2017	$ (28,008)	$ (705,457)	$ (705,457)	$ 379,251	$ 379,251
Ratio of cumulative gap to total earning assets at December 31, 2017	(1.7)%	(42.7)%	(42.7)%	23.0%	

(1) NOW and savings accounts are subject to immediate withdrawal and repricing. These deposits do not tend to immediately react to changes in interest rates and the Company believes these deposits are fairly stable. Therefore, these deposits are included in the repricing period that management believes most closely matches the periods in which they are likely to reprice rather than the period in which the funds can be withdrawn contractually.
(2) Securities include mortgage backed and other installment paying obligations based upon stated maturity dates.
(3) Does not include subordinated debentures of $80,678, $80,521, $10,310 for the years ended December 31, 2019, 2018, and 2017, respectively.

The Company generally would benefit from increasing market rates of interest when it has an asset-sensitive gap and generally from decreasing market rates of interest when it is liability sensitive. The Company currently is asset sensitive within the one-year time frame. However, the Company's gap analysis is not a precise indicator of its interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Accordingly, management believes a liability sensitive-position within one year would not be as indicative of the Company's true interest sensitivity as it would be for an organization which depends to a greater extent on purchased funds to support earning assets. Net interest income is also affected by other significant factors, including changes in the volume and mix of earning assets and interest-bearing liabilities.

The following tables depict, for the periods indicated, certain information related to interest rate sensitivity in net interest income and market value of equity.

December 31, 2019

Change in Interest Rates	Net Interest Income at Risk		Market Value of Equity	
	% Change from Base	Bank Policy Limit	% Change from Base	Bank Policy Limit
Up 400 bps	0.7%	-20.0%	21.3%	-40.0%
Up 300 bps	2.1%	-15.0%	19.9%	-30.0%
Up 200 bps	2.3%	-10.0%	16.3%	-20.0%
Up 100 bps	1.6%	-5.0%	9.8%	-10.0%
Down 100 bps	-3.0%	-5.0%	-6.4%	-10.0%
Down 200 bps	-5.1%	-10.0%	0.1%	-20.0%

December 31, 2018

Change in Interest Rates	Net Interest Income at Risk		Market Value of Equity	
	% Change from Base	Policy Limit	% Change from Base	Policy Limit
Up 400 bps	3.1%	-20.0%	19.0%	-40.0%
Up 300 bps	4.2%	-15.0%	17.9%	-30.0%
Up 200 bps	3.9%	-10.0%	14.6%	-20.0%
Up 100 bps	2.5%	-5.0%	8.8%	-10.0%
Down 100 bps	-4.8%	-5.0%	-13.7%	-10.0%
Down 200 bps	-9.6%	-10.0%	-20.8%	-20.0%

December 31, 2017

Change in Interest Rates	Net Interest Income at Risk		Market Value of Equity	
	% Change from Base	Policy Limit	% Change from Base	Policy Limit
Up 400 bps	7.7%	-20.0%	40.3%	-40.0%
Up 300 bps	7.7%	-15.0%	36.4%	-30.0%
Up 200 bps	6.3%	-10.0%	28.8%	-20.0%
Up 100 bps	3.8%	-5.0%	17.0%	-10.0%
Down 100 bps	-6.2%	-5.0%	-21.2%	-10.0%
Down 200 bps	-9.2%	-10.0%	-14.3%	-20.0%

Provision and Allowance for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance for loan losses is based upon a number of assumptions about future events which it believes to be reasonable, but which may not prove to be accurate. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

The Company's allowance consists of two parts. The first part is determined in accordance with authoritative guidance issued by the FASB regarding the allowance. The Company's determination of this part of the allowance is based upon quantitative and qualitative factors. The Company uses a loan loss history based upon the prior ten years to determine the appropriate allowance. Historical loss factors are calculated and allocated to loans by loan type. These historical loss factors are applied to the loans by loan type to determine an indicated allowance. The loss factors of peer groups are considered in the determination of the allowance and are used to assist in the establishment of a long-term loss history for areas in which this data is unavailable and incorporated into the qualitative factors to be considered. The historical loss factors may also be modified based upon other qualitative factors including but not limited to local and national economic conditions, trends of delinquent and problem loans, changes in lending policies and underwriting standards, concentrations, and management's knowledge of the loan portfolio. These factors require judgment on the part of management and are based upon state and national economic reports received from various institutions and agencies including the Federal Reserve Bank, United States Bureau of Economic Analysis, Bureau of Labor Statistics, meetings with the Company's loan officers and loan committees, and data and guidance received or obtained from the Company's regulatory authorities.

The second part of the allowance is determined in accordance with guidance issued by the FASB regarding impaired loans. Impaired loans are determined based upon ongoing review by senior management in the areas of Credit Administration and Portfolio Management. Impaired loans are loans for which the Bank does not expect to receive all contractually obligated repayment by the due date. A specific allowance is assigned to each loan determined to be impaired based upon the value of the loan's underlying collateral. Appraisals are used by management to determine the value of the collateral.

The sum of the two parts constitutes management's best estimate of an appropriate allowance for loan losses. When the estimated allowance is determined, it is presented to the Company's ALLL Committee and Audit Committee of the Board for review and approval on a quarterly basis.

Our allowance for loan loss model's quantitative methodology is focused on establishing a loss probability using the Bank's historical default and net charge off data. The quantitative portion of the loss estimation model also includes specific impairments individually reserved for credits that the Bank determines the ultimate repayment source will be liquidation of the subject collateral. The other qualitative component used in calculating a loss estimate takes into account other factors such as local and national economic factors, portfolio composition and collateral concentrations, asset quality, lending personnel knowledge and experience, as well as loan policy guidelines and their effect on underwriting standards. These trends are measured by analyzing the following variables:

Local Trends:
- Local Unemployment Rate
- Insurance Issues (Windpool Areas)
- Bankruptcy Rates (Increasing/Declining)
- Local Commercial R/E Vacancy Rates
- Established Market/New Market
- Hurricane Threat

National Trends:
- Gross Domestic Product (GDP)
- Home Sales
- Consumer Price Index (CPI)
- Interest Rate Environment (Increasing/Steady/Declining)
- Single Family Construction Starts
- Inflation Rate
- Retail Sales

Portfolio Trends:
- Second Mortgages
- Single Pay Loans
- Non-Recourse Loans
- Limited Guaranty Loans
- Loan to Value Exceptions
- Secured by Non-Owner Occupied Property
- Raw Land Loans
- Unsecured Loans

Measurable Bank Trends:
- Delinquency Trends
- Non-Accrual Trends
- Net Charge Offs
- Loan Volume Trends
- Non-Performing Assets
- Underwriting Standards/Lending Policies
- Experience/Depth of Bank Lending
- Management

The bank wide information and metrics, along with the local and national economic trends listed above, are all measured quarterly. Typically, this review is performed during the second month of every quarter to facilitate the release of economic data from the reporting agencies. As of December 31, 2019, Unemployment remained at record lows throughout the 4th quarter, but fears of rising inflation caused the Federal Reserve to continue with 2019's policy of raising key rates. This increase in market rates overall caused some stress in the financial sector, and was the reason to lower the grading on economic conditions, and thus increase that allocation factor. The Qualitative and Environmental ("Q&E") factor assigned to asset quality was also increased due to a 4th quarter rise in past dues compared to the previous three quarters in 2019. Easing of the regulatory burdens brought about in the past few years, as well as increased capital and lower CRE concentrations led to a decrease in those Q&E factors from previous quarters.

At December 31, 2019, the consolidated allowance for loan losses was approximately $13.9 million, or 0.53% of outstanding loans excluding loans held for sale. At December 31, 2018, the allowance for loan losses amounted to approximately $10.1 million, which was 0.49% of outstanding loans. The provision for loan losses is a charge to earnings to maintain the allowance for loan losses at a level consistent with management's assessment of the collectability of the loan portfolio in light of current economic conditions and market trends. The Company's provision for loan losses was $3.7 million for the year ended December 31, 2019, $2.1 million for the year ended December 31, 2018, and $506 thousand for the year ended December 31, 2017. The $1.6 million increase in 2019 was primarily related to our internal assessment of the credit quality of the loan portfolio which included additional impairments of certain loans. The overall allowance for loan losses results from consistent application of our loan loss reserve methodology as described above. At December 31, 2019, management believes the allowance is appropriate and has been derived from consistent application of our methodology. Should any of the factors considered by management in evaluating the appropriateness of the allowance for loan losses change, management's estimate of inherent losses in the portfolio could also change, which would affect the level of future provisions for loan losses.

With the adoption of CECL beginning on January 1, 2020, provision expense may become more volatile due to changes in CECL model assumption of credit quality, macroeconomics factors and conditions, and loan composition, which drive the allowance for credit losses balance.

NonPerforming Assets

A loan is reviewed for impairment when, based on all available information and events, it displays characteristics causing management to determine that the probability of collecting all principal, interest, and other related fees due according to the contractual terms of the loan agreement. Also at this time, the accrual of interest is discontinued. Along with these loans in non-accrual status, all loans determined by management to be labelled as "troubled debt restructure" based on regulatory guidance are reviewed for impairment. Loans that are identified as criticized or classified based on unsatisfactory repayment performance, or other evidence of deteriorating credit quality, are not reviewed until being placed in non-accrual status or when considered to be troubled debt restructure.

Once these loans are identified, they are analyzed to determine whether the ultimate repayment source will be liquidation of collateral or some future source of cash flow. If the only source of repayment will come from the liquidation of collateral, impairment worksheets are prepared to document the amount of impairment that exists. This method takes into account collateral exposure, as well as all expected expenses related to the disposal of the collateral. Specific allowances for these loans are then accounted for on a per loan basis.

The following tables illustrate the Company's past due and nonaccrual loans, including PCI loans, at December 31, 2019, 2018 and 2017 ($ in thousands).

	December 31, 2019		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Nonaccrual
Real Estate-construction	$ 468	$ 363	$ 1,483
Residential secured loans including multi-family and farmland	4,569	1,608	10,050
Real Estate-nonfarm nonresidential	1,979	683	24,803
Commercial	515	61	2,234
Installment and other	226	-	265
Total	$ 7,757	$ 2,715	$ 38,835

	December 31, 2018		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Nonaccrual
Real Estate-construction	$ 818	$ 114	$ 612
Residential secured loans including multi-family and farmland	5,528	650	8,586
Real Estate-nonfarm nonresidential	4,319	456	14,320
Commercial	1,650	-	1,377
Installment and other	507	45	178
Total	$ 12,822	$ 1,265	$ 25,073

	December 31, 2017		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Nonaccrual
Real Estate-construction	$ 192	$ 27	$ 92
Residential secured loans including multi-family and farmland	2,656	177	2,691
Real Estate-nonfarm nonresidential	1,487	82	1,724
Commercial	393	-	1,120
Installment and other	57	-	46
Total	$ 4,785	$ 286	$ 5,673

Total nonaccrual loans at December 31, 2019, were $38.8 million, an increase of $13.3 million compared to $25.1 million at December 31, 2018. The majority of the increase is related to two legacy relationships that were moved to nonaccrual status during 2019. Total nonaccrual loans at December 31, 2018 increased $19.4 million from $5.7 million at December 31, 2017. The majority of the increase was the result of loans acquired from First Community Bank, Sunshine and FMB. Management believes these relationships were adequately reserved at December 31, 2019. Restructured loans not reported as past due or nonaccrual at December 31, 2019 totaled $79.7 million. See Note E – Loans in the accompanying notes to the consolidated financial statements included elsewhere in this report for a description of restructured loans.

A potential problem loan is one in which management has serious doubts about the borrower's future performance under the terms of the loan contract and does not include the category of special mention. These loans are current as to principal and interest and, accordingly, they are not included in nonperforming asset categories. The level of potential problem loans is one factor used in the determination of the adequacy of the allowance for loan losses. At December 31, 2019, 2018 and December 31, 2017, The First had potential problem loans of $67.9 million, $55.2 million and $36.9 million, respectively. The increase of $12.7 million during 2019 was largely attributable to one legacy relationship and certain loans acquired in the FPB and FFB transactions that were identified as classified or criticized based on repayment performance or credit quality.

Summary of Loan Loss Experience

Consolidated Allowance For Loan Losses

($ in thousands)	Years Ended December 31, 2019	2018	2017	2016	2015
Average loans outstanding	$ 2,341,202	$ 1,678,746	$ 1,168,882	$ 820,881	$ 730,326
Loans outstanding at year end	$ 2,611,168	$ 2,065,260	$ 1,230,096	$ 872,934	$ 776,489
Total nonaccrual loans	$ 38,835	$ 25,073	$ 5,673	$ 3,264	$ 7,368
Beginning balance of allowance	$ 10,065	$ 8,288	$ 7,510	$ 6,747	$ 6,095
Prior period reclassification – Mortgage Reserve Funding	-	(181)	-	-	-
Beginning balance of allowance restated	10,065	8,107	7,510	6,747	6,095
Loans charged-off	(664)	(581)	(405)	(771)	(843)
Total recoveries	769	419	677	909	1,085
Net loans (charged-off) recoveries	105	(162)	272	138	242
Provision for loan losses	3,738	2,120	506	625	410
Balance at year end	$ 13,908	$ 10,065	$ 8,288	$ 7,510	$ 6,747
Net charge-offs (recoveries) to average loans	(0.004)%	0.01%	(0.02)%	(0.02)%	(0.03)%
Allowance as percent of total loans	0.53%	0.49%	0.67%	0.86%	0.87%
Nonperforming loans as a percentage of total loans	1.47%	1.06%	0.46%	0.37%	0.95%
Allowance as a multiple of non-accrual loans	0.36X	0.46X	1.5X	2.3X	0.92X

At December 31, 2019, the components of the allowance for loan losses consisted of the following ($ in thousands):

	Allowance
Allocated:	
Impaired loans	$ 4,424
Loans collectively evaluated	9,484
	$ 13,908

Loan collectively evaluated are those loans or pools of loans assigned a grade by internal loan review.

The following table represents the activity of the allowance for loan losses for the years 2019, 2018, 2017, 2016, and 2015 ($ in thousands).

Analysis of the Allowance for Loan Losses

	Years Ended December 31, 2019	2018	2017	2016	2015
Balance at beginning of year	$ 10,065	$ 8,288	$ 7,510	$ 6,747	$ 6,095
Prior period reclassification - Mortgage Reserve Funding	-	(181)	-	-	-
Balance at beginning of year restated	10,065	8,107	7,510	6,747	6,095
Charge-offs:					
Real Estate-construction	-	(52)	(143)	(274)	(162)
Residential secured loans including multi-family and farmland	(163)	(7)	(119)	(353)	(372)
Real Estate-nonfarm nonresidential	(54)	(170)	(-)	(-)	(-)
Commercial	(141)	(265)	(62)	(71)	(183)
Installment and other	(306)	(87)	(81)	(73)	(126)
Total	(664)	(581)	(405)	(771)	(843)
Recoveries:					
Real Estate-construction	129	34	280	229	63
Residential secured loans including multi-family and farmland	240	183	228	519	827
Real Estate-nonfarm nonresidential	13	10	14	7	15
Commercial	85	44	50	84	99
Installment and other	302	148	105	70	81
Total	769	419	677	909	1,085
Net (Charge-offs) Recoveries	105	(162)	272	138	242
Provision for Loan Losses	3,738	2,120	506	625	410
Balance at end of year	$ 13,908	$ 10,065	$ 8,288	$ 7,510	$ 6,747

The following tables represents how the allowance for loan losses is allocated to a particular loan type as well as the percentage of the category to total loans at December 31, 2019, 2018 and 2017 ($ in thousands).

Allocation of the Allowance for Loan Losses

	December 31, 2019	
	Amount	% of loans in each category to total loans
Commercial, financial and agriculture	$ 3,043	13.1%
Commercial real estate	8,836	65.5%
Consumer real estate	1,694	19.8%
Installment and other	296	1.6%
Unallocated	39	-
Total	$ 13,908	100%

	December 31, 2018	
	Amount	% of loans in each category to total loans
Commercial, financial and agriculture	$ 2,060	14.8%
Commercial real estate	6,258	64.6%
Consumer real estate	1,743	18.9%
Installment and other	201	1.7%
Unallocated	(197)	-
Total	$ 10,065	100%

	December 31, 2017	
	Amount	% of loans in each category to total loans
Commercial, financial and agriculture	$ 1,608	14.0%
Commercial real estate	4,644	64.8%
Consumer real estate	1,499	18.9%
Installment and other	173	2.3%
Unallocated	364	-
Total	$ 8,288	100%

Non-interest Income

The Company's primary sources of non-interest income are mortgage banking operations and service charges on deposit accounts. Other sources of non-interest income include bankcard fees, commissions on check sales, safe deposit box rent, wire transfer fees, official check fees and bank owned life insurance income.

Non-interest income was $26.9 million at December 31, 2019, an increase of $6.4 million or 31.1% compared to December 31, 2018, primarily consisting of increases in service charges on deposit accounts of $2.0 million, interchange fee income of $2.8 million on the increased deposit base related to the acquisitions, as well as mortgage income and other charges and fees. Non-interest income increased $6.2 million or 43.2% for the year ended December 31, 2018 compared to $14.4 million for the year ended December 31, 2017. Deposit activity fees were $15.9 million for 2019 compared to $11.0 million for 2018 and $7.4 million for 2017. Other service charges increased by $51 thousand or 5.1% for the year ended 2019 to $1.0 million from $996 thousand for the year ended December 31, 2018 and other service charges increased $372 thousand or 59.7% for the year ended December 31, 2018, compared to $624 thousand for the year ended December 31, 2017.

Non-interest Expense

Non-interest expense was $88.6 million at December 31, 2019, an increase of $12.3 million in year-over-year comparison, of which $4.3 million is related to the operations of Southwest, Sunshine, FMB, FPB and FFB. The remaining increase of $8.0 million in expenses are related to increases in salaries and employee benefits of $3.7 million and increases in other expenses of $4.3 million.

Non-interest expense was $76.3 million at December 31, 2018, an increase of $20.9 million in year-over-year comparison primarily resulting from increases in salaries and benefits of $5.9 million related to the acquisitions of Southwest, Sunshine and FMB, and increased acquisition charges of $7.1 million. Increases in occupancy, amortization of core deposit intangibles and other non-interest expense for the year-to-date period of 2018 were also attributable to the acquisitions.

The following table sets forth the primary components of non-interest expense for the periods indicated ($ in thousands):

Non-interest Expense

	Years ended December 31,		
	2019	2018	2017
Salaries and employee benefits	$ 47,675	$ 38,302	$ 30,548
Occupancy	8,775	6,818	4,828
Furniture and equipment	1,838	1,575	1,225
Supplies and printing	890	846	640
Professional and consulting fees	6,449	5,381	6,757
Marketing and public relations	859	508	406
Deposit and other insurance	632	1,382	1,252
ATM expense	2,821	3,241	1,188
Bank communications	1,367	2,014	1,296
Data processing	1,285	6,931	1,039
Postage	933	751	546
Other	15,045	8,562	5,721
Total	$ 88,569	$ 76,311	$ 55,446

Income Tax Expense

Income tax expense consists of two components. The first is the current tax expense which represents the expected income tax to be paid to taxing authorities. The Company also recognizes deferred tax for future income/deductible amounts resulting from differences in the financial statement and tax bases of assets and liabilities. Income tax expense was $12.7 million at December 31, 2019, $5.8 million at December 31, 2018 and $7.0 million at December 31, 2017. As a result of the Tax Act, in 2017 we revalued our deferred tax assets and recorded an additional income tax expense of $2.1 million due to the statutory federal income tax for corporate entities decreasing from 35% to 21% for 2018 and future periods. The Company's effective income tax rate was 22.5%, 21.4% and 39.6% for the years ended December 31, 2019, 2018 and 2017, respectively. The effective tax rate differs each year primarily due to our investments in bank-qualified municipal securities, bank-owed life insurance, and certain merger related expenses. The reduction in the Company's effective rate for 2018 compared to 2017 was primarily due to the reduction in the federal statutory corporate tax rate following enactment of the Tax Act. Income taxes are discussed more fully under Note K – "Income Tax" of this report.

Analysis of Financial Condition

Earning Assets

Loans. Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At December 31, 2019, 2018 and 2017, respectively, average loans accounted for 76.5%, 77.0% and 74.1% of average earning assets. Management attempts to control and counterbalance the inherent credit and liquidity risks associated with the higher loan yields without sacrificing asset quality to achieve its asset mix goals. Loans averaged $2.341 billion during 2019 and $1.679 billion during 2018, as compared to $1.169 billion during 2017.

The following table shows the composition of the loan portfolio by category ($ in thousands):

Composition of Loan Portfolio

	December 31,					
	2019		2018		2017	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Mortgage loans held for sale	$ 10,810	0.4%	$ 4,838	0.3%	$ 4,790	0.3%
Commercial, financial and agricultural	332,600	12.7%	301,182	14.6%	165,780	13.5%
Real Estate:						
Mortgage-commercial	1,028,012	39.4%	776,880	37.6%	467,484	38.0%
Mortgage-residential	814,282	31.2%	617,804	29.9%	385,099	31.3%
Construction	359,195	13.8%	298,718	14.5%	183,328	14.9%
Lease Financing Receivable	3,095	0.1%	2,891	0.1%	2,450	0.2%
Obligations of states and subdivisions	20,716	0.8%	16,941	0.8%	3,109	0.3%
Installment and other	42,458	1.6%	46,006	2.2%	18,056	1.5%
Total loans	2,611,168	100%	2,065,260	100%	1,230,096	100%
Allowance for loan losses	(13,908)		(10,065)		(8,288)	
Net loans	$ 2,597,260		$ 2,055,195		$ 1,221,808	

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. The Company follows the common practice of financial institutions in the Company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes it will reduce the risk elements of its loan portfolio through strategies that diversify the lending mix.

Loans held for sale consist of mortgage loans originated by the Bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

The following table sets forth the Company's commercial and construction real estate loans maturing within specified intervals at December 31, 2019 ($ in thousands).

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

Type	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Commercial, financial and agricultural	$ 78,820	$ 160,439	$ 93,341	$ 332,600
Real estate – construction	157,215	134,774	67,206	$ 359,195
Total	$ 236,035	$ 295,213	$ 160,547	$ 691,795
Loans maturing after one year with:				
Fixed interest rates				$ 338,570
Floating interest rates				117,190
				$ 455,760

The information presented in the above table is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity.

Investment Securities. The investment securities portfolio is a significant component of the Company's total earning assets. Total securities averaged $636.0 million in 2019, as compared to $442.7 million in 2018, and $359.2 million in 2017. This represents 20.8%, 20.3%, and 22.8% of the average earning assets for the years ended December 31, 2019, 2018 and 2017, respectively. At December 31, 2019, investment securities, including equity securities, were $791.8 million and represented 21.4% of earning assets. The Company attempts to maintain a portfolio of high quality, highly liquid investments with returns competitive with short-term U.S. Treasury or agency obligations. This objective is particularly important as the Company focuses on growing its loan portfolio. The Company primarily invests in securities of U.S. Government agencies, municipals, and corporate obligations with maturities up to ten years.

The following table summarizes the carrying value of securities for the dates indicated ($ in thousands).

Securities Portfolio

	December 31, 2019	2018	2017
Available-for-sale			
U.S. Treasury	$ 4,894	$ -	$ -
U. S. Government agencies and Mortgage-backed Securities	473,265	334,812	201,570
States and municipal subdivisions	258,982	150,064	138,584
Corporate obligations	27,946	7,348	15,819
Mutual funds	-	-	920
Total available-for-sale	765,087	492,224	356,893
Held-to-maturity			
U.S. Government agencies			-
States and municipal subdivisions	-	6,000	6,000
Total held-to-maturity	-	6,000	6,000
Total	$ 765,087	$ 498,224	$ 362,893

The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2019 ($ in thousands).

Investment Securities Maturity Distribution and Yields (1)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-sale:								
U.S. Treasury	$ -	-	$ -	-	$ 4,894	1.6%	$ -	-
U.S. Government agencies (2)	5,992	3.0%	17,651	3.0%	51,920	2.9%	2,387	3.0%
States and municipal subdivisions	19,331	3.0%	51,477	3.0%	80,986	3.2%	107,188	3.0%
Corporate obligations and other	4,981	2.2%	12,244	2.1%	10,285	2.3%	436	4.0%
Total investment securities available-for-sale	$ 30,304		$ 81,372		$ 148,085		$ 110,011	

(1) Investments with a call feature are shown as of the contractual maturity date.
(2) Excludes mortgage-backed securities totaling $395.3 million with a yield of 3.0%.

Short-Term Investments. Short-term investments, consisting of Federal Funds Sold, funds due from banks and interest-bearing deposits with banks, averaged $84.2 million in 2019, $58.9 million in 2018, and $50.0 million in 2017. At December 31, 2019, 2018, and 2017, federal funds sold totaled $0, $0 and $475 thousand, respectively. These funds are a primary source of the Company's liquidity and are generally invested in an earning capacity on an overnight basis.

Deposits

Deposits. Average total deposits at December 31, 2019 were $2.804 billion, an increase of $743 million, or 36.1% compared to 2018. Average total deposits at December 31, 2018 were $2.061 billion, an increase of $567.0 million, or 37.9% compared to $1.494 billion in 2017. At December 31, 2019, total deposits were $3.077 billion, compared to $2.457 billion at December 31, 2018, an increase of $619 million, or 25.2%, and $1.471 billion at December 31, 2017. Deposits of $686.4 million were acquired in 2019 with the acquisitions of Florida Parishes Bank and First Florida Bank. Deposits of $889.2 million were acquired in 2018 with the acquisitions of Southwest, Sunshine and FMB.

The following table sets forth the deposits of the Company by category for the period indicated ($ in thousand).

Deposits

	December 31,					
	2019		2018		2017	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Non-interest-bearing accounts	$ 723,208	23.5%	$ 570,148	23.2%	$ 301,989	20.5%
NOW accounts	941,598	30.6%	835,434	34.0%	601,694	40.9%
Money market accounts	462,810	15.1%	312,552	12.7%	149,715	10.2%
Savings accounts	287,200	9.3%	253,724	10.3%	133,864	9.1%
Time deposits less than $100,000	235,367	7.6%	194,006	7.9%	104,648	7.1%
Time deposits of $100,000 or over	426,350	13.9%	291,595	11.9%	178,655	12.2%
Total deposits	$ 3,076,533	100%	$ 2,457,459	100%	$ 1,470,565	100%

The Company's loan-to-deposit ratio was 84.5% at December 31, 2019, 83.8% at December 31, 2018 and 83.3% at December 31, 2017. The loan-to-deposit ratio averaged 83.5% during 2019. Core deposits, which exclude time deposits of $100,000 or more, provide a relatively stable funding source for the Company's loan portfolio and other earning assets. The Company's core deposits were $2.650 billion at December 31, 2019, $2.166 billion at December 31, 2018, and $1.292 billion at December 31, 2017. Management anticipates that a stable base of deposits will be the Company's primary source of funding to meet both its short-term and long-term liquidity needs in the future. The Company has purchased brokered deposits from time to time to help fund loan growth. Brokered deposits and jumbo certificates of deposit generally carry a higher interest rate than traditional core deposits. Further, brokered deposit customers typically do not have loan or other relationships with the Company. The Company has adopted a policy not to permit brokered deposits to represent more than 10% of all of the Company's deposits.

Maturities of Certificates of Deposit
of $100,000 or More

($ in thousands)	Within Three Months	After Three Through Twelve Months	After Twelve Months	Total
December 31, 2019	$ 75,808	$ 249,234	$ 101,308	$ 426,350

Borrowed Funds

Borrowed funds consist of advances from the Federal Home Loan Bank of Dallas ("FHLB"), loans from First Horizon Bank, federal funds purchased and reverse repurchase agreements. At December 31, 2019, advances from the FHLB totaled $206.3 million compared to $85.5 million at December 31, 2018 and $88.1 million at December 31, 2017. The advances are collateralized by a blanket lien on the first mortgage loans in the amount of the outstanding borrowings, FHLB capital stock, and amounts on deposit with the FHLB. There were $2.7 million, $0 and $0 federal funds purchased at December 31, 2019, 2018, and 2017, respectively. As part of the FFB acquisition, the Company assumed two loans in the amount of $3.5 million and $2.0 million with First Horizon Bank. Principal and interest is payable quarterly at rates ranging from 3.80% - 4.10%.

Subordinated Debentures

In 2006, the Company issued subordinated debentures of $4.1 million to The First Bancshares, Inc. Statutory Trust 2 ("Trust 2"). The Company is the sole owner of the equity of the Trust 2. The Trust 2 issued $4.0 million of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 2. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2011 and thereafter, and mature in 2036. The Company entered into this arrangement to provide funding for expected growth.

In 2007, the Company issued subordinated debentures of $6.2 million to The First Bancshares, Inc. Statutory Trust 3 ("Trust 3"). The Company is the sole owner of the equity of the Trust 3. The Trust 3 issued $6.0 million of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 3. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2012 and thereafter, and mature in 2037. The Company entered into this arrangement to provide funding for expected growth.

In 2018, the Company acquired FMB Capital Trust 1 ("Trust 1") as part of its acquisition of FMB Banking Corporation. The Company is the sole owner of the equity of Trust 1. The Trust 1 issued $6.0 million of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 1. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2008 and thereafter, and mature in 2033.

Subordinated Notes

On April 30, 2018, The Company entered into two Subordinated Note Purchase Agreements pursuant to which the Company sold and issued $24.0 million in aggregate principal amount of 5.875% fixed-to-floating rate subordinated notes due 2028 and $42.0 million in aggregate principal amount of 6.40% fixed-to-floating rate subordinated notes due 2033 (collectively, the "Notes").

The Notes are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is pari passu in right to payment with respect to the other Notes. The Company entered into this arrangement to provide funding for expected growth.

Capital

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% for U.S government and agency securities, to 600% for certain equity exposures. In November 2019, the federal banking agencies adopted a rule revising the scope of commercial real estate mortgages subject to a 150% risk weight. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common stockholders' equity, excluding the unrealized gain (loss) on available-for-sale securities, minus certain intangible assets. Tier 2 capital consists of the general reserve for loan losses, subject to certain limitations. An institution's total risk-based capital for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The risk-based regulatory minimum requirements are 6% for Tier 1 and 8% for total risk-based capital.

Bank holding companies and banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 4%. All but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. The Company and The First exceeded their minimum regulatory capital ratios as of December 31, 2019, 2018 and 2017.

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July 2013, that substantially amended the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as "Basel III") as well as requirements contemplated by the Dodd-Frank Act.

Under the Basel III capital rules, the Company is required to meet certain minimum capital requirements that differ from past capital requirements. The rules implement a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income ("AOCI"), however, the Company exercised a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2015. The Company is required to establish a "conservation buffer," consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets effective January 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The prompt corrective action rules have been modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Company to be considered well-capitalized under the rules include a 5.0% leverage ratio, a 7.0% common equity Tier 1capital ratio, an 8.5% Tier 1 capital ratio, and a 10.5% total capital ratio.

The rules modify the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are non-accrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

The Company was required to comply with the new capital rules on January 1, 2015, with a measurement date of March 31, 2015. The conservation buffer was phased-in beginning in 2016, and took full effect on January 1, 2019. Certain calculations under the rules will also have phase-in periods.

Analysis of Capital

			The Company			The First		
	Adequately	Well	December 31,			December 31,		
Capital Ratios	Capitalized	Capitalized	2019	2018	2017	2019	2018	2017
Leverage	4.0%	5.0%	10.3%	10.2%	11.7%	11.8%	12.2%	11.4%
Risk-based capital:								
Common equity Tier 1	4.5%	6.5%	12.5%	11.5%	14.2%	15.1%	14.8%	14.5%
Tier 1	6.0%	8.0%	13.0%	12.2%	14.9%	15.1%	14.8%	14.5%
Total	8.0%	10.0%	15.8%	15.6%	15.5%	15.6%	15.2%	15.1%

Ratios

	2019	2018	2017
Return on assets (net income available to common stockholders divided by average total assets)	1.26%	0.87%	0.60%
Return on equity (net income available to common stockholders divided by average equity)	9.5%	7.6%	6.2%
Dividend payout ratio (dividends per share divided by net income per common share)	12.2%	12.3%	13.5%
Equity to asset ratio (average equity divided by average total assets)	13.3%	11.5%	9.7%

Liquidity and Capital Resources

Liquidity management involves monitoring the Company's sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made; however, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Asset liquidity is provided by cash and assets which are readily marketable, which can be pledged, or which will mature in the near future. Liability liquidity is provided by access to core funding sources, principally the ability to generate customer deposits in the Company's market area.

The Company's federal funds sold position, which includes funds due from banks and interest-bearing deposits with banks, is typically its primary source of liquidity. Federal funds sold averaged $84.2 million during the year ended December 31, 2019 and averaged $58.9 million at December 31, 2018. In addition, the Company has available advances from the FHLB. Advances available are generally based upon the amount of qualified first mortgage loans which can be used for collateral. At December 31, 2019, advances available totaled approximately $963.3 million, of which $211.4 million had been drawn, or used for letters of credit.

As of December 31, 2019, the market value of unpledged debt securities plus pledged securities in excess of current pledging requirements comprised $348.3 million of the Company's investment balances, compared to $110.8 million at December 31, 2018. The increase in unpledged debt from December 2019 compared to December 2018 is primarily due to an increase in acquired deposits. Other forms of balance sheet liquidity include but are not necessarily limited to any outstanding federal funds sold and vault cash. Management believes that available investments and other potentially liquid assets, along with the standby funding sources it has arranged, are more than sufficient to meet the Company's current and anticipated short-term liquidity needs.

The Company's liquidity ratio as of December 31, 2019 was 17.1%, as compared to internal liquidity policy guidelines of 10% minimum. Other liquidity ratios reviewed include the following along with policy guidelines for the periods indicated:

	December 31, 2019	Policy Maximum	
Loans to Deposits (including FHLB advances)	79.2%	90.0%	In Policy
Net Non-core Funding Dependency Ratio	8.9%	20.0%	In Policy
Fed Funds Purchased / Total Assets	0.1%	10.0%	In Policy
FHLB Advances / Total Assets	5.2%	20.0%	In Policy
FRB Advances / Total Assets	0.0%	10.0%	In Policy
Pledged Securities to Total Securities	56.5%	90.0%	In Policy

	December 31, 2018	Policy Maximum	
Loans to Deposits (including FHLB advances)	80.5%	90.0%	In Policy
Net Non-core Funding Dependency Ratio	3.8%	20.0%	In Policy
Fed Funds Purchased / Total Assets	0.0%	10.0%	In Policy
FHLB Advances / Total Assets	2.9%	20.0%	In Policy
FRB Advances / Total Assets	0.0%	10.0%	In Policy
Pledged Securities to Total Securities	77.8%	90.0%	In Policy

	December 31, 2017	Policy Maximum	
Loans to Deposits (including FHLB advances)	71.1%	90.0%	In Policy
Net Non-core Funding Dependency Ratio	5.8%	30.0%	In Policy
Fed Funds Purchased / Total Assets	0.0%	10.0%	In Policy
FHLB Advances / Total Assets	4.9%	20.0%	In Policy
FRB Advances / Total Assets	0.0%	10.0%	In Policy
Pledged Securities to Total Securities	77.6%	90.0%	In Policy

Continued growth in core deposits and relatively high levels of potentially liquid investments have had a positive impact on our liquidity position in recent periods, but no assurance can be provided that our liquidity will continue at current robust levels.

The holding company's primary uses of funds are ordinary operating expenses and stockholder dividends, and its primary source of funds is dividends from the Bank since the holding company does not conduct regular banking operations. Management anticipates that the Bank will have sufficient earnings to provide dividends to the holding company to meet its funding requirements for the foreseeable future.

Management regularly reviews the liquidity position of the Company and has implemented internal policies which establish guidelines for sources of asset-based liquidity and limit the total amount of purchased funds used to support the balance sheet and funding from non-core sources.

On March 28, 2019, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to an aggregate of $20 million of the Company's common stock (the "March 2019 program"). This share repurchase program has an expiration date of December 31, 2019. Under the March 2019 program, the Company may repurchase shares of its common stock periodically in a manner determined by the Company's management. The actual means and timing of purchase, target number of shares and maximum price or range of prices under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock, general market and economic conditions, and applicable legal and regulatory requirements. The Company repurchased 168,188 shares under the March 2019 program in 2019.

Commitments and Contractual Obligations

The following table presents, as of December 31, 2019, fixed and determinable contractual obligations to third parties by payment date. Amounts in the table do not include accrued or accruing interest. Payments related to leases are based on actual payments specified in the underlying contracts. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements included elsewhere in this Form 10-K.

($ in thousands)	Note Reference	Within One Year	After One But Within Three Years	After Three But Within Five Years	After Five Years	Total
Deposits without a stated maturity	G	$ 2,414,816	$ -	$ -	$ -	$ 2,414,816
Time deposits	G	502,148	130,481	28,976	113	661,718
Borrowings	H	208,965			5,354	214,319
Lease obligations	I	1,643	2,886	1,475	981	6,985
Trust preferred subordinated debentures	N	-	-	-	15,742	15,742
Subordinated note purchase agreement	N	-	-	-	64,936	64,936
Total Contractual obligations		$ 3,127,572	$ 133,367	$ 30,451	$ 87,126	$ 3,378,516

Subprime Assets

The Bank does not engage in subprime lending activities targeted towards borrowers in high risk categories.

Accounting Matters

Information on new accounting matters is set forth in Note B – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report. This information is incorporated herein by reference.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the Company are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Company's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company does not engage in the trading of financial instruments, nor does it have exposure to currency exchange rates. Our market risk exposure is primarily that of interest rate risk, and we have established policies and procedures to monitor and limit our earnings and balance sheet exposure to changes in interest rates. The principal objective of interest rate risk management is to manage the financial components of the Company’s balance sheet in a manner that will optimize the risk/reward equation for earnings and capital under a variety of interest rate scenarios.

To identify areas of potential exposure to interest rate changes, we utilize commercially available modeling software to perform earnings simulations and calculate the Company’s market value of portfolio equity under varying interest rate scenarios every month. The model imports relevant information for the Company’s financial instruments and incorporates Management’s assumptions on pricing, duration, and optionality for anticipated new volumes. Various rate scenarios consisting of key rate and yield curve projections are then applied in order to calculate the expected effect of a given interest rate change on interest income, interest expense, and the value of the Company’s financial instruments. The rate projections can be shocked (an immediate and parallel change in all base rates, up or down), ramped (an incremental increase or decrease in rates over a specified time period), economic (based on current trends and econometric models) or stable (unchanged from current actual levels).

We use seven standard interest rate scenarios in conducting our 12-month net interest income simulations: "static," upward shocks of 100, 200, 300 and 400 basis points, and downward shocks of 100, and 200 basis points. Pursuant to policy guidelines, we typically attempt to limit the projected decline in net interest income relative to the stable rate scenario to no more than 5% for a 100 basis point (bp) interest rate shock, 10% for a 200 bp shock, 15% for a 300 bp shock, and 20% for a 400 bp shock. As of December 31, 2019, the Company had the following estimated net interest income, without factoring in any potential negative impact on spreads resulting from competitive pressures or credit quality deterioration:

December 31, 2019	Net Interest Income at Risk – Year 1						
($ in thousands)	-200 bp	-100 bp	STATIC	+100 bp	+200 bp	+300 bp	+400 bp
Net Interest Income	120,507	123,188	127,027	128,989	129,919	129,723	127,934
Dollar Change	-6,520	-3,839		1,962	2,892	2,696	907
NII @ Year 1	-5.1%	-3.0%		1.6%	2.3%	2.1%	0.7%

If there were an immediate and sustained downward adjustment of 200 basis points in interest rates, all else being equal, net interest income over the next twelve months would likely be approximately $6.5 million lower than in a stable interest rate scenario, for a negative variance of 5.1%. The unfavorable variance increases if rates were to drop below 200 basis points, due to the fact that certain deposit rates are already relatively low (on NOW accounts and savings accounts, for example), and will hit a natural floor of close to zero while non-floored variable-rate loan yields continue to drop. This effect is exacerbated by accelerated prepayments on fixed-rate loans and mortgage-backed securities when rates decline, although rate floors on some of our variable-rate loans partially offset other negative pressures. While we view further interest rate reductions as highly unlikely, the potential percentage drop in net interest income exceeds our internal policy guidelines in declining interest rate scenarios and we will continue to monitor our interest rate risk profile and take corrective action as deemed appropriate.

Net interest income would likely increase by $2.9 million, or 2.3%, if interest rates were to increase by 200 basis points relative to a stable interest rate scenario, with the favorable variance expanding the higher interest rates rise. The initial increase in rising rate scenarios will be limited to some extent by the fact that some of our variable-rate loans are currently at rate floors, resulting in a re-pricing lag while base rates are increasing to floored levels, but we believe the Company still would benefit from a material upward shift in the yield curve.

The Company's one year cumulative GAP ratio was approximately 151.9% at December 31, 2019, 191.6% at December 31, 2018 and 221.8% at December 31, 2017. The Company is considered "asset-sensitive" which means that there are more assets repricing than liabilities within the first year.

In addition to the net interest income simulations shown above, we run stress scenarios modeling the possibility of no balance sheet growth, the potential runoff of "surge" core deposits which flowed into the Company in the most recent economic cycle, and potential unfavorable movement in deposit rates relative to yields on earning assets. Even though net interest income will naturally be lower with no balance sheet growth, the rate-driven variances projected for net interest income in a static growth environment are similar to the changes noted above for our standard projections. When a greater level of non-maturity deposit runoff is assumed or unfavorable deposit rate changes are factored into the model, projected net interest income in declining rate and flat rate scenarios does not change materially relative to standard growth projections. However, the benefit we would otherwise experience in rising rate scenarios is minimized and net interest income remains relatively flat.

The economic value (or "fair value") of financial instruments on the Company's balance sheet will also vary under the interest rate scenarios previously discussed. The difference between the projected fair value of the Company's financial assets and the fair value of its financial liabilities is referred to as the economic value of equity ("EVE"), and changes in EVE under different interest rate scenarios are effectively a gauge of the Company's longer-term exposure to interest rate risk. Fair values for financial instruments are estimated by discounting projected cash flows (principal and interest) at projected replacement interest rates for each account type, while the fair value of non-financial accounts is assumed to equal their book value for all rate scenarios. An economic value simulation is a static measure utilizing balance sheet accounts at a given point in time, and the measurement can change substantially over time as the characteristics of the Company's balance sheet evolve and interest rate and yield curve assumptions are updated.

The change in economic value under different interest rate scenarios depends on the characteristics of each class of financial instrument, including stated interest rates or spreads relative to current or projected market-level interest rates or spreads, the likelihood of principal prepayments, whether contractual interest rates are fixed or floating, and the average remaining time to maturity. As a general rule, fixed-rate financial assets become more valuable in declining rate scenarios and less valuable in rising rate scenarios, while fixed-rate financial liabilities gain in value as interest rates rise and lose value as interest rates decline. The longer the duration of the financial instrument, the greater the impact a rate change will have on its value. In our economic value simulations, estimated prepayments are factored in for financial instruments with stated maturity dates, and decay rates for non-maturity deposits are projected based on historical patterns and Management's best estimates. The table below shows estimated changes in the Company's EVE as of the periods indicated under different interest rate scenarios relative to a base case of current interest rates:

	December 31, 2019 - Balance Sheet Shock						
($ in thousands)	-200 bp	-100 bp	STATIC (Base)	+100 bp	+200 bp	+300 bp	+400 bp
Market Value of Equity	834,772	780,800	833,959	916,032	969,472	999,703	1,011,517
Change in EVE from base	813	-53,159		82,073	135,513	165,744	177,558
% Change	0.1%	-6.4%		9.8%	16.3%	19.9%	21.3%
Policy Limits	-20.0%	-10.0%		-10.0%	-20.0%	-30.0%	-40.0%

	December 31, 2018 - Balance Sheet Shock						
($ in thousands)	-200 bp	-100 bp	STATIC (Base)	+100 bp	+200 bp	+300 bp	+400 bp
Market Value of Equity	583,220	635,499	736,005	801,046	843,268	867,553	875,626
Change in EVE from base	-152,785	-100,506		65,041	107,263	131,548	139,621
% Change	-20.8%	-13.7%		8.8%	14.6%	17.9%	19.0%
Policy Limits	-20.0%	-10.0%		-10.0%	-20.0%	-30.0%	-40.0%

The tables show that our EVE will generally deteriorate in declining rate scenarios, but should benefit from a parallel shift upward in the yield curve. As noted previously, however, Management is of the opinion that the potential for a significant rate decline is low. We also run stress scenarios for EVE to simulate the possibility of higher loan prepayment rates, unfavorable changes in deposit rates, and higher deposit decay rates. Model results are highly sensitive to changes in assumed decay rates for non-maturity deposits, in particular.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of The First Bancshares, Inc.

Hattiesburg, Mississippi

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The First Bancshares, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years ended December 31, 2019 and 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. As permitted, The First Bancshares, Inc. has excluded the operations of FPB Financial Corp. and First Florida Bancorp, Inc. acquired during 2019, which is described in Note C of the consolidated financial statements, from the scope of Management's Report on Internal Control over Financial Reporting. As such, it has also been excluded from the scope of our audit of internal control over financial reporting. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company'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 company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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 misstatements. Also, projections of any evaluation 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.

/s/ Crowe LLP

We have served as the Company's auditor since 2018

Atlanta, Georgia

March 16, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
The First Bancshares, Inc.
Hattiesburg, Mississippi

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows of The First Bancshares, Inc., and subsidiary (the "Company") for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the 2017 financial statements present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ T. E. Lott and Company, PA

Columbus, Mississippi
March 16, 2018

We began serving as the Company's auditor in 1996. In 2018, we became the predecessor auditor.

THE FIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
($ in thousands except per share data)

	2019	2018
ASSETS		
Cash and due from banks	$ 89,736	$ 71,356
Interest-bearing deposits with banks	79,128	87,751
Total cash and cash equivalents	168,864	159,107
Held-to-maturity securities (fair value of $0 in 2019 and $7,028 in 2018)	-	6,000
Debt securities available-for-sale securities	765,087	492,224
Other securities	26,690	16,704
Total securities	791,777	514,928
Loans held for sale	10,810	4,838
Loans, net of allowance for loan losses of $13,908 in 2019 and $10,065 in 2018	2,586,450	2,050,357
Interest receivable	14,802	10,778
Premises and equipment	104,980	74,783
Cash surrender value of life insurance	59,572	50,796
Goodwill	158,572	89,750
Other real estate owned	7,299	10,869
Other assets	38,737	37,780
Total assets	$ 3,941,863	$ 3,003,986
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 723,208	$ 570,148
Interest-bearing	2,353,325	1,887,311
Total deposits	3,076,533	2,457,459
Interest payable	2,508	1,519
Borrowed funds	214,319	85,500
Subordinated debentures	80,678	80,521
Other liabilities	24,167	15,733
Total liabilities	3,398,205	2,640,732
Stockholders' Equity:		
Common stock, par value $1 per share: 40,000,000 shares authorized;18,996,948 shares issued in 2019, 40,000,000 shares authorized and 14,857,092 shares issued in 2018, respectively	18,997	14,857
Additional paid-in capital	409,805	278,659
Retained earnings	110,460	71,998
Accumulated other comprehensive income (loss)	10,089	(1,796)
Treasury stock, at cost (194,682 shares - 2019; 26,494 shares - 2018)	(5,693)	(464)
Total stockholders' equity	543,658	363,254
Total liabilities and stockholders' equity	$ 3,941,863	$ 3,003,986

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
($ in thousands, except per share amount)

	2019	2018	2017
INTEREST INCOME			
Interest and fees on loans	$ 128,858	$ 86,822	$ 56,826
Interest and dividends on securities:			
Taxable interest and dividends	14,244	9,020	6,341
Tax-exempt interest	3,566	2,939	2,350
Interest on federal funds sold	7	206	390
Interest on deposits in banks	1,854	991	162
Total interest income	148,529	99,978	66,069
INTEREST EXPENSE			
Interest on deposits	19,763	10,785	5,261
Interest on borrowed funds	6,960	4,306	1,648
Total interest expense	26,723	15,091	6,909
Net interest income	121,806	84,887	59,160
Provision for loan losses	3,738	2,120	506
Net interest income after provision for loan losses	118,068	82,767	58,654
NON-INTEREST INCOME			
Service charges on deposit accounts	7,838	5,792	3,601
Other service charges and fees	1,047	996	624
Interchange fees	8,024	5,247	3,758
Secondary market mortgage income	5,988	4,048	4,502
Bank owned life insurance income	1,414	937	739
Gain (loss) on sale of premises	13	(137)	(22)
Securities gains (losses)	122	334	(16)
Gain (loss) on sale of other real estate	(144)	60	(199)
Financial assistance and bank enterprise awards	947	2,098	-
Other	1,698	1,186	1,376
Total non-interest income	26,947	20,561	14,363
NON-INTEREST EXPENSE			
Salaries	41,065	33,640	25,828
Employee benefits	6,610	4,662	4,720
Occupancy	8,775	6,818	4,828
Furniture and equipment	1,838	1,575	1,225
Supplies and printing	890	846	640
Professional and consulting fees	6,449	5,381	6,757
Marketing and public relations	859	508	406
FDIC and OCC assessments	632	1,382	1,252
ATM expense	2,821	3,241	1,188
Bank communications	1,367	2,014	1,296
Data processing	1,285	6,931	1,039
Other	15,978	9,313	6,267
Total non-interest expense	88,569	76,311	55,446
Income before income taxes	$ 56,446	$ 27,017	$ 17,571
Income taxes	12,701	5,792	6,955
Net income available to common stockholders	$ 43,745	$ 21,225	$ 10,616
Earnings per share:			
Basic	$ 2.57	$ 1.63	$ 1.12
Diluted	2.55	1.62	1.11

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017

($ in thousands)	2019	2018	2017
Net income	$ 43,745	$ 21,225	$ 10,616
Other comprehensive income:			
Unrealized gains/losses on securities:			
Unrealized holding (loss)/gain arising during the period on available-for-sale securities	16,084	(1,484)	1,160
Reclassification adjustment for losses (gains) included net income	(122)	(334)	16
Unrealized holding (loss)/gain arising during the period on available-for-sale securities	15,962	(1,818)	1,176
Income tax benefit (expense)	(4,077)	460	(460)
Other comprehensive income (loss)	11,885	(1,358)	716
Comprehensive income	$ 55,630	$ 19,867	$ 11,332

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019
($ in thousands except per share amount)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount	Total
Balance, January 1, 2017	9,017,891	$ 9,018	$ 102,574	$ 44,477	$ (1,078)	(26,494)	$ (464)	$ 154,527
Net income	-	-	-	10,616	-	-	-	10,616
Other comprehensive income	-	-	-	-	716	-	-	716
Accumulated other comprehensive income due to statutory tax change	-	-	-	76	(76)	-	-	-
Cash dividend declared, $.15 per common share	-	-	-	(1,448)	-	-	-	(1,448)
Issuance of common shares	2,012,500	2,013	56,350	-	-	-	-	58,363
Costs associated with capital raise	-	-	(3,092)	-	-	-	-	(3,092)
Repurchase of restricted stock for payment of taxes	(11,867)	(12)	(318)	-	-	-	-	(330)
Issuance of restricted stock grant	84,286	84	(84)	-	-	-	-	-
Compensation cost on restricted stock	-	-	867	-	-	-	-	867
Issuance of shares for GCCB acquisition	89,591	90	2,159	-	-	-	-	2,249
Balance, December 31, 2017	11,192,401	$ 11,193	$ 158,456	$ 53,721	$ (438)	(26,494)	$ (464)	$ 222,468
Net income, 2018	-	-	-	21,225	-	-	-	21,225
Other comprehensive income	-	-	-	-	(1,358)	-	-	(1,358)
Dividend on common stock, $.20 per common share	-	-	-	(2,600)	-	-	-	(2,600)
Issuance of shares for Southwest acquisition	1,134,010	1,134	34,871	-	-	-	-	36,005
Issuance of shares for Sunshine acquisition	726,461	726	22,702	-	-	-	-	23,428
Issuance of shares for FMB acquisition	1,763,042	1,763	61,777	-	-	-	-	63,540
Issuance restricted stock grant	60,984	61	(61)	-	-	-	-	-
Restricted stock grant forfeited	(19,236)	(19)	19	-	-	-	-	-
Expense associated with common stock issuance	-	-	(237)	-	-	-	-	(237)
Compensation expense	-	-	1,154	-	-	-	-	1,154
ASU 2016-01 implementation	-	-	-	(348)	-	-	-	(348)
Repurchase of restricted stock for payment of taxes	(570)	(1)	(22)	-	-	-	-	(23)
Balance, December 31, 2018	14,857,092	$ 14,857	$ 278,659	$ 71,998	$ (1,796)	(26,494)	$ (464)	$ 363,254
Net income, 2019	-	-	-	43,745	-	-	-	43,745
Common stock repurchased	-	-	-	-	-	(168,188)	(5,229)	(5,229)
Other comprehensive income	-	-	-	-	11,885	-	-	11,885
Dividend on common stock, $.31 per common share	-	-	-	(5,283)	-	-	-	(5,283)
Issuance of shares for FPB acquisition	2,377,501	2,378	75,842	-	-	-	-	78,220
Issuance of shares for FFB acquisition	1,682,889	1,683	53,785	-	-	-	-	55,468
Issuance restricted stock grant	89,315	89	(89)	-	-	-	-	-
Restricted stock grant forfeited	(7,931)	(8)	8	-	-	-	-	-
Compensation expense	-	-	1,661	-	-	-	-	1,661
Repurchase of restricted stock for payment of taxes	(1,918)	(2)	(61)	-	-	-	-	(63)
Balance, December 31, 2019	18,996,948	$ 18,997	$ 409,805	$ 110,460	$ 10,089	(194,682)	$ (5,693)	$ 543,658

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

($ in thousands)	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 43,745	$ 21,225	$ 10,616
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,314	4,300	2,902
FHLB Stock dividends	(171)	(97)	(54)
Provision for loan losses	3,738	2,120	506
Deferred income taxes	912	2,523	6,446
Restricted stock expense	1,661	1,154	866
Increase in cash value of life insurance	(1,414)	(937)	(739)
Amortization and accretion, net, related to acquisitions	(1,791)	(680)	1,737
Loss/(Gain) on sale of land/bank premises/equipment	(13)	137	22
Securities (gain)/losses	(122)	(334)	16
Loss on sale/writedown of other real estate	680	342	892
Payments on operating leases	(898)	-	-
Residential loans originated and held for sale	(186,132)	(137,287)	(162,491)
Proceeds from sale of residential loans held for sale	180,120	137,293	163,661
Changes in:			
Interest receivable	(1,203)	(671)	(715)
Other assets	1,157	2,401	1,838
Interest payable	914	144	30
Other liabilities	(1,797)	(133)	(3,935)
Net cash provided by operating activities	44,700	31,500	21,598
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(180,502)	(66,350)	(89,196)
Purchases of other securities	(11,085)	(8,644)	(2,891)
Proceeds from maturities and calls of available-for-sale securities	109,189	61,587	57,996
Proceeds from sales of securities available-for-sale	32,976	40,289	7,731
Proceeds from redemption of other securities	2,712	5,714	682
Increase in loans	(44,102)	(81,193)	(121,437)
Net additions to premises and equipment	(7,892)	(4,057)	(4,675)
Purchase of bank owned life insurance	-	-	(469)
Proceeds from sale of other real estate owned	5,097	1,396	6,946
Proceeds from sale of other assets	65	-	-
Cash received in excess of cash paid for acquisition	30,860	42,450	3,910
Net cash used in investing activities	(62,682)	(8,808)	(141,403)

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

Continued:

	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease)/Increase in deposits	(67,821)	46,224	75,916
Proceeds from borrowed funds	364,715	105,000	198,800
Repayment of borrowed funds	(258,673)	(168,680)	(173,633)
Dividends paid on common stock	(5,190)	(2,557)	(1,416)
Net proceeds from issuance of stock	-	(237)	55,271
Cash paid to repurchase common stock	(5,229)	-	-
Repurchase of restricted stock for payment of taxes	(63)	(23)	(330)
Repayment of repurchase agreement	-	-	(5,000)
Issuance of subordinated debt, net	-	64,766	-
Net cash provided by financing activities	27,739	44,493	149,608
Net increase in cash and cash equivalents	9,757	67,185	29,803
Cash and cash equivalents at beginning of year	159,107	91,922	62,119
Cash and cash equivalents at end of year	$ 168,864	$ 159,107	$ 91,922
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 20,673	$ 10,982	$ 7,054
Income taxes, net of refunds	11,102	2,120	354
Non-cash activities:			
Transfers of loans to other real estate	1,706	1,528	1,000
Issuance of restricted stock grants	89	61	84
Stock issued in connection with Gulf Coast Community Bank acquisition	-	-	2,249
Stock issued in connection with Southwest acquisition	-	36,005	-
Stock issued in connection with Sunshine acquisition	-	23,428	-
Stock issued in connection with FMB acquisition	-	63,540	-
Stock issued in connection with FPB acquisition	78,220	-	-
Stock issued in connection with FFB acquisition	55,468	-	-
Dividends on restricted stock grants	93	43	33
Right-of-use obtained in exchange for operating lease liabilities	6,717	-	-

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - NATURE OF BUSINESS

The First Bancshares, Inc. (the "Company") is a bank holding company whose business is primarily conducted by its wholly-owned subsidiary, The First, A National Banking Association (the "Bank"). The Bank provides a full range of banking services in its primary market area of Mississippi, Louisiana, Alabama, Florida and Georgia. The Company is regulated by the Federal Reserve Bank. Its subsidiary bank is subject to the regulation of the Office of the Comptroller of the Currency (OCC).

The principal products produced and services rendered by the Company and are as follows:

Commercial Banking – The Company provides a full range of commercial banking services to corporations and other business customers. Loans are provided for a variety of general corporate purposes, including financing for commercial and industrial projects, income producing commercial real estate, owner-occupied real estate and construction and land development. The Company also provides deposit services, including checking, savings and money market accounts and certificate of deposit as well as treasury management services.

Consumer Banking – The Company provides mortgage banking services to consumers, including checking, savings and money market accounts as well as certificate of deposit and individual retirement accounts. In addition, the Company provides consumers with installment and real estate loans and lines of credit.

Mortgage Banking – The Company provides residential mortgage banking services, including construction financing, for conventional and government insured home loans to be sold in the secondary market.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company and the Bank follow accounting principles generally accepted in the United States of America including, where applicable, general practices within the banking industry.

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated.

2. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, acquisition accounting, intangible assets, and deferred tax assets.

3. Cash and Due From Banks

Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve. The reserve balance varies depending upon the types and amounts of deposits. At December 31, 2019, the required reserve balance on deposit with the Federal Reserve Bank was approximately $75.6 million.

4. Securities

Investments in securities are accounted for as follows:

Available-for-Sale Securities

Securities classified as available-for-sale are those securities that are intended to be held for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including movements in interest rates, liquidity needs, security risk assessments, changes in the mix of assets and liabilities and other similar factors. These securities are carried at their estimated fair value, and the net unrealized gain or loss is reported net of tax, as component of accumulated other comprehensive income (loss) in stockholders' equity, until realized. Premiums and discounts are recognized in interest income using the interest method. Gains and losses on the sale of available-for-sale securities are determined using the adjusted cost of the specific security sold.

Securities to be Held-to-Maturity

Securities classified as held-to-maturity are those securities for which there is a positive intent and ability to hold to maturity. These securities are carried at cost adjusted for amortization of premiums and accretion of discounts, computed by the interest method.

Trading Account Securities

Trading account securities are those securities which are held for the purpose of selling them at a profit. There were no trading account securities on hand at December 31, 2019 and 2018.

Equity Securities

Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. There were no equity securities on hand at December 31, 2019 and 2018.

Other Securities

Other securities are carried at cost and are restricted in marketability. Other securities consist of investments in the Federal Home Loan Bank (FHLB), Federal Reserve Bank and First National Bankers' Bankshares, Inc. Management reviews for impairment based on the ultimate recoverability of the cost basis.

Shares of Federal Home Loan Bank (FHLB), Federal Reserve Bank and First National Bankers' Bankshares, Inc. common stock are equity securities that do not have a readily determinable fair value because their ownership is restricted and lacks marketability. The common stock is carried at cost and evaluated for impairment. The Company's investment in member bank stock is included in other securities in the accompanying consolidated balance sheets. Management reviews for impairment based on the ultimate recoverability of the cost basis. No other-than-temporary impairment was noted for the years ended December 31, 2019, 2018 and 2017.

Interest Income

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

On January 1, 2018, the Company adopted the new accounting standard for Financial Instruments, which requires investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with the changes in fair value recognized in net income. The adoption of this guidance in 2018 resulted in a $348 thousand decrease to retained earnings.

Other-than-Temporary Impairment (“OTTI”)

Management evaluates investment securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

5. Loans held for sale

The Bank originates fixed rate single family, residential first mortgage loans on a presold basis. The Bank issues a rate lock commitment to a customer and concurrently “locks in” with a secondary market investor under a best efforts delivery mechanism. Such loans are sold without the mortgage servicing rights being retained by the Bank. The terms of the loan are dictated by the secondary investors and are transferred within several weeks of the Bank initially funding the loan. The Bank recognizes certain origination fees and service release fees upon the sale, which are included in other income on loans in the consolidated statements of income. Between the initial funding of the loans by the Bank and the subsequent purchase by the investor, the Bank carries the loans held for sale at the lower of cost or fair value in the aggregate as determined by the outstanding commitments from investors.

6. Loans

Loans are carried at the principal amount outstanding, net of the allowance for loan losses. Interest income on loans is recognized based on the principal balance outstanding and the stated rate of the loan. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the related loan yield using the interest method.

A loan is considered impaired, in accordance with the impairment accounting guidance of Accounting Standards Codification (ASC) Section 310-10-35, *Receivables, Subsequent Measurement*, when, based upon current events and information, it is probable that the scheduled payments of principal and interest will not be collected in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral values, and the probability of collecting scheduled payments of principal and interest when due. Generally, impairment is measured on a loan by loan basis using the fair value of the supporting collateral.

Loans are generally placed on a non-accrual status, and the accrual of interest on such loan is discontinued, when principal or interest is past due ninety days or when specifically determined to be impaired unless the loan is well-secured and in the process of collection. When a loan is placed on non-accrual status, interest accrued but not received is generally reversed against interest income. If collectability is in doubt, cash receipts on non-accrual loans are used to reduce principal rather than recorded in interest income. Past due status is determined based upon contractual terms. Loans are returned to accrual status when the obligation is brought current or has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

7. Allowance for Loan Losses

The allowance for loan losses is a valuation allowance reserved for probable incurred credit losses. A charge is taken against the allowance for loan losses when management believes the collectibility of the loan principal is confirmed to be unlikely. Subsequent recoveries, if any, are credited back to the allowance. Management evaluates the adequacy of the allowance for loan losses on a regular basis. These evaluations are based upon a periodic review of the historical loan loss experience, the nature and value of the loan portfolio, underlying collateral values, internal and independent loan reviews, and prevailing economic conditions. In addition, the OCC, as a part of the regulatory examination process, reviews the loan portfolio and the allowance for loan losses and may require changes in the allowance based upon information available at the time of the examination.

The allowance consists of two components, a reserve for general pool (or formula pool) loans that are collectively evaluated for impairment, and a reserve for loans individually evaluated for impairment based on expected loan specific losses. These components represent an estimation performed pursuant to either ASC Topic 450, *Contingencies*, or ASC Subtopic 310-10, *Receivables*. Loans individually evaluated for specific impairment are loans where management has determined that all amounts due according to the contractual terms of the loan agreement are unable to be collected. Loans that are considered to be troubled debt restructurings (TDRs) are individually evaluated for specific impairment as well. Factors considered in determining impairment include the present value of estimated future cash flows when there is a possibility of collecting principal and interest payments as scheduled, or by using the fair value less liquidation costs of collateral if it is expected that this is the only future possibility of repayment. The general pool (or formula pool) loan impairment is calculated using the Bank's actual loan loss history segregated by portfolio segment grouping together loans with similar risk characteristics. The four major segments or "bands" are Commercial Real Estate, Commercial Non-Real Estate, Consumer Real Estate, and Consumer Non-Real Estate. These loss factors are also supplemented with other qualitative and economic factors including but not limited to current local and national economic conditions, changes in lending policies/management/staff, changes in credit concentrations, as well as trends in the volume and size of loans.

The Bank also has acquired loan portfolios accounted for under the acquisition method of accounting. Within these portfolios are purchased credit impaired loans accounted for under ASC Topic 310-30. Impairment may be determined specifically at an individual loan level, or estimated on various pools of loans having common risk characteristics.

8. Purchased Credit Impaired Loans ("PCI")

The Company purchases individual loans and groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses.

Such purchased credit impaired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as credit score, loan type, and date of origination. The Company estimates the amount and timing of expected cash flows for each loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

9. Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. The depreciation policy is to provide for depreciation over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance expenditures are charged to operating expenses; major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any gains or losses are included in operations. Building and related components are depreciated using the straight-line method with useful lives ranging from 10 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 10 years.

10. Other Real Estate Owned

Other real estate owned consists of properties acquired through foreclosure and, as held for sale property, 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 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. Operation costs after acquisition are expensed. Any write-down to fair value required at the time of foreclosure is charged to the allowance for loan losses. Subsequent gains or losses on other real estate are reported in other operating income or expenses. At December 31, 2019 and 2018, other real estate owned totaled $7.3 million and $10.9 million, respectively.

11. Goodwill and Other Intangible Assets

The change in goodwill during the year is as follows ($ in thousands):

	2019	2018	2017
Beginning of year	$ 89,750	$ 19,960	$ 13,776
Acquired goodwill	68,822	69,790	6,184
End of year	$ 158,572	$ 89,750	$ 19,960

The Company performed the required annual impairment tests of goodwill and other intangibles as of December 1, 2019. The Company's annual impairment test did not indicate impairment as of the testing date, and subsequent to that date, management is not aware of any events or changes in circumstances since the impairment test that would indicate that goodwill or other intangibles might be impaired. All goodwill is related to the Commercial/Retail Bank segment of the Company.

The Company's acquisition method recognized intangible assets, which are subject to amortization, and included in other assets in the accompanying consolidated balance sheets, are core deposit intangibles, amortized on a straight-line basis, over a 10 year average life. The definite-lived intangible assets had the following carrying values at December 31, 2019 and 2018:

	2019		
($ in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$ 38,095	$ (7,802)	$ 30,293

	2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$ 27,752	$ (4,586)	$ 23,166

The related amortization expense of business combination related intangible assets is as follows:

($ in thousands)	Amount
Aggregate amortization expense for the year ended December 31:	
2017	$ 664
2018	1,656
2019	3,216

	Amount
Estimated amortization expense for the year ending December 31:	
2020	$ 3,751
2021	3,681
2022	3,511
2023	3,466
2024	3,436
Thereafter	12.448
	$ 30,293

12. Other Assets and Cash Surrender Value

The Company invests in bank owned life insurance (BOLI). BOLI involves the purchase of life insurance by the Company on a chosen group of employees. The Company is the owner of the policies and, accordingly, the cash surrender value of the policies is reported as an asset, and increases in cash surrender values are reported as income.

13. Other Liabilities

Financing costs related to the issuance of junior subordinated debentures are being amortized over the life of the instruments and are included in other liabilities.

14. Restricted Stock

The Company accounts for stock based compensation in accordance with ASC Topic 718, *Compensation - Stock Compensation*. Compensation cost is recognized for all restricted stock granted based on the weighted average fair value stock price at the grant date.

15. Income Taxes

The Company and its subsidiary file consolidated income tax returns. The subsidiary provides for income taxes on a separate return basis and remits to the Company amounts determined to be payable.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes related primarily to differences between the bases of assets and liabilities as measured by income tax laws and their bases as reported in the financial statements. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

ASC Topic 740, *Income Taxes,* provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. ASC Topic 740 requires an evaluation of tax positions to determine if the tax positions will more likely than not be sustainable upon examination by the appropriate taxing authority. The Company, at December 31, 2019 and 2018, had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

16. Advertising Costs

Advertising costs are expensed in the period in which they are incurred. Advertising expense for the years ended December 31, 2019, 2018 and 2017, was $648 thousand, $382 thousand, and $336 thousand, respectively.

17. Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks, interest-bearing deposits with banks and federal funds sold. Generally, federal funds are sold for a one to seven day period.

18. Off-Balance Sheet Financial Instruments

In the ordinary course of business, the subsidiary bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, credit card lines and standby letters of credit. Such financial instruments are recorded in the financial statements when they are exercised.

19. Earnings Available to Common Stockholders

Per share amounts are presented in accordance with ASC Topic 260, *Earnings Per Share.* Under ASC Topic 260, two per share amounts are considered and presented, if applicable. Basic per share data is calculated based on the weighted-average number of common shares outstanding during the reporting period. Diluted per share data includes any dilution from securities that may be converted into common stock, such as outstanding restricted stock. There were no anti-dilutive common stock equivalents excluded in the calculations.

The following tables disclose the reconciliation of the numerators and denominators of the basic and diluted computations available to common stockholders ($ in thousands, except per share amount):

For the Year Ended December 31, 2019

	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic per common			
Share	$ 43,745	17,050,095	$ 2.57
Effect of dilutive shares:			
Restricted Stock	-	133,990	
	$ 43,745	17,184,085	$ 2.55

For the Year Ended December 31, 2018

	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic per common			
Share	$ 21,225	12,985,733	$ 1.63
Effect of dilutive shares:			
Restricted Stock	-	108,192	
	$ 21,225	13,093,925	$ 1.62

For the Year Ended December 31, 2017

	Net Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Basic per common Share	$ 10,616	9,484,460	$ 1.12
Effect of dilutive shares:			
Restricted Stock	-	76,800	
	$ 10,616	9,561,260	$ 1.11

The diluted per share amounts were computed by applying the treasury stock method.

20. Mergers and Acquisitions

Business combinations are accounted for under ASC 805, "*Business Combinations*", using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company relies on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques. Under the acquisition method of accounting, the Company identifies the acquirer and the closing date and applies applicable recognition principles and conditions. Acquisition-related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversion, integration planning consultants and advertising costs. The Company accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities is recognized in accordance with other applicable GAAP. These acquisition-related costs have been and will be included within the Consolidated Statements of Income classified within the non-interest expense caption.

21. Investment in Limited Partnership

The Company invested $4.4 million in a limited partnership that provides low-income housing. The Company is not the general partner and does not have controlling ownership. The carrying value of the Company's investment in the limited partnership was $3.0 million at December 31, 2019 and $3.4 million at December 31, 2018, net of amortization, using the proportional method and is reported in other assets on the Consolidated Balance Sheets. The Company's maximum exposure to loss is limited to the carrying value of its investment. The Company received $481 thousand in low-income housing tax credits during 2019, 2018 and 2017.

22. Reclassifications

Certain reclassifications have been made to the 2018 and 2017 financial statements to conform with the classifications used in 2019. These reclassifications did not impact the Company's consolidated financial condition or results of operations.

23. Accounting Standards

Adoption of New Accounting Standards

On January 1, 2019, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. We adopted the standard under the cumulative effect transition method as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carryover of historical lease determination and lease classification conclusions
- Carryover of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $1.8 million, and operating lease liabilities of $1.8 million as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note I – Lease Obligations.

In December 2019, the Company early adopted the amendments in ASU 2019-04 – *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825 Financial Instruments.* These amendments clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. An entity may reclassify a debt security from held-to-maturity to available-for-sale if it is an eligible hedged item under the last-layer method. Any unrealized gain or loss at the transfer date would be recorded in accumulated other comprehensive income. The Company reclassified $6.3 million in securities with an unrealized holdings gain of $1.2 million from the held-to-maturity portfolio to the available-for-sale portfolio.

New Accounting Standards That Have Not Yet Been Adopted

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* ASU 2019-12 removes specific exceptions to the general principles in Topic 740. This update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. The ASU also improves financial statement preparers' application for income tax-related guidance, simplifies GAAP for franchise taxes and enacted changes in tax laws or rates, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 will be effective on January 1, 2021 and is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2019, the FASB issued ASU No. 2019-01, *Leases: Codification Improvements.* ASU 2019-01 provides clarification to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing essential information about leasing transactions. This ASU (1) allows the fair value of the underlying asset reported by lessors that are not manufacturers or dealers to continue to be its cost and not fair value as measured under the fair value definition, (2) allows for the payments received from sales-type and direct financing leases to continue to be presented as results from investing activities in the statement of cash flows, and (3) clarifies that entities do not have to disclose the effect of the lease standard on adoption year interim amounts. ASU 2019-01 was effective on January 1, 2020 and will not have a material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* ASU 2018-11 eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect for early adoption the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. The revised disclosure requirements will not have a material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, *"Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract."* These amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The guidance is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. ASU 2018-15 will not have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-04, *"Simplifying the Test for Goodwill Impairment."* ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed after January 1, 2017. The impact will be determined in the future as goodwill impairment tests are conducted.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The FASB issued new guidance (Topic 326) to replace the incurred loss model for loans and other financial assets with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognized by a lessor. In addition, the amendments in Topic 326 require credit losses on available-for-sale debt securities to be presented as a valuation allowance rather than as a direct write-down. The standard will be effective for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years. For calendar year-end SEC filers, it is effective for March 31, 2020 interim financial statements. For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively. Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The assets will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The Company's Allowance for Credit Loss Committee (ACL Committee), made up of executive and senior management from corporate administration, accounting, risk management, and credit and portfolio administration, have reviewed and approved the methodology and initial setup of the CECL Model. All historical data used in the model's calculation, the mathematical accuracy of that calculation, and any inputs provided externally that affect the calculation have been independently validated. Internal controls necessary in maintaining accuracy to estimate an adequate reserve have been designed but not tested for operating effectiveness. At this time, the Company has determined that the impact to the allowance for credit losses will be an increase under the new standard due to the life of loan loss estimation methodology, as well as the requirement to record an allowance on acquired loans previously recorded at fair value. It can be reasonably expected that a probable range in the reserve as a percentage of total loans after adoption of this guidance to be between 0.68% and 1.39%. The Company is currently focused on refining key adjustments and assumptions for a final loss estimate, for a final cumulative adjustment to retained earnings that will be recorded net of tax as of January 1, 2020.

The Company does not expect material allowance for credit losses to be recorded on available-for-sale debt securities, as the majority of the portfolio consists of government agency-backed securities for which the risk of loss is minimal.

NOTE C – BUSINESS COMBINATIONS

The Company accounts for its business combinations using the acquisition method. Acquisition accounting requires the total purchase price to be allocated to the estimated fair values of assets acquired and liabilities assumed, including certain intangible assets that must be recognized. Typically, this allocation results in the purchase price exceeding the fair value of net assets acquired, which is recorded as goodwill. Core deposit intangibles are a measure of the value of checking, money market and savings deposits acquired in business combinations accounted for under the acquisition method. Core deposit intangibles and other identified intangibles with finite useful lives are amortized using the straight-line method over their estimated useful lives of up to ten years. Loans that the Company acquires in connection with acquisitions are recorded at fair value with no carryover of the related allowance for credit losses. Fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. The excess or deficit of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount or amortizable premium and is recognized into interest income over the remaining life of the loan.

Acquisitions

First Florida Bancorp, Inc.

On November 1, 2019, the Company completed its acquisition of First Florida Bancorp, Inc. ("FFB"), and immediately thereafter merged its wholly-owned subsidiary, First Florida Bank with and into The First. The Company paid a total consideration of $89.5 million in stock to the FFB shareholders as consideration in the merger, which included 1,682,889 shares of Company common stock and approximately $34.1 million in cash.

In connection with the acquisition, the Company recorded approximately $40.0 million of goodwill and $3.7 million of core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

The Company acquired the $248.9 million loan portfolio at an estimated fair value discount of $1.7 million. The discount represents expected credit losses, adjusted for market interest rates and liquidity adjustments.

Expenses associated with the acquisition were $2.4 million for the twelve month period ended December 31, 2019. These costs included system conversion and integrating operations charges and legal and consulting expenses, which have been expensed as incurred.

The assets acquired and liabilities assumed and consideration paid in the acquisition of FFB were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, accounting guidance provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period, which runs through November 1, 2020, in the measurement period in which the adjustment amounts are determined. The acquirer must record in the financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed on November 1, 2019 ($ in thousands):

Purchase price:	
Cash and stock	$ 89,520
Total purchase price	89,520
Identifiable assets:	
Cash and due from banks	50,169
Investments	122,084
Loans	247,263
Core deposit intangible	3,745
Personal and real property	4,991
Other assets	2,283
Total assets	430,535
Liabilities and equity:	
Deposits	373,908
Borrowed funds	5,527
Other liabilities	1,619
Total liabilities	381,054
Net assets acquired	49,481
Goodwill resulting from acquisition	$ 40,039

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheets at December 31, 2019, are as follows ($ in thousands):

Outstanding principal balance	$ 245,190
Carrying amount	243,601

PCI loans are discussed more fully under “Part II – Item 8. Financial Statements and Supplementary Data – Note E – “Loans” of this report.

FPB Financial Corp.

On March 2, 2019, the Company completed its acquisition of FPB Financial Corp., (“FPB”), and immediately thereafter merged its wholly-owned subsidiary, Florida Parishes Bank with and into The First. The Company paid a total consideration of $78.2 million in stock to the FPB shareholders as consideration in the merger, which included 2,377,501 shares of Company common stock and $5 thousand in cash.

In connection with the acquisition, the Company recorded approximately $28.8 million of goodwill and $6.6 million of core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

The Company acquired the $247.8 million loan portfolio at an estimated fair value discount of $3.1 million. The discount represents expected credit losses, adjusted for market interest rates and liquidity adjustments.

Expenses associated with the acquisition were $2.3 million for the twelve months period ended December 31, 2019. These costs included system conversion and integrating operations charges and legal and consulting expenses, which have been expensed as incurred.

The assets acquired and liabilities assumed and consideration paid in the acquisition of FPB were recorded at their estimated fair values based on management’s best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, accounting guidance provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period, which runs through March 2, 2020, in the measurement period in which the adjustment amounts are determined. The acquirer must record in the financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed on March 2, 2019 ($ in thousands):

Purchase price:	
Cash and stock	$ 78,225
Total purchase price	78,225
Identifiable assets:	
Cash and due from banks	14,748
Investments	93,604
Loans	244,665
Bank owned life insurance	7,312
Core deposit intangible	6,597
Personal and real property	17,358
Other assets	1,152
Total assets	385,436
Liabilities and equity:	
Deposits	312,453
Borrowed funds	17,250
Other liabilities	6,291
Total liabilities	335,994
Net assets acquired	49,442
Goodwill resulting from acquisition	$ 28,783

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheets at December 31, 2019, are as follows ($ in thousands):

Outstanding principal balance	$ 192,126
Carrying amount	190,034

PCI loans are discussed more fully under "Part II – Item 8. Financial Statements and Supplementary Data – Note E – "Loans" of this report.

FMB Financial Corp.

On November 1, 2018, the Company completed its acquisition of FMB Banking Corporation ("FMB), and immediately thereafter merged its wholly-owned subsidiary, Farmers & Merchants Bank, with and into The First. The Company paid a total consideration of $79.5 million to the former FMB shareholders including 1,763,042 shares of the Company's common stock and $16.0 million in cash.

In Connection with the acquisition, the Company recorded $36.4 million of goodwill and $10.2 million of core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

The Company acquired FMB's $325.5 million loan portfolio at an estimated fair value discount of $7.6 million. The discount represents expected credit losses, adjusted for market interest rates and liquidity adjustments.

Expenses associated with the acquisition were $600 thousand and $4.2 million for the twelve month period ended December 31, 2019 and 2018, respectively. These costs included system conversion and integrating operations charges, as well as legal and consulting expenses, which have been expensed as incurred.

The following table summarizes the finalized fair values of the assets acquired and liabilities assumed on November 1, 2018:

($ in thousands)	As Initially Reported	Measurement Period Adjustments	As Adjusted
Identifiable assets:			
Cash and due from banks	$ 28,556	$ -	$ 28,556
Investments	97,331	-	97,331
Loans	317,909	-	317,909
Bank owned life insurance	13,639	-	13,639
Core deposit intangible	10,203	-	10,203
Personal and real property	15,204	(254)	14,950
Other assets	2,902	152	3,054
Total assets	485,744	(102)	485,642
Liabilities and equity:			
Deposits	431,276	-	431,276
Borrowed funds	5,369	-	5,369
Other liabilities	5,894	-	5,894
Total liabilities	442,539	-	442,539
Net assets acquired	43,205	(102)	43,103
Consideration paid	79,547	-	79,547
Goodwill resulting from acquisition	$ 36,342	$ (102)	$ 36,444

Valuation adjustments have been made to personal and real property and other assets since initially reported.

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheet at December 31, 2019, are as follows ($ in thousands):

Outstanding principal balance	$ 222,464
Carrying amount	217,539

PCI loans are discussed more fully under "Part II – Item 8. Financial Statements and Supplementary Data – Note E – "Loans" of this report.

Sunshine Financial, Inc.

On April 1, 2018, the Company completed its acquisition of Sunshine Financial, Inc. ("Sunshine"), and immediately thereafter merged its wholly-owned subsidiary, Sunshine Community Bank, with and into The First. The Company paid a total consideration of $30.5 million to the former Sunshine shareholders including 726,461 shares of the Company's common stock and $7.0 million in cash.

In connection with the acquisition, the Company recorded $9.5 million of goodwill and $4.1 million of core deposit intangible. Goodwill is not deductible for income tax purposes. The core deposit intangible will be amortized to expense over 10 years.

The Company acquired Sunshine's $173.1 million loan portfolio at an estimated fair value discount of $4.5 million. The discount represents expected credit losses, adjusted for market interest rates and liquidity adjustments.

Expenses associated with the acquisition were $253 thousand and $4.2 million for the twelve month period ended December 31, 2019 and 2018, respectively. These costs included system conversion and integrating operations charges, as well as legal and consulting expenses, which have been expensed as incurred.

Southwest Banc Shares, Inc.

On March 1, 2018, the Company completed its acquisition of Southwest Banc Shares, Inc. ("Southwest"), and immediately thereafter merged its wholly-owned subsidiary, First Community Bank, with and into The First. The Company paid a total consideration of $60.0 million to the former Southwest shareholders including 1,134,010 shares of the Company's common stock and $24.0 million in cash.

In connection with the acquisition, the Company recorded $23.9 million of goodwill and $5.8 million of core deposit intangible. Goodwill is not deductible for income tax purposes. The core deposit intangible will be amortized to expense over 10 years.

The Company acquired Southwest's $274.7 million loan portfolio at an estimated fair value discount of $3.5 million. The discount represents expected credit losses, adjusted for market interest rates and liquidity adjustments.

Expenses associated with the acquisition were $519 thousand the twelve month period ended December 31, 2019. These costs included system conversion and integrating operations charges, as well as legal and consulting expenses, which have been expensed as incurred.

Supplemental Pro Forma Information

The following table presents certain supplemental pro forma information, for illustrative purposes only, for the years December 31, 2019 and 2018 as if the Southwest Banc Shares, Sunshine Financial, FMB, FPB and FFB acquisitions had occurred on January 1, 2018. The pro forma financial information is not necessarily indicative of the results of operations had the acquisitions been effective as of this date.

	Pro Forma for the Year Ended December 31,	
	2019	2018
($ in thousands)	(unaudited)	(unaudited)
Net interest income	$ 137,655	$ 138,422
Non-interest income	30,699	29,434
Total revenue	168,354	167,856
Income before income taxes	77,936	55,069

Supplemental pro-forma earnings were adjusted to exclude acquisition costs incurred.

Non-credit impaired loans acquired in the acquisitions were accounted for in accordance with ASC 310-20, *Receivables-Nonrefundable Fees and Other Costs*. Purchased credit impaired loans acquired in the Southwest, FMB, FPB and FFB acquisitions were accounted for in accordance with ASC 310-30 *Accounting for Purchased Loans with Deteriorated Credit Quality*. PCI loans are discussed more fully under "Part II – Item 8. Financial Statements and Supplementary Data – Note E – "Loans" of this report.

NOTE D – SECURITIES

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2019 and 2018 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

($ in thousands)	December 31, 2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S Treasury	$ 4,967	$ -	$ 73	$ 4,894
Obligations of U.S. government agencies and sponsored entities	76,699	1,475	224	77,950
Tax-exempt and taxable obligations of states and municipal subdivisions	253,527	5,602	147	258,982
Mortgage-backed securities - residential	263,229	4,726	107	267,848
Mortgage-backed securities - commercial	125,292	2,398	223	127,467
Corporate obligations	27,877	218	149	27,946
Total available-for-sale	$ 751,591	$ 14,419	$ 923	$ 765,087

($ in thousands)	December 31, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Obligations of U.S. government agencies and sponsored entities	$ 47,212	$ 405	$ 275	$ 47,342
Tax-exempt and taxable obligations of states and municipal subdivisions	150,215	1,070	1,221	150,064
Mortgage-backed securities - residential	250,132	727	3,407	247,452
Mortgage-backed securities - commercial	39,613	444	39	40,018
Corporate obligations	7,518	15	185	7,348
Total available-for-sale	$ 494,690	$ 2,661	$ 5,127	$ 492,224
Held-to-maturity securities:				
Taxable obligations of states and municipal subdivisions	$ 6,000	$ 1,028	$ -	$ 7,028
Total held-to-maturity	$ 6,000	$ 1,028	$ -	$ 7,028

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands) Available-for-Sale	December 31, 2019 Amortized Cost	Fair Value
Within one year	$ 30,141	$ 30,303
One to five years	80,119	81,372
Five to ten years	143,811	148,085
Beyond ten years	108,999	110,012
Mortgage-backed securities: residential	263,229	267,848
Mortgage-backed securities: commercial	125,292	127,467
Total	$ 751,591	$ 765,087

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

($ in thousands)	2019	2018	2017
Gross gains	$ 147	$ 880	$ 5
Gross losses	25	546	21
Realized net gain (loss)	$ 122	$ 334	$ (16)

Securities with a carrying value of $447.0 million and $411.9 million at December 31, 2019 and 2018, respectively, were pledged to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

The following table summarizes available-for-sale securities with unrealized and unrecognized losses at December 31, 2019 and December 31, 2018, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	2019					
	Less than 12 Months		12 Months or Longer		Total	
($ in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$ -	$ -	$ 4,894	$ 73	$ 4,894	$ 73
Obligations of U.S. government agencies and sponsored entities	-	-	22,987	224	22,987	224
Tax-exempt and taxable obligations of states and municipal subdivisions	-	-	28,235	147	28,235	147
Mortgage-backed securities: residential	-	-	29,930	107	29,930	107
Mortgage-backed securities: commercial	9,306	16	19,130	207	28,436	223
Corporate obligations	500	-	10,572	149	11,072	149
Total available-for-sale	$ 9,806	$ 16	$ 115,748	$ 907	$ 125,554	$ 923

	2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government agencies and sponsored entities	$ 11,034	$ 52	$ 7,838	$ 223	$ 18,872	$ 275
Tax-exempt and taxable obligations of states and municipal subdivisions	38,200	311	42,102	910	80,302	1,221
Mortgage-backed securities	93,294	843	101,005	2,603	194,299	3,446
Corporate obligations	1,962	40	4,969	145	6,931	185
Total available-for-sale	$ 144,490	$ 1,246	$ 155,914	$ 3,881	$ 300,404	$ 5,127

At December 31, 2019 and December 31, 2018, the Company's security portfolio consisted of 156 and 427 securities, respectively, that were in an unrealized loss position. The Company reviews its investment portfolio quarterly for indications of other-than-temporary impairment ("OTTI"), with attention given to securities in a continuous loss position of at least ten percent for over twelve months. Management believes that none of the losses on available-for-sale securities noted above constitute an OTTI and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The noted losses are considered temporary due to market fluctuations in available interest rates. Management considers the issuers of the securities to be financially sound, the corporate bonds are investment grade, and the collectability of all contractual principal and interest payments is reasonably expected. No OTTI losses were recognized at December 31, 2019 and 2018.

On January 1, 2018, the Company adopted the new accounting standard for Financial Instruments, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with the changes in fair value recognized in net income. The adoption of this guidance in 2018 resulted in a $348 thousand decrease to retained earnings.

NOTE E - LOANS

The Company uses four different categories to classify loans in its portfolio based on the underlying collateral securing each loan. The loans grouped together in each category have been determined to share similar risk characteristics with respect to credit quality. Those four categories are commercial, financial and agriculture, commercial real estate, consumer real estate, installment and other;

Commercial, financial and agriculture – Commercial, financial and agriculture loans include loans to business entities issued for commercial, industrial, or other business purposes. This type of commercial loan shares a similar risk characteristic in that unlike commercial real estate loans, repayment is largely dependent on cash flow generated from the operation of the business.

Commercial real estate – Commercial real estate loans are grouped as such because repayment is mainly dependent upon either the sale of the real estate, operation of the business occupying the real estate, or refinance of the debt obligation. This includes both owner occupied and non-owner occupied CRE secured loans, because they share similar risk characteristics related to these variables.

Consumer real estate – Consumer real estate loans consist primarily of loans secured by 1-4 family residential properties and/or residential lots. This includes loans for the purpose of constructing improvements on the residential property, as well as home equity lines of credit.

Installment and other – Installment and other loans are all loans issued to individuals that are not for any purpose related to operation of a business, and not secured by real estate. Repayment on these loans is mostly dependent on personal income, which may be impacted by general economic conditions.

The following table shows the composition of the loan portfolio by category:

	December 31, 2019		December 31, 2018	
($ in thousands)	Amount	Percent of Total	Amount	Percent of Total
Mortgage loans held for sale	$ 10,810	0.4%	$ 4,838	0.3%
Commercial, financial and agricultural	332,600	12.7%	301,182	14.6%
Real Estate:				
Mortgage-commercial	1,028,012	39.4%	776,880	37.6%
Mortgage-residential	814,282	31.2%	617,804	29.9%
Construction	359,195	13.8%	298,718	14.5%
Lease financing receivable	3,095	0.1%	2,891	0.1%
Obligations of states and subdivisions	20,716	0.8%	16,941	0.8%
Installment and other	42,458	1.6%	46,006	2.2%
Total loans	2,611,168	100%	2,065,260	100%
Allowance for loan losses	(13,908)		(10,065)	
Net loans	$ 2,597,260		$ 2,055,195	

Loans held for sale consist of mortgage loans originated by the Bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

Activity in the allowance for loan losses for December 31, 2019, 2018 and 2017 was as follows:

($ in thousands)	2019	2018	2017
Balance at beginning of period	$ 10,065	$ 8,288	$ 7,510
Prior period reclassification - Mortgage Reserve Funding	-	(181)	-
Beginning balance of allowance restated	10,065	8,107	7,510
Loans charged-off:			
Commercial, financial and agriculture	(141)	(265)	(62)
Commercial real estate	(54)	(222)	(110)
Consumer real estate	(163)	(7)	(152)
Installment and other	(306)	(87)	(81)
Total	(664)	(581)	(405)
Recoveries on loans previously charged-off:			
Commercial, financial and agriculture	85	44	50
Commercial real estate	142	44	279
Consumer real estate	240	183	243
Installment and other	302	148	105
Total	769	419	677
Net (Charge-offs) Recoveries	105	(162)	272
Provision for Loan Losses	3,738	2,120	506
Balance at end of period	$ 13,908	$ 10,065	$ 8,288

The following tables represent how the allowance for loan losses is allocated to a particular loan type as well as the percentage of the category to total loans at December 31, 2019 and 2018.

Allocation of the Allowance for Loan Losses

	December 31, 2019	
($ in thousands)	Amount	% of loans in each category to total loans
Commercial, financial and agriculture	$ 3,043	13.1%
Commercial real estate	8,836	65.5%
Consumer real estate	1,694	19.8%
Installment and other	296	1.6%
Unallocated	39	-
Total	$ 13,908	100%

	December 31, 2018	
	Amount	% of loans in each category to total loans
Commercial, financial and agriculture	$ 2,060	14.8%
Commercial real estate	6,258	64.6%
Consumer real estate	1,743	18.9%
Installment and other	201	1.7%
Unallocated	(197)	-
Total	$ 10,065	100%

The following tables provide the ending balances in the Company's loans (excluding mortgage loans held for sale) and allowance for loan losses, broken down by portfolio segment as of December 31, 2019 and 2018. The tables also provide additional detail as to the amount of our loans and allowance that correspond to individual versus collective impairment evaluation. The impairment evaluation corresponds to the Company's systematic methodology for estimating its Allowance for Loan Losses ($ in thousands).

December 31, 2019	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Installment and Other	Unallocated	Total
Loans						
Individually evaluated	$ 2,493	$ 25,984	$ 1,181	$ 281	$ -	$ 29,939
Collectively evaluated	339,003	1,773,934	398,471	41,112	-	2,552,520
PCI Loans	191	10,471	7,204	33	-	17,899
Total	$ 341,687	$ 1,810,389	$ 406,856	$ 41,426	$ -	$ 2,600,358
Allowance for Loan Losses						
Individually evaluated	$ 1,182	$ 3,021	$ 141	$ 80	$ -	$ 4,424
Collectively evaluated	1,861	5,815	1,553	216	39	9,484
Total	$ 3,043	$ 8,836	$ 1,694	$ 296	$ 39	$ 13,908

December 31, 2018	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Installment and Other	Unallocated	Total
Loans						
Individually evaluated	$ 1,657	$ 10,932	$ 804	$ 66	$ -	$ 13.459
Collectively evaluated	302,329	1,309,322	383,368	34,292	-	2,029,311
PCI Loans	197	11,626	5,777	52	-	17,652
Total	$ 304,183	$ 1,331,880	$ 389,949	$ 34,410	$ -	$ 2,060,422
Allowance for Loan Losses						
Individually evaluated	$ 329	$ 758	$ 66	$ 26	$ -	$ 1,179
Collectively evaluated	1,731	5,500	1,677	175	(197)	8,886
Total	$ 2,060	$ 6,258	$ 1,743	$ 201	$ (197)	$ 10,065

For those PCI loans disclosed above, no impairment has been provided through the allowance for loan losses.

The following tables provide additional detail of impaired loans broken out according to class as of December 31, 2019, 2018 and 2017. The tables do not include PCI loans. The recorded investment included in the following table represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs. Recorded investment excludes any insignificant amount of accrued interest receivable on loans 90-days or more past due and still accruing. The unpaid balance represents the recorded balance prior to any partial charge-offs.

December 31, 2019

($ in thousands)	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial, financial and agriculture	$ 59	$ 62	$ -	$ 294	$ 7
Commercial real estate	13,556	13,671	-	10,473	591
Consumer real estate	542	594	-	2,173	-
Consumer installment	21	21	-	23	-
Total	$ 14,178	$ 14,348	$ -	$ 12,963	$ 598
Impaired loans with a related allowance:					
Commercial, financial and agriculture	$ 2,434	$ 2,434	$ 1,182	$ 2,039	$ 13
Commercial real estate	12,428	12,563	3,021	10,026	49
Consumer real estate	639	657	141	560	3
Consumer installment	260	260	80	164	2
Total	$ 15,761	$ 15,914	$ 4,424	$ 12,789	$ 67
Commercial, financial and agriculture	$ 2,493	$ 2,496	$ 1,182	$ 2,333	$ 20
Commercial real estate	25,984	26,234	3,021	20,499	640
Consumer real estate	1,181	1,251	141	2,733	3
Consumer installment	281	281	80	187	2
Total Impaired Loans	$ 29,939	$ 30,262	$ 4,424	$ 25,752	$ 665

December 31, 2018

($ in thousands)	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial, financial and agriculture	$ 709	$ 709	$ -	$ 379	$ 27
Commercial real estate	6,441	8,170	-	7,685	427
Consumer real estate	445	760	-	4,522	69
Consumer installment	-	-	-	82	3
Total	$ 7,595	$ 9,639	$ -	$ 12,668	$ 526
Impaired loans with a related allowance:					
Commercial, financial and agriculture	$ 960	$ 960	$ 329	$ 968	$ 3
Commercial real estate	4,512	4,512	758	2,868	176
Consumer real estate	366	366	66	555	16
Consumer installment	26	26	26	24	-
Total	$ 5,846	$ 5,864	$ 1,179	$ 4,415	$ 195
Total Impaired Loans:					
Commercial, financial and agriculture	$ 1,669	$ 1,669	$ 329	$ 1,347	$ 30
Commercial real estate	10,953	12,682	758	10,553	603
Consumer real estate	811	1,126	66	5,077	85
Consumer installment	26	26	26	106	3
Total Impaired Loans	$ 13,459	$ 15,503	$ 1,179	$ 17,083	$ 721

December 31, 2017

($ in thousands)	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial, financial and agriculture	$ 270	$ 270	$ -	$ 90	$ 1
Commercial real estate	4,080	4,176	-	3,502	101
Consumer real estate	2,180	2,424	-	1,897	83
Consumer installment	29	29	-	17	-
Total	$ 6,559	$ 6,899	$ -	$ 5,506	$ 185
Impaired loans with a related allowance:					
Commercial, financial and agriculture	$ 850	$ 850	$ 267	$ 262	$ 14
Commercial real estate	2,638	2,638	234	2,756	112
Consumer real estate	504	504	137	493	15
Consumer installment	23	23	23	24	-
Total	$ 4,015	$ 4,015	$ 661	$ 3,535	$ 141
Total Impaired Loans:					
Commercial, financial and agriculture	$ 1,120	$ 1,120	$ 267	$ 352	$ 15
Commercial real estate	6,718	6,814	234	6,258	213
Consumer real estate	2,684	2,928	137	2,390	98
Consumer installment	52	52	23	41	-
Total Impaired Loans	$ 10,574	$ 10,914	$ 661	$ 9,041	$ 326

The cash basis interest earned in the chart above is materially the same as the interest recognized during impairment for the years ended December 31, 2019, 2018 and 2017.

The gross interest income that would have been recorded in the period that ended if the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the twelve months for the years ended December 31, 2019, 2018 and 2017, was $348 thousand, $782 thousand and $342 thousand, respectively. The Company had no loan commitments to borrowers in nonaccrual status at December 31, 2019 and 2018.

We acquired loans with deteriorated credit quality in 2014, 2017, 2018 and 2019. These loans were recorded at estimated fair value at the acquisition date with no carryover of the related allowance for loan losses. The acquired loans were segregated as of the acquisition date between those considered to be performing (acquired non-impaired loans) and those with evidence of credit deterioration (purchased credit impaired loans). Acquired loans are considered to be impaired if it is probable, based on current available information, that the Company will be unable to collect all cash flows as expected. If expected cash flows cannot reasonably be estimated as to what will be collected, there will not be any interest income recognized on these loans.

The following presents information regarding the contractually required payments receivable, cash flows expected to be collected and the estimated fair value of PCI loans acquired in the acquisitions from 2018 and 2019.

($ in thousands)	Southwest	Sunshine	FMB	FPB	FFB	Total
Contractually required payments at acquisition	$ 925	$ 4,194	$ 9,939	$ 4,715	$ 947	$ 20,720
Cash flows expected to be collected at acquisition	706	3,894	8,604	4,295	955	18,454
Fair value of loans at acquisition	657	3,837	7,978	3,916	809	17,197

Total outstanding purchased credit impaired loans were $14.6 million and the related purchase accounting discount was $3.3 million as of December 31, 2019, and $13.8 million and $3.8 million as of December 31, 2018, respectively. The outstanding balance of these loans is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loans, owed at the reporting date, whether or not currently due and whether or not any such amounts have been charged off.

Changes in the carrying amount and accretable yield for purchased credit impaired loans were as follows for the year ended December 31, 2019 and 2018 ($ in thousands):

	2019		2018	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period	$ 3,835	$ 13,817	$ 836	$ 1,185
Reclassification from prior years	-	-	859	3,229
Additions, including transfers from non-accretable	525	5,250	2,487	12,290
Accretion	(943)	943	(337)	337
Payments received, net	-	(5,528)	-	(3,214)
Charge-off	-	-	(10)	(10)
Balance at end of period	$ 3,417	$ 14,482	$ 3,835	$ 13,817

The following tables provide details of troubled debt restructurings (TDRs) during the twelve months ended December 31, 2019, 2018 and 2017 ($ in thousands, except for number of loans).

December 31, 2019	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification	Number of Loans	Interest Income Recognized
Commercial, financial and agriculture	$ 979	$ 1,023	7	$ 19
Commercial real estate	15,953	16,122	14	137
Residential real estate	551	553	3	12
Consumer installment	10	11	2	-
Total	$ 17,493	$ 17,709	26	$ 168

December 31, 2018	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification	Number of Loans	Interest Income Recognized
Commercial, financial and agriculture	$ 681	$ 663	2	$ 23
Commercial real estate	3,536	3,532	3	80
Residential real estate	-	-	-	-
Consumer installment	-	-	-	-
Total	$ 4,217	$ 4,195	5	$ 103

December 31, 2017	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification	Number of Loans	Interest Income Recognized
Commercial, financial and agriculture	$ -	$ -	-	$ -
Commercial real estate	526	494	4	17
Residential real estate	66	64	1	4
Consumer installment	-	-	-	-
Total	$ 592	$ 558	5	$ 21

The TDRs presented above increased the allowance for loan losses and resulted in no charge-offs for the years ended December 31, 2019, 2018 and 2017.

The balance of TDRs at December 31, 2019, 2018 and 2017, was $32.0 million, $14.3 million and $6.9 million, respectively. As of December 31, 2019, the Company had no additional amount committed on any loan classified as a TDR.

During the twelve month periods ended December 31, 2019, 2018 and 2017, the terms of 26, 5 and 5 loans, respectively, were modified as TDRs. The modifications included one of the following or a combination of the following: maturity date extensions, interest only payments, amortizations were extended beyond what would be available on similar type loans, and payment waiver. No interest rate concessions were given on these nor were any of these loans written down.

The following tables represents the Company's TDRs for the year ended December 31, 2019, 2018 and 2017:

December 31, 2019 ($ in thousands)	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Nonaccrual	Total
Commercial, financial and agriculture	$ 583	$ 64	$ -	$ 1,062	$ 1,709
Commercial real estate	4,299	809	109	19,991	25,208
Consumer real estate	1,905	112	58	2,940	5,015
Consumer installment	37	-	-	-	37
Total	$ 6,824	$ 985	$ 167	$ 23,993	$ 31,969
Allowance for loan losses	$ 128	$ -	$ -	$ 1,997	$ 2,125

December 31, 2018 ($ in thousands)	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Nonaccrual	Total
Commercial, financial and agriculture	$ 13	$ 646	$ -	$ 18	$ 676
Commercial real estate	4,827	-	-	5,425	10,252
Consumer real estate	442	86	-	2,801	3,329
Consumer installment	25	-	-	13	38
Total	$ 5,307	$ 732	$ -	$ 8,257	$ 14,295
Allowance for loan losses	$ 80	$ 13	$ -	$ 110	$ 203

December 31, 2017 ($ in thousands)	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Nonaccrual	Total
Commercial, financial and agriculture	$ -	$ -	$ -	$ -	$ -
Commercial real estate	3,702	92	-	1,024	4,818
Consumer real estate	1,013	89	-	987	2,089
Consumer installment	-	-	5	18	23
Total	$ 4,715	$ 181	$ 5	$ 2,029	$ 6,930
Allowance for loan losses	$ 100	$ 22	$ 5	$ 27	$ 154

The following table presents loans by modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 2019, 2018 and 2017 ($ in thousands, except for number of loans).

Troubled Debt Restructurings That Subsequently Defaulted:	2019 Number of Loans	2019 Recorded Investment	2018 Number of Loans	2018 Recorded Investment	2017 Number of Loans	2017 Recorded Investment
Commercial, financial and agriculture	10	$ 458	2	$ 663	0	$ -
Commercial real estate	4	15,423	2	3,419	2	302
Total	14	$ 15,881	4	$ 4,082	2	$ 302

The TDRs presented above increased the allowance for loan losses and resulted in no charge-offs for the years ended December 31, 2019, 2018 and 2017.

The following tables summarize by class our loans classified as past due in excess of 30 days or more in addition to those loans classified as nonaccrual including PCI loans:

	December 31, 2019					
($ in thousands)	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	NonAccrual	PCI	Total Past Due, NonAccrual and PCI	Total Loans
Commercial, financial and agriculture	$ 515	$ 61	$ 2,137	$ 97	$ 2,810	$ 332,600
Commercial real estate	2,447	1,046	22,441	3,844	29,778	1,387,207
Consumer real estate	4,569	1,608	1,902	8,148	16,227	814,282
Consumer installment	226	-	260	6	492	42,458
Lease financing receivable	-	-	-	-	-	3,095
Obligations of states and subdivisions	-	-	-	-	-	20,716
Total	$ 7,757	$ 2,715	$ 26,740	$ 12,095	$ 49,307	$ 2,600,358

	December 31, 2018					
($ in thousands)	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	NonAccrual	PCI	Total Past Due, NonAccrual and PCI	Total Loans
Commercial, financial and agriculture	$ 1,650	$ -	$ 1,024	$ 184	$ 2,858	$ 301,182
Commercial real estate	5,137	570	9,187	5,406	20,300	1,075,598
Consumer real estate	5,529	650	1,411	7,781	15,371	617,804
Consumer installment	506	45	46	34	631	46,006
Lease financing receivable	-	-	-	-	-	2,891
Obligations of states and subdivisions	-	-	-	-	-	16,941
Total	$ 12,822	$ 1,265	$ 11,668	$ 13,405	$ 39,160	$ 2,060,422

The Company 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. The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

Pass: Loans classified as pass are deemed to possess average to superior credit quality, requiring no more than normal attention.

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 Company’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 Company will sustain some loss if the deficiencies are not corrected.

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

As of December 31, 2019 and 2018, and based on the most recent analysis performed, the risk category of loans by class of loans (excluding mortgage loans held for sale) was as follows:

December 31, 2019 ($ in thousands)	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Pass	$ 327,205	$ 1,645,496	$ 499,426	$ 41,008	$ 2,513,135
Special Mention	3,493	8,876	1,194	21	13,584
Substandard	10,972	50,554	13,244	397	75,167
Doubtful	16	77	-	-	93
Subtotal	$ 341,686	$ 1,705,003	$ 513,864	$ 41,426	$ 2,601,979
Less:					
Unearned Discount	-	1,621	-	-	1,621
Loans, net of unearned discount	$ 341,686	$ 1,703,382	$ 513,864	$ 41,426	$ 2,600,358

December 31, 2018 ($ in thousands)	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Pass	$ 300,685	$ 1,286,151	$ 377,028	$ 34,127	$ 1,997,991
Special Mention	842	12,401	1,962	13	15,218
Substandard	2,640	33,856	10,959	270	47,725
Doubtful	16	85	-	-	101
Subtotal	$ 304,183	$ 1,332,493	$ 389,949	$ 34,410	$ 2,061,035
Less:					
Unearned Discount	-	613	-	-	613
Loans, net of unearned discount	$ 304,183	$ 1,331,880	$ 389,949	$ 34,410	$ 2,060,422

NOTE F - PREMISES AND EQUIPMENT

Premises and equipment owned and utilized in the operations of the Company are stated at cost, less accumulated depreciation and amortization as follows:

($ in thousands)	2019	2018
Premises:		
Land	$ 30,094	$ 26,305
Buildings and improvements	63,346	48,998
Equipment	22,394	19,005
Construction in progress	6,258	666
	122,092	94,974
Less accumulated depreciation and amortization	23,634	20,191
	$ 98,458	$ 74,783

The amounts charged to operating expense for depreciation were $3.8 million, $2.6 million and $2.0 million in 2019, 2018 and 2017, respectively.

NOTE G - DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at December 31, 2019 and 2018, were $187.8 million and $110.9 million, respectively.

At December 31, 2019, the scheduled maturities of time deposits included in interest-bearing deposits were as follows ($ in thousands):

Year	Amount
2020	$ 496,211
2021	99,567
2022	30,914
2023	15,071
2024	13,905
Thereafter	6,050
	$ 661,718

NOTE H - BORROWED FUNDS

At December 31, 2019 and 2018, borrowed funds consisted of the following:

($ in thousands)	2019	2018
Fed Funds Purchased	$ 2,715	$ -
FHLB advances	206,250	85,500
First Horizon Bank	5,354	-
	$ 214,319	$ 85,500

Advances from the FHLB have maturity dates ranging from January 2020 through December 2020. Interest is payable monthly at rates ranging from 1.50% to 3.76%. Advances due to the FHLB are collateralized by a blanket lien on first mortgage loans in the amount of the outstanding borrowings, FHLB capital stock, and amounts on deposit with the FHLB. Advances due to the FHLB are collateralized by $2.302 billion in loans. Based on this collateral and holdings of FHLB stock, the Company is eligible to borrow up to a total of $1.2 billion at December 31, 2019. As part of the FFB acquisition, the Company assumed two loans in the amount of $3.5 million and $2.0 million with First Horizon Bank. Principal and interest is payable quarterly at rates ranging from 3.80% - 4.10%.

Future annual principal repayment requirements on the borrowings at December 31, 2019, were as follows ($ in thousands):

Year	Amount
2020	$ 209,672
2021	735
2022	764
2023	795
2024	826
Thereafter	1,527
	$ 214,319

NOTE I – LEASE OBLIGATIONS

The Company enters into leases in the normal course of business primarily for financial centers, back office operations locations and business development offices. The Company's leases have remaining terms ranging from 1 to 8 years. The Company does not currently have any significant finance leases in which we are the lessee.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Operating leases in which we are the lessee are recorded as operating lease right-of-use assets and operating lease liabilities, which are included in premises and equipment and other liabilities, respectively, on our consolidated balance sheets. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term, and is recorded in net occupancy and equipment expense in the consolidated statements of income and other comprehensive income. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date and based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

As of December 31, 2019, operating lease right-of-use assets and liabilities were $6.5 million and $6.5 million, respectively.

The components of total lease cost were as follows for the period ending:

($ in thousands)		December 31, 2019
Operating lease costs	$	898
Cash paid for amounts included in the measurement of lease liability		
Operating cash flows from operating leases	$	898

Future lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

($ in thousands)		
2020	$	1,643
2021		1,527
2022		1,359
2023		844
2024		631
Thereafter		981
Total lease payments	$	6,985
Less: Interest		(467)
Present value of lease liabilities	$	6,518

The table below summarizes other information related to our operating leases:

Weighted-average remaining lease term	5.0 years
Weighted-average discount rate	2.5%

As a result of the adoption of ASC 842, The Company did not restate the prior period audited consolidated financial statements and all prior period amounts and disclosures are presented under ASC 840. At December 31, 2018, minimum future lease payments were as follows ($ in thousands):

	Operating Leases	Capital Leases
2019	$ 784	$ 275
2020	463	191
2021	347	175
2022	256	-
2023	229	-
Thereafter	197	-
Total minimum lease payments	$ 2,276	$ 641
Less:Amount representing interest		(25)
Present value of minimum lease payments		$ 616

NOTE J - REGULATORY MATTERS

The Company and its subsidiary bank are subject to regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiary bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgment by regulators about components, risk weightings, and other related factors.

To ensure capital adequacy, quantitative measures have been established by regulators, and these require the Company and its subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), Tier 1 capital to adjusted total assets (leverage) and common equity Tier 1.

Management believes, as of December 31, 2019, that the Company met all capital adequacy requirements to which they are subject. Under Basel III requirements, a financial institution is considered to be well-capitalized if it has a total risk-based capital ratio of 10% or more, has a Tier 1 risk-based capital ratio of 8% or more, has a common equity Tier 1 of 6.5%, and has a Tier 1 leverage capital ratio of 5% or more. The actual capital amounts and ratios, excluding unrealized losses, at December 31, 2019 and 2018 are presented in the following table. No amount was deducted from capital for interest-rate risk exposure.

December 31, 2019	Company (Consolidated)		Subsidiary The First	
($ in thousands)	Amount	Ratio	Amount	Ratio
Total risk-based	$ 446,571	15.8%	$ 439,538	15.6%
Common equity Tier 1	352,481	12.5%	425,630	15.1%
Tier 1 risk-based	367,727	13.0%	425,630	15.1%
Tier 1 leverage	367,727	10.3%	425,630	11.8%

December 31, 2018				
($ in thousands)	Amount	Ratio	Amount	Ratio
Total risk-based	$ 348,295	15.6%	$ 339,376	15.2%
Common equity Tier 1	258,206	11.5%	329,311	14.8%
Tier 1 risk-based	273,398	12.2%	329,311	14.8%
Tier 1 leverage	273,398	10.2%	329,311	12.2%

The minimum amounts of capital and ratios, not including Accumulated Other Comprehensive Income, as established by banking regulators at December 31, 2019, and 2018, were as follows:

December 31, 2019	Company (Consolidated)		Subsidiary The First	
($ in thousands)	Amount	Ratio	Amount	Ratio
Total risk-based	$ 225,932	8.0%	$ 225,413	8.0%
Common equity Tier 1	127,087	4.5%	126,795	4.5%
Tier 1 risk-based	169,449	6.0%	169,060	6.0%
Tier 1 leverage	143,460	4.0%	143,940	4.0%

December 31, 2018	Amount	Ratio	Amount	Ratio
($ in thousands)				
Total risk-based	$ 179,177	8.0%	$ 178,578	8.0%
Common equity Tier 1	100,787	4.5%	100,450	4.5%
Tier 1 risk-based	134,383	6.0%	133,934	6.0%
Tier 1 leverage	107,739	4.0%	107,593	4.0%

The principal sources of funds to the Company to pay dividends are the dividends received from The First, A National Banking Association, Hattiesburg, Mississippi. Consequently, dividends are dependent upon The First’s earnings, capital needs, regulatory policies, as well as statutory and regulatory limitations. Federal Reserve regulations limit dividends, stock repurchases and discretionary bonuses to executive officers if the Company’s regulatory capital is below the level of regulatory minimums plus the applicable capital conservation buffer. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Approval by the Company’s regulators is required if the total of all dividends declared in any calendar year exceed the total of its net income for that year combined with its retained net income of the preceding two years. In 2019, the Company had available $22.7 million to pay dividends.

In December 2018, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to the credit loss accounting under GAAP, including banking organizations implementation of CECL. The final rule provides banking organizations the option to phase in over a three year period the day one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. Based on the Company’s assessment of the CECL accounting standard and the impact of adoption on the consolidated financial statements and regulatory capital calculations, the Company is planning to adopt the capital transition relief over the permissible three year period.

NOTE K - INCOME TAXES

The components of income tax expense are as follows ($ in thousands):

	Years Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 9,477	$ 2,435	$ 408
State	2,312	834	101
Deferred (In 2017, includes $2,081 due to	912	2,523	6,446
Tax Cut and Jobs Act)	$ 12,701	$ 5,792	$ 6,955

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows (in thousands):

	Years Ended December 31,					
	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Income taxes at statutory rate	$ 11,854	21%	$ 5,674	21%	$ 6,150	35%
Tax-exempt income	(1,176)	(2)%	(867)	(3)%	(1,155)	(6)%
Nondeductible expenses	348	1%	403	1%	234	1%
State income tax, net of federal tax effect	1,969	4%	1,058	4%	66	-
Tax credits, net	(334)	(1)%	(334)	(1)%	(331)	(2)%
Deferred tax adjustment due to Tax Cuts and Job Act	-	-	-	-	2,081	12%
Other, net	40	- %	(142)	(1)%	(90)	-
	$ 12,701	23%	$ 5,792	21%	$ 6,955	40%

On December 22, 2017, the Tax Cuts and Jobs Act was enacted which permanently reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. As a result of the reduction in the U.S corporate income tax rate, the Company reevaluated its ending net deferred tax asset as of December 31, 2017 and recognized a tax expense of approximately $2.1 million.

The components of deferred income taxes included in the consolidated financial statements were as follows ($ in thousands):

	December 31,	
	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 3,430	$ 2,547
Net operating loss carryover	2,830	2,831
Non-accrual loan interest	895	601
Other real estate	506	494
Unrealized loss on available-for-sale securities	-	611
Deferred Compensation	1,190	1,235
Loan Purchase Accounting	3,467	3,505
Right-of-use asset	1,650	-
Other	2,146	776
	16,114	12,600
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(3,417)	-
Securities	(81)	(149)
Premises and equipment	(5,002)	(3,056)
Core deposit intangible	(6,864)	(4,959)
Goodwill	(1,631)	(1,356)
Right-of-use liability	(1,650)	-
Other	(331)	(254)
	(18,976)	(9,774)
Net deferred tax asset/(liability), included in other assets/(liabilities)	$ (2,862)	$ 2,826

With the acquisition of Baldwin in 2013, Bay in 2014, Gulf Coast in 2017, Sunshine 2018, and FPB in 2019, the Company assumed federal tax net operating loss carryovers. $11.7 million of net operating losses are available to the Company and begin to expire in 2026. The Company expects to fully utilize the net operating losses.

The Company follows the guidance of ASC Topic 740, *Income Taxes,* which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2019, the Company had no uncertain tax positions that it believes should be recognized in the financial statements. The tax years still subject to examination by taxing authorities are years subsequent to 2015.

NOTE L - EMPLOYEE BENEFITS

The Company and the Bank provide a deferred compensation arrangement (401(k) plan) whereby employees contribute a percentage of their compensation. For employee contributions of six percent or less, the Company and its subsidiary bank provide a 50% matching contribution. Contributions totaled $771 thousand in 2019, $628 thousand in 2018 and $513 thousand in 2017.

The Company sponsors an Employee Stock Ownership Plan (ESOP) for employees who have completed one year of service for the Company and attained age 21. Employees become fully vested after five years of service. Contributions to the plan are at the discretion of the Board of Directors. At December 31, 2019, the ESOP held 5,728 shares valued at $203 thousand of Company common stock and had no debt obligation. All shares held by the plan were considered outstanding for net income per share purposes. Total ESOP expense was $11 thousand for 2019, $4 thousand for 2018 and $4 thousand for 2017.

In 2014, the Company established a Supplemental Executive Retirement Plan (“SERP”) for three active key executives. During 2016, the Company established a SERP for eight additional active key executives. Pursuant to the SERP, these officers are entitled to receive 180 equal monthly payments commencing at the later of obtaining age 65 or separation from service. The costs of such benefits, assuming a retirement date at age 65, will be accrued by the Company at such retirement date. The Company accrued to expense $257 thousand for 2019 and $259 thousand for 2018 and $242 thousand for 2017 for future benefits payable under the SERP. The SERP is an unfunded plan and is considered a general contractual obligation of the Company.

Upon the acquisition of Iberville Bank, Southwest and FMB, the Bank assumed deferred compensation agreements with directors and employees. At December 31, 2019, the total liability of the deferred compensation agreements was $1.1 million, $1.1 million, and $3.1million, respectively. Deferred compensation expense totaled $24 thousand, $80 thousand, and $136 thousand, respectively for 2019.

NOTE M - STOCK PLANS

In 2007, the Company adopted the 2007 Stock Incentive Plan. The 2007 Plan provided for the issuance of up to 315,000 shares of Company Common Stock, $1.00 par value per share. In 2015, the Company adopted an amendment to the 2007 Stock Incentive Plan which provided for the issuance of an additional 300,000 shares of Company Common Stock, $1.00 par value per share, for a total of 615,000 shares. Shares issued under the 2007 Plan may consist in whole or in part of authorized but unissued shares or treasury shares. Total shares issuable under the plan are 120,578 at year-end 2019, and 89,315 and 60,984 shares were issued in 2019 and 2018, respectively.

A summary of changes in the Company's nonvested shares for the year follows:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	255,055	$ 22.94
Granted	89,315	
Vested	(7,300)	
Forfeited	(7,931)	
Nonvested at December 31, 2019	329,139	$ 25.61

As of December 31, 2019, there was $4.8 million of total unrecognized compensation cost related to nonvested shares granted under the Plan. The costs is expected to be recognized over the remaining term of the vesting period (approximately 5 years). The total fair value of shares vested during the years ended December 31, 2019, 2018 and 2017 was $240 thousand, $90 thousand, and $1.8 million.

Compensation cost in the amount of $1.7 million was recognized for the year ended December 31, 2019, $1.2 million was recognized for the year ended December 31, 2018 and $867 thousand for the year ended December 31, 2017. Shares of restricted stock granted to employees under this stock plan are subject to restrictions as to the vesting period. The restricted stock award becomes 100% vested on the earliest of 1) the vesting period provided the Grantee has not incurred a termination of employment prior to that date, 2) the Grantee's retirement, or 3) the Grantee's death. During this period, the holder is entitled to full voting rights and dividends. The dividends are held by the Company and only paid if and when the grants are vested. The 2007 Plan also contains a double trigger change-in-control provision pursuant to which unvested shares of stock granted through the plan will be accelerated upon a change in control if the executive is terminated without cause as a result of the transaction (as long as the shares granted remain part of the Company or are transferred into the shares of the new company).

NOTE N – SUBORDINATED DEBT

Debentures

On June 30, 2006, the Company issued $4,124,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 2 in which the Company owns all of the common equity. The debentures are the sole asset of Trust 1. The Trust issued $4,000,000 of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities were redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2036. Interest on the preferred securities is the three month London Interbank Offer Rate (LIBOR) plus 1.65% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities.

On July 27, 2007, the Company issued $6,186,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 3 in which the Company owns all of the common equity. The debentures are the sole asset of Trust 3. The Trust issued $6,000,000 of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2037. Interest on the preferred securities is the three month LIBOR plus 1.40% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities.

In 2018, the Company acquired FMB's Capital Trust 1, which consisted of $6.1 million of floating rate junior subordinated deferrable interest debentures in which the Company owns all of the common equity. The debentures are the sole asset of Trust 1. The Trust issued $6,000,000 of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2033. Interest on the preferred securities is the three month LIBOR plus 2.85% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. In accordance with the provisions of ASC Topic 810, *Consolidation,* the trusts are not included in the consolidated financial statements.

Notes

On April 30, 2018, The Company entered into two Subordinated Note Purchase Agreements pursuant to which the Company sold and issued $24.0 million in aggregate principal amount of 5.875% fixed-to-floating rate subordinated notes due 2028 and $42.0 million in aggregate principal amount of 6.40% fixed-to-floating rate subordinated notes due 2033 (collectively, the "Notes").

The Notes are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is pari passu in right to payment with respect to the other Notes.

NOTE O - TREASURY STOCK

Shares held in treasury totaled 194,682 at December 31, 2019 and 26,494 at December 31, 2018, and 2017.

On March 28, 2019, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to an aggregate of $20 million of the Company's common stock (the "March 2019 program"). This share repurchase program has an expiration date of December 31, 2019. Under the March 2019 program, the Company may repurchase shares of its common stock periodically in a manner determined by the Company's management. The actual means and timing of purchase, target number of shares and maximum price or range of prices under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock, general market and economic conditions, and applicable legal and regulatory requirements. The Company repurchased 168,188 shares under the March 2019 program during 2019.

NOTE P - RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank makes loans to its directors and executive officers and to companies in which they have a significant ownership interest. Such loans amounted to approximately $23.7 million and $20.6 million at December 31, 2019 and 2018, respectively. The activity in loans to current directors, executive officers, and their affiliates during the year ended December 31, 2019, is summarized as follows:

($ in thousands)	
Loans outstanding at beginning of year	$ 20,593
New loans	6,603
Repayments	(3,499)
Loans outstanding at end of year	$ 23,697

Deposits from principal officers, directors, and their affiliates at year-end 2019 and 2018 were $6.2 million and $6.1 million.

NOTE Q - COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as guaranties, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. Commitments to extend credit and letters of credit include some exposure to credit loss in the event of nonperformance of the customer. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit policies and procedures for such commitments are the same as those used for lending activities. Because these instruments have fixed maturity dates and because a number expire without being drawn upon, they generally do not present any significant liquidity risk. No significant losses on commitments were incurred during the two years ended December 31, 2019, nor are any significant losses as a result of these transactions anticipated.

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2019		2018	
($ in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 42,774	$ 5,676	$ 32,624	$ 36,780
Unused lines of credit	137,966	208,728	115,524	131,741
Standby letters of credit	3,648	8,475	2,357	8,367

Commitments to make loans are generally made for periods of 90 days or less. The fixed rate loan commitments have interest rates ranging from 0.5% to 18.0% and maturities ranging from 1 year to 30 years.

The Company currently has 73 full service banking and financial service offices, one motor bank facility and four loan production offices across Mississippi, Alabama, Florida, Georgia and Louisiana. Management closely monitors its credit concentrations and attempts to diversify the portfolio within its primary market area. As of December 31, 2019, management does not consider there to be any significant credit concentrations within the loan portfolio. Although the Bank’s loan portfolio, as well as existing commitments, reflects the diversity of its primary market area, a substantial portion of a borrower's ability to repay a loan is dependent upon the economic stability of the area.

In the normal course of business, the Company and its subsidiary are subject to pending and threatened legal actions. Although the Company is not able to predict the outcome of such actions, after reviewing pending and threatened actions with counsel, management believes that based on the information currently available the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the Company’s consolidated financial statements.

NOTE R - FAIR VALUES OF ASSETS AND LIABILITIES

The Company follows the guidance of ASC Topic 820, *Fair Value Measurements and Disclosures,* that establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The guidance defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with the guidance, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use 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 for substantially the full term of the assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets.

Securities

The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, mortgage-backed securities and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using the discounted cash flow or other market indicators (Level 3).

The following table presents the Company's securities that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fell as of December 31, 2019 and 2018 ($ in thousands):

December 31, 2019

		Fair Value Measurements		
($ in thousands)	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale				
U.S Treasury	$ 4,894	$ 4,894	$ -	$ -
Obligations of U.S. government agencies and sponsored entities	77,950	-	77,950	$ -
Municipal securities	258,982	-	248,637	10,345
Mortgage-backed securities	395,315	-	395,315	-
Corporate obligations	27,946	-	27,538	408
Total available for sale	$ 765,087	$ 4,894	$ 749,440	$ 10,753

December 31, 2018

($ in thousands)	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value Measurements			
Available-for-sale				
Obligations of U.S. government agencies and sponsored entities	$ 47,342	$ -	$ 47,342	$ -
Municipal securities	150,064	-	142,490	7,574
Mortgage-backed securities	287,470	-	287,470	-
Corporate obligations	7,348	-	6,474	874
Total available for sale	$ 492,224	$ -	$ 483,776	$ 8,448

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (Level 3) information.

($ in thousands)	Bank-Issued Trust Preferred Securities 2019	2018
Balance, January 1	$ 874	$ 2,569
Unrealized loss included in comprehensive income	(466)	(1,695)
Balance at December 31, 2019 and 2018	$ 408	$ 874

($ in thousands)	Municipal Securities 2019	2018
Balance, January 1	$ 7,574	$ 4,818
Unrealized gain included in comprehensive income	2,771	2,756
Balance at December 31, 2019 and 2018	$ 10,345	$ 7,574

The following methods and assumptions were used to estimate the fair values of the Company's assets measured at fair value on a recurring basis at December 31, 2019 and 2018. The following tables present quantitative information about recurring Level 3 fair value measurements ($ in thousands):

Trust Preferred Securities	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
December 31, 2019	$ 408	Discounted cash flow	Discount rate	2.73% - 4.15%
December 31, 2018	$ 874	Discounted cash flow	Discount rate	3.71% - 5.03%

Municipal Securities	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
December 31, 2019	$ 10,345	Discounted cash flow	Discount rate	1.50% - 4.40%
December 31, 2018	$ 7,574	Discounted cash flow	Discount rate	2.00% - 3.50%

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a non-recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral. 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 date available for similar loans and collateral underlying such loans. Such adjustments, if any, result in a Level 3 classification of the inputs for determining fair value. The Company adjust the appraisal 10 percent. 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 expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment.

Other Real Estate Owned

Other real estate owned consists of properties obtained through foreclosure. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Fair value of other real estate owned is based on current independent appraisals of the collateral less costs to sell when acquired, establishing a new costs 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, which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. 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, if any, result in a Level 3 classification of the inputs for determining fair value. In the determination of fair value subsequent to foreclosure, Management also considers other factors or recent developments, such as changes in market conditions from the time of valuation and anticipated sales values considering plans for disposition, which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. The Company adjust the appraisal 10 percent. Periodic revaluations are classified as Level 3 in the fair value hierarchy since assumptions are used that may not be observable in the market. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through other income. Operating costs associated with the assets after acquisition are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and recorded in other income. Other real estate measured at fair value on a non-recurring basis at December 31, 2019, amounted to $7.3 million. Other real estate owned is classified within Level 3 of the fair value hierarchy.

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements were reported at December 31, 2019 and 2018.

		Fair Value Measurements Using		
($ in thousands)	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Impaired loans	$ 11,337	$ -	$ -	$ 11,337
Other real estate owned	7,299	-	-	7,299
December 31, 2018				
Impaired loans	$ 11,571	$ -	$ -	$ 11,571
Other real estate owned	10,869	-	-	10,869

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents – For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment in securities available-for-sale and held-to-maturity – The fair value measurement for securities available-for-sale was discussed earlier. The same measurement approach was used for securities held-to-maturity and other securities.

Loans – The fair value of loans was estimated by discounting the expected future cash flows using the current interest rates at which similar loans would be made for the same remaining maturities, in accordance with the exit price notion as defined by FASB ASC 820, *Fair Value Measurement* ("ASC 820"). Expected future cash flows were projected based on contractual cash flows, adjusted for estimated prepayments and as a result of the adoption of ASU 2016-01, which also included credit risk and other market factors to calculate the exit price fair value in accordance with ASC 820.

Bank-owned Life Insurance – The fair value of bank-owned life insurance approximates the carrying amount, because upon liquidation of these investments, the Company would receive the cash surrender value which equals the carrying amount.

Accrued Interest Receivable – The carrying amount of accrued interest receivable approximates fair value and is classified as level 2 for accrued interest receivable related to investments securities and Level 3 for accrued interest receivable related to loans.

Deposits – The fair values of demand deposits are, as required by ASC Topic 825, equal to the carrying value of such deposits. Demand deposits include non-interest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

Short-Term Borrowings – The carrying value of any federal funds purchased and other short-term borrowings approximates their fair values.

FHLB and Other Borrowings – The fair value of the fixed rate borrowings are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowing approximates its fair value.

Subordinated Debentures – Fair values are determined based on the current market value of like instruments of a similar maturity and structure.

Accrued Interest Payable – The carrying amount of accrued interest payable approximates fair value resulting in a Level 2 classification.

Off-Balance Sheet Instruments – Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed. Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

			Fair Value Measurements		
December 31, 2019 ($ in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	$ 168,864	$ 168,864	$ 168,864	$ -	$ -
Securities available-for-sale	765,087	765,087	4,894	749,440	10,753
Loans, net	2,597,260	2,560,668	-	-	2,560,668
Accrued interest receivable	14,802	14,802	-	4,246	10,556
Liabilities:					
Non-interest-bearing deposits	$ 723,208	$ 723,208	$ -	$ 723,208	$ -
Interest-bearing deposits	2,353,325	2,339,537	-	2,339,537	-
Subordinated debentures	80,678	80,330	-	-	80,330
FHLB and other borrowings	214,319	214,319	-	214,319	-
Accrued interest payable	2,508	2,508	-	2,508	-

			Fair Value Measurements		
December 31, 2018 ($ in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	$ 159,107	$ 159,107	$ 159,107	$ -	$ -
Securities available-for-sale	492,224	492,224	-	483,776	8,448
Securities held-to-maturity	6,000	7,028	-	7,028	-
Loans, net	2,055,195	2,020,782	-	-	2,020,782
Accrued interest receivable	10,778	10,778	-	2,673	8,105
Liabilities:					
Non-interest-bearing deposits	$ 570,148	$ 570,148	$ -	$ 570,148	$ -
Interest-bearing deposits	1,887,311	1,855,637	-	1,855,637	-
Subordinated debentures	80,521	76,986	-	-	76,986
FHLB and other borrowings	85,500	85,500	-	85,500	-
Accrued interest payable	1,519	1,519	-	1,519	-

NOTE S - REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract; (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company concluded that there was no change to the timing and pattern of revenue recognition for its current revenue streams or the presentation of revenue as gross versus net. No adjustment to retained earnings was required on the adoption date. Because there was no change to the timing and pattern of revenue recognition, there were no material changes to the Company's processes and internal controls.

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized within non-interest income. The guidance does not apply to revenue associated with financial instruments, including loans and investment securities that are accounted for under other GAAP, which comprise a significant portion of our revenue stream. A description of the Company's revenue streams accounted for under ASC 606 is as follows:

Service Charges on Deposit Accounts: The Company earns fees from deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed at the point in the time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company 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.

Interchange Income: The Company earns interchange fees from debit and credit card holder transaction conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided by the cardholder.

Gains/Losses on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the collectability of the transaction prices is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for December 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

Revenue by Operating Segments ($ in thousands)	Year Ended December 31, 2019 Commercial/ Retail Bank	Mortgage Banking Division	Holding Company	Total
Non-interest income				
Service charges on deposits				
Overdraft fees	$ 4,277	$ 1	$ -	$ 4,278
Other	3,558	2	-	3,560
Interchange income	8,024	-	-	8,024
Investment brokerage fees	83	-	-	83
Net gains (losses) on OREO	(144)	-	-	(144)
Net gains (losses) on sales of securities (a)	122	-	-	122
Other	3,977	5,985	1,062	11,024
Total non-interest income	$ 19,897	$ 5,988	$ 1,062	$ 26,947

($ in thousands)	Year Ended December 31, 2018 Commercial/ Retail Bank	Mortgage Banking Division	Holding Company	Total
Non-interest income				
Service charges on deposits				
Overdraft fees	$ 3,306	$ 2	$ -	$ 3,308
Other	2,483	2	-	2,485
Interchange income	5,247	-	-	5,247
Investment brokerage fees	43	-	-	43
Net (losses) gains on OREO	60	-	-	60
Net gains on sale of loans (a)	33	-	-	33
Net gains (losses) on sales of securities (a)	334	-	-	334
Other	3,142	4,044	1,865	9,051
Total non-interest income	$ 14,648	$ 4,048	$ 1,865	$ 20,561

(a) Not within scope of ASC 606

NOTE T – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through the date the financial statements were issued.

NOTE U - PARENT COMPANY FINANCIAL INFORMATION

The balance sheets, statements of income and cash flows for The First Bancshares, Inc. (parent company only) follow.

Condensed Balance Sheets

	December 31,	
($ in thousands)	2019	2018
Assets:		
Cash and cash equivalents	$ 5,941	$ 3,081
Investment in subsidiary bank	616,807	434,352
Investments in statutory trusts	496	496
Bank owned life insurance	4,200	4,087
Other	2,292	2,927
	$ 629,736	$ 444,943
Liabilities and Stockholders' Equity:		
Subordinated debentures	$ 80,678	$ 80,521
Advances from First Horizon Bank	5,354	-
Other	46	1,168
Stockholders' equity	543,658	363,254
	$ 629,736	$ 444,943

Condensed Statements of Income

	Years Ended December 31,		
($ in thousands)	2019	2018	2017
Income:			
Interest and dividends	$ 26	$ 11	$ 8
Dividend income	50,390	13,889	3,675
Other	1,062	1,865	51
	51,478	15,765	3,734
Expenses:			
Interest on borrowed funds	4,918	3,454	860
Legal and professional	3,401	3,833	1,097
Other	2,418	1,755	1,349
	10,737	9,042	3,306
Income before income taxes and equity in undistributed income of subsidiary	40,741	6,723	428
Income tax benefit	2,291	1,496	1,222
Income before equity in undistributed income of Subsidiary	43,032	8,219	1,650
Equity in undistributed income of subsidiary	713	13,006	8,966
Net income	$ 43,745	$ 21,225	$ 10,616

Condensed Statements of Cash Flows

($ in thousands)	Years Ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	$ 43,745	$ 21,225	$ 10,616
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed income of Subsidiary	(713)	(13,006)	(8,966)
Restricted stock expense	1,661	1,154	867
Gain on disposition of CVR	-	-	(51)
Other, net	1,185	1,364	(625)
Net cash provided by operating activities	45,878	10,737	1,841
Cash flows from investing activities:			
Investment in subsidiary bank	-	(27,000)	(35,000)
Net outlays for acquisitions	(32,363)	(47,041)	-
Net cash used in investing activities	(32,363)	(74,041)	(35,000)
Cash flows from financing activities:			
Dividends paid on common stock	(5,190)	(2,557)	(1,416)
Repurchase of restricted stock for payment of taxes	(63)	(23)	(329)
Common stock repurchased	(5,229)	-	-
Net proceeds from issuance of 2,012,500 shares	-	(237)	55,271
Proceeds (repayment) of borrowed funds	(173)	(16,000)	-
Issuance of subordinated debt	-	64,766	-
Net cash provided by (used in) financing Activities	(10,655)	45,949	53,526
Net increase(decrease) in cash and cash equivalents	2,860	(17,355)	20,367
Cash and cash equivalents at beginning of year	3,081	20,436	69
Cash and cash equivalents at end of year	$ 5,941	$ 3,081	$ 20,436

NOTE V - OPERATING SEGMENTS

The Company is considered to have three principal business segments in 2019, 2018, and 2017, the Commercial/Retail Bank, the Mortgage Banking Division, and the Holding Company.

	Year Ended December 31, 2019			
($ in thousands)	Commercial/ Retail Bank	Mortgage Banking Division	Holding Company	Total
Interest income	$ 147,500	$ 1,003	$ 26	$ 148,529
Interest expense	21,388	417	4,918	26,723
Net interest income (loss)	126,112	586	(4,892)	121,806
Provision (credit) for loan losses	3,781	(43)	-	3,738
Net interest income (loss) after provision for loan losses	122,331	629	(4,892)	118,068
Non-interest income	19,897	5,988	1,062	26,947
Non-interest expense	78,440	4,310	5,819	88,569
Income (loss) before income taxes	63,914	2,181	(9,649)	56,446
Income tax (benefit) expense	14,595	490	(2,384)	12,701
Net income (loss)	$ 49,319	$ 1,691	$ (7,265)	$ 43,745
Total Assets	$ 3,902,703	$ 26,231	$ 12,929	$ 3,941,863
Net Loans	2,584,385	12,875	-	2,597,260

($ in thousands)	Year Ended December 31, 2018 Commercial/ Retail Bank	Mortgage Banking Division	Holding Company	Total
Interest income	$ 98,758	$ 1,209	$ 11	$ 99,978
Interest expense	11,113	524	3,454	15,091
Net interest income (loss)	87,645	685	(3,443)	84,887
Provision (credit) for loan losses	2,259	(139)	-	2,120
Net interest income (loss) after provision for loan losses	85,386	824	(3,443)	82,767
Non-interest income	14,648	4,048	1,865	20,561
Non-interest expense	66,875	3,848	5,588	76,311
Income (loss) before income taxes	33,159	1,024	(7,166)	27,017
Income tax (benefit) expense	7,034	254	(1,496)	5,792
Net income (loss)	$ 26,125	$ 770	$ (5,670)	$ 21,225
Total Assets	$ 2,969,560	$ 23,865	$ 10,592	$ 3,003,986
Net Loans	2,038,395	16,799	-	2,055,195

($ in thousands)	Year Ended December 31, 2017 Commercial/ Retail Bank	Mortgage Banking Division	Holding Company	Total
Interest income	$ 65,118	$ 943	$ 8	$ 66,069
Interest expense	6,048	1	860	6,909
Net interest income (loss)	59,070	942	(852)	59,160
Provision (credit) for loan losses	475	31	-	506
Net interest income (loss) after provision for loan losses	58,595	911	(852)	58,654
Non-interest income	9,807	4,505	51	14,363
Non-interest expense	49,143	3,857	2,446	55,446
Income (loss) before income taxes	19,259	1,559	(3,247)	17,571
Income tax (benefit) expense	7,740	437	(1,222)	6,955
Net income (loss)	$ 11,519	$ 1,122	$ (2,025)	$ 10,616
Total Assets	$ 1,758,778	$ 32,234	$ 22,226	$ 1,813,238
Net Loans	1,196,365	25,443	-	1,221,808

NOTE W - SUMMARY OF QUARTERLY RESULTS OF OPERATIONS AND PER SHARE AMOUNTS (UNAUDITED)

($ in thousands, except per share amounts)	March 31	June 30	Sept. 30	Dec. 31
2019				
Total interest income	$ 33,273	$ 37,571	$ 37,241	$ 40,444
Total interest expense	6,142	6,799	6,782	7,000
Net interest income	$ 27,131	$ 30,772	$ 30,459	$ 33,444
Provision for loan losses	1,123	791	974	850
Net interest income after provision for loan losses	26,008	29,981	29,485	32,594
Total non-interest income	5,554	6,716	7,103	7,574
Total non-interest expense	21,893	20,891	20,825	24,960
Income tax expense	2,034	3,823	3,491	3,353
Net income available to common stockholders	$ 7,635	$ 11,983	$ 12,272	$ 11,855
Per common share:				
Net income, basic	$ 0.48	$ 0.69	$ 0.71	$ 0.64
Net income, diluted	0.63	0.70	0.74	0.72
Cash dividends declared	0.07	0.08	0.08	0.08
2018				
Total interest income	$ 18,758	$ 25,037	$ 25,628	$ 30,555
Total interest expense	2,379	3,468	3,959	5,285
Net interest income	$ 16,379	$ 21,569	$ 21,669	$ 25,270
Provision for loan losses	277	857	412	574
Net interest income after provision for loan losses	16,102	20,712	21,257	24,696
Total non-interest income	3,459	5,632	5,074	6,396
Total non-interest expense	14,596	19,680	19,786	22,249
Income tax expense	1,008	1,419	1,383	1,982
Net income available to common stockholders	$ 3,957	$ 5,245	$ 5,162	$ 6,861
Per common share:				
Net income, basic	$ 0.34	$ 0.40	$ 0.39	$ 0.48
Net income, diluted	0.34	0.40	0.39	0.48
Cash dividends declared	0.05	0.05	0.05	0.05
2017				
Total interest income	$ 15,753	$ 16,464	$ 16,708	$ 17,143
Total interest expense	1,585	1,629	1,773	1,922
Net interest income	14,168	14,835	14,935	15,221
Provision for loan losses	46	248	90	122
Net interest income after provision for loan losses	14,122	14,587	14,845	15,099
Total non-interest income	3,391	3,757	3,658	3,556
Total non-interest expense	16,095	15,070	11,888	12,390
Income tax expense	296	908	1,901	3,851
Net income available to common stockholders	$ 1,122	$ 2,366	$ 4,714	$ 2,414
Per common share:				
Net income, basic	$ 0.12	$ 0.26	$ 0.52	$ 0.23
Net income, diluted	0.12	0.26	0.51	0.23
Cash dividends declared	0.0375	0.0375	0.0375	0.0375

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 31, 2019. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. No changes were made to the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The First Bancshares, Inc.
Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation 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.

The Company's management, under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2019 based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on that assessment, our management believes that, as of December 31, 2019, the Company's internal control over financial reporting was effective based on those criteria.

As permitted by SEC guidance, management has excluded the operations of FPB and FFB from the scope of management's report on internal control over financial reporting, each of which was acquired during the year ended December 31, 2019. For the year ended December 31, 2019, FPB represented approximately 10.2% of total consolidated assets and 16.6% of total consolidated net income and FFB represented approximately 10.2% of total consolidated assets and 1.9% of total consolidated net income.

This Annual Report on Form 10-K contains an audit report of Crowe LLP, our independent registered public accounting firm, regarding internal control over financial reporting for the fiscal year ended December 31, 2019 pursuant to the rules of the SEC. Their report appears in the section captioned "Report of Independent Registered Public Accounting Firm" included in Part II. Item 8 – Financial Statements and Supplementary Data of this report.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information required by this item is set forth in our definitive proxy materials regarding our Annual Meeting of Shareholders to be held May 28, 2020, which proxy materials will be filed with the SEC on or about April 15, 2020.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is set forth in our definitive proxy materials regarding our Annual Meeting of Shareholders to be held May 28, 2020, which proxy materials will be filed with the SEC on or about April 15, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is set forth in our definitive proxy materials regarding our Annual Meeting of Shareholders to be held May 28, 2020, which proxy materials will be filed with the SEC on or about April 15, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is set forth in our definitive proxy materials regarding our Annual Meeting of Shareholders to be held May 28, 2020, which proxy materials will be filed with the SEC on or about April 15, 2020.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is set forth in our definitive proxy materials regarding our Annual Meeting of Shareholders to be held May 28, 2020, which proxy materials will be filed with the SEC on or about April 15, 2020.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. The following consolidated financial statements of The First Bancshares, Inc. and subsidiaries are incorporated as part of this Report under Item 8 – Financial Statements and Supplementary Data.

   Consolidated balance sheets – December 31, 2019 and 2018
   Consolidated statements of income – Years ended December 31, 2019, 2018, and 2017
   Consolidated statements of other comprehensive income – Years ended December 31, 2019, 2018, and 2017
   Consolidated statements of changes in stockholders' equity– Years ended December 31, 2019, 2018 and 2017
   Consolidated statements of cash flows –Years ended December 31, 2019, 2018, and 2017
   Notes to consolidated financial statements – December 31, 2019, 2018, and 2017

2. Consolidated Financial Statement Schedules:

   All schedules have been omitted, as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits required to be filed by Item 601 of Regulation S-K, by Item 15(b) are listed below.

(b) Exhibits:

All other financial statements and schedules are omitted as the required information is inapplicable or the required information is presented in the consolidated financial statements or related notes.

(a) 3. Exhibits:

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated October 12, 2016, by and among The First Bancshares, Inc., The First, A National Banking Association, and Gulf Coast Community Bank (incorporated herein by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on October 14, 2016).
2.2	Stock Purchase Agreement, dated October 12, 2016, by and between The First Bancshares, Inc. and A. Wilbert's Sons Lumber and Shingle Co. (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on October 14, 2016).
2.3	Agreement and Plan of Merger by and between The First Bancshares, Inc. and Southwest Banc Shares, Inc., dated October 24, 2017 (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 9, 2017).
2.4	Agreement and Plan of Merger by and between The First Bancshares, Inc. and Sunshine Financial, Inc., dated December 6, 2017 (incorporated herein by reference to Exhibit 2.4 to the Company's Annual Report on Form 10-K filed on March 16, 2018).
2.5	Agreement and Plan of Merger by and between The First Bancshares, Inc. and FMB Banking Corporation, dated July 23, 2018 (incorporated by reference to Exhibit 2.1 of the Company's Registration Statement on Form S-4 filed on September 13, 2018).
2.6	Agreement and Plan of Merger by and between The First Bancshares, Inc. and FPB Financial Corp., dated November 6, 2018 (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2018).

2.7	Agreement and Plan of Merger by and between The First Bancshares, Inc. and First Florida Bancshares, Inc., dated July 22, 2019 (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 8-K filed on July 23, 2019).
2.8	Agreement and Plan of Merger by and between The First Bancshares, Inc. and Southwest Georgia Financial Corp., dated December 18, 2019 (incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 8-K filed on December 18, 2019).
3.1	Amended and Restated Articles of Incorporation of The First Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 29, 2016).
3.2	Amendment to Amended and Restated Articles of Incorporation of The First Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 10-Q filed on August 9, 2018).
3.3	Amended and Restated Bylaws of The First Bancshares, Inc., effective as of March 17, 2016 (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on March 18, 2016).
4.1	Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 333-220491 on Form S-3 filed on September 15, 2017).
4.2	Form of Global Subordinated Note for The First Bancshares, Inc. 5.875% Fixed-to-Floating Rate Subordinated Notes Due 2028 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 1, 2018).
4.3	Form of Global Subordinated Note for The First Bancshares, Inc. 6.4% Fixed-to-Floating Rate Subordinated Notes Due 2023 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 1, 2018).
10.1	Note Purchase Agreement between the Company and the several purchasers of the Subordinated Notes, dated April 30, 2018 (incorporated herein by reference to Exhibit 10.1 to The Company's Current Report on Form 8-K filed on May 1, 2018).
10.2	Subordinated Note Purchase Agreement between the Company and the several purchasers of the Subordinated Notes, dated April 30, 2018 (incorporated herein by reference to Exhibit 10.2 to The Company's Current Report on Form 8-K filed on May 1, 2018).
10.3	Loan Agreement, dated as of December 5, 2016, by and between the Company, as Borrower, and First Tennessee Bank National Association, as Lender (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 9, 2016).
10.4	Employment Agreement dated May 31, 2011, between The First, A National Banking Association, and M. Ray Cole, Jr. (incorporated herein by reference to Exhibit 10.5 of The First Bancshares' Annual Report on Form 10-K filed on March 29, 2012).+
10.5	Change in Control Agreement dated as of February 1, 2017 between the Company and Dee Dee Lowery (incorporated herein by reference to Exhibit 10.1 of The First Bancshares' Current Report on Form 8-K filed on February 6, 2017).+
10.6	The First Bancshares, Inc. 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 4.3 to The First Bancshares' Registration Statement No. 333-171996 on Form S-8 filed on February 1, 2011).+
10.7	Amendment to 2007 Stock Incentive Plan effective May 28, 2015 (incorporated herein by reference to Exhibit 10.6 to The First Bancshares Annual Report on Form 10-K filed on March 30, 2016).+
10.8	Supplemental Executive Retirement Agreement between The First, A National Banking Association and M. Ray (Hoppy) Cole, Jr., as amended (incorporated herein by reference to Exhibit 10.9 to The First Bancshares Annual Report on Form 10-K filed on March 16, 2017).+

10.9	Supplemental Executive Retirement Agreement between The First, A National Banking Association and Donna T. Lowery, as amended (incorporated herein by reference to Exhibit 10.10 to The First Bancshares Annual Report on Form 10-K filed on March 16, 2017).+
10.10	Form of Supplemental Executive Retirement Agreements for Executives of The First, A National Banking Association (incorporated herein by reference to Exhibit 10.11 to The First Bancshares Annual Report on Form 10-K filed on March 16, 2017).+
10.11	Form of Stock Incentive Agreement for Restricted Stock Award pursuant to The First Bancshares, Inc. 2007 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed on March 16, 2018).+
21.1	Subsidiaries of The First Bancshares, Inc.*
23.1	Consent of Crowe LLP.*
23.2	Consent of T. E. Lott and Company, PA*
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.*
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.*
32.1	Section 1350 Certifications.**
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

*** Filed herewith.**
****Furnished herewith.**
+ Denotes management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE FIRST BANCSHARES, INC.

Date: March 16, 2020 By: /s/ M. Ray (Hoppy) Cole, Jr.
M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer and President (Principal Executive Officer)

Date: March 16, 2020 By: /s/ Dee Dee Lowery
Dee Dee Lowery
Executive VP and Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints M. Ray (Hoppy) Cole, Jr. and Donna T. (Dee Dee) Lowery, with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full and several powers of substitution and resubsititution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully as to all intents and purposes as each of the undersigned might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES	CAPACITIES	DATE
/s/ E. Ricky Gibson	Director and Chairman of the Board	March 16, 2020
/s/ Rodney D. Bennett	Director	March 16, 2020
/s/ David W. Bomboy	Director	March 16, 2020
/s/ Charles R. Lightsey	Director	March 16, 2020
/s/ Fred McMurry	Director	March 16, 2020
/s/ Thomas E. Mitchell	Director	March 16, 2020
/s/ Ted E. Parker	Director	March 16, 2020
/s/ J. Douglas Seidenburg	Director	March 16, 2020
/s/ Andrew D. Stetelman	Director	March 16, 2020
/s/ M. Ray (Hoppy) Cole, Jr.	CEO, President and Director (Principal Executive Officer)	March 16, 2020
/s/ Donna T. (Dee Dee) Lowery	Executive VP & Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2020

EXHIBIT 21.1

SUBSIDIARIES OF
THE FIRST BANCSHARES, INC.

The First, A National Banking Association
(a nationally chartered banking association)

The First Bancshares Statutory Trust 2
(Delaware statutory trust)

The First Bancshares Statutory Trust 3
(Delaware statutory trust)

FMB'S Capital Trust 1

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-3, No. 333-220491 and Registration Statement on Form S-8, No. 333-171996 of The First Bancshares, Inc. of our report dated March 16, 2020 on the consolidated financial statements and the effectiveness of internal control over financial reporting of The First Bancshares, Inc. and subsidiary, which are included in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ CROWE LLP

Atlanta, Georgia
March 16, 2020

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-3, No. 333-220491 and Registration Statement on Form S-8, No. 333-171996 of The First Bancshares, Inc. of our report dated March 16, 2018 on the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows of The First Bancshares, Inc. and subsidiary, for the year ended December 31, 2017 included in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ T. E. LOTT AND COMPANY, PA

Columbus, Mississippi
March 16, 2020

EXHIBIT 31.1
CERTIFICATIONS

I, M. Ray (Hoppy) Cole, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of The First Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 16, 2020

/s/ M. Ray (Hoppy) Cole, Jr.
M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer

EXHIBIT 31.2
CERTIFICATIONS

I, Donna T. (Dee Dee) Lowery, certify that:

1. I have reviewed this annual report on Form 10-K of The First Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/s/ Donna T. (Dee Dee) Lowery
Donna T. (Dee Dee) Lowery
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS

In connection with the Annual Report on Form 10-K of The First Bancshares, Inc. (the "Company") for the year ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), M. Ray (Hoppy) Cole, Jr., as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2020

/s/ M. Ray (Hoppy) Cole, Jr.
M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer

In connection with the Annual Report on Form 10-K of The First Bancshares, Inc. (the "Company") for the year ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Dee Dee Lowery, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 16, 2020

/s/ Donna T. (Dee Dee) Lowery
Donna T. (Dee Dee) Lowery
Chief Financial Officer