FIRST BANCSHARES, INC.

Annual Report

December 31, 2022

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Letter to Shareholders

Dear Fellow Shareholders:

It is my pleasure to announce that despite the challenges created by continued political and social unrest, rapidly rising interest rates, persistent inflation, and volatility in the economy, First Bancshares, Inc. (FBSI) and its subsidiary Stockmens Bank recorded their best operating results in the combined company's history. We accomplished this feat while simultaneously emphasizing asset quality and positioning the Bank to weather a looming recession. Additionally, the Bank was fortunate to have refrained from purchasing low yielding securities leading up to the current interest rate environment.

First Bancshares, Inc. continues to improve in all categories of the balance sheet with the loan portfolio growing 18.89%, core deposits growing 5.63%, and capital reserves increasing by 7.76%. These performance results prompted the Company to continue its practice of paying an annual dividend to our shareholders. The Board of Directors approved the payment of a $0.30 per share cash dividend to shareholders of record as of April 1, 2023 and paid on April 15, 2023.

Total assets, liabilities, and equity on December 31, 2022 totaled $471.7 million, $424.1 million, and $47.6 million compared to $446.9 million, $402.7 million, and $44.2 million at December 31, 2021, respectively. Net income for the year totaled $5,282,812, or $2.16 per share, compared to $5,092,753, or $1.96 per share for the year ended December 31, 2021.

We look forward to seeing you at our Annual Shareholders Meeting on Tuesday, April 25, 2023, at 11:00 a.m. Mountain Time via a WebEx virtual conference call. In anticipation of the meeting, you should have received this year's Annual Report via mail or electronically from your broker, your First Bancshares' proxy materials, and notice of our annual shareholder meeting. We ask you to vote on the two proposals. Voting is easy and can be done via return mail, telephone, or online; those details are provided in the materials you received. Due to the virtual nature of the meeting this year, we highly suggest you vote using the telephonic or online voting methods provided in your materials. If you need information regarding the proxy materials or the Annual Meeting, please contact Shannon Peterson, Corporate Secretary, at (417) 547-7232 or Shannon.peterson@thestockmensbank.com.

Thank you for your continued support of our Company.

Sincerely,

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

Business of the Company

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

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

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

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

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

At December 31, 2022, the Company had total consolidated assets of $471.7 million and consolidated stockholders' equity of $47.6 million.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

	At December 31,			
	2022	2021	2020	2019
	(In thousands)			
FINANCIAL CONDITION DATA:				
Total Assets	**$ 471,715**	$ 446,850	$ 406,279	$ 352,585
Loans receivable, net	**405,122**	340,767	291,511	268,959
Cash, interest-bearing deposits and securities	**34,434**	76,663	86,818	61,035
Deposits	**420,692**	398,281	356,489	303,264
Repurchase agreements	**864**	490	1,625	5,686
FHLB Advances	**-**	-	500	499
Other Borrowings	**-**	1,500	-	-
Stockholders' equity	**47,586**	44,161	42,765	37,667

	Years Ended			
	2022	2021	2020	2019
	(In thousands, except per share information)			
OPERATING DATA:				
Interest income	**$ 19,388**	$ 17,567	$ 16,288	$ 16,760
Interest expense	**1,650**	1,137	2,330	3,281
Net interest income	**17,738**	16,430	13,958	13,479
Provision for loan losses	**1,100**	1,342	856	1,236
Net interest income after provision for loan losses	**16,638**	15,088	13,102	12,243
Gains (losses) on securities	**-**	128	62	13
Non-interest income, excluding gains (losses) on securities	**1,717**	1,597	1,141	1,299
Non-interest expense	**11,216**	10,103	9,164	8,797
Income (loss) before taxes	**7,139**	6,710	5,141	4,758
Income tax expense (benefit)	**1,856**	1,617	1,197	1,185
Net income (loss)	**$ 5,283**	$ 5,093	$ 3,944	$ 3,573
Basic earnings (loss) per share	**$ 2.16**	$ 1.96	$ 1.49	$ 1.41
Diluted earnings (loss) per share	**$ 2.16**	$ 1.96	$ 1.49	$ 1.41
Dividends per share	**$ 0.30**	$ 0.25	$ 0.24	$ 0.24

	Years Ended			
	2022	2021	2020	2019
KEY OPERATING RATIOS:				
Return (loss) on average assets	**1.14**	1.20	1.04	1.00
Return (loss) on average equity	**11.64**	11.65	9.61	10.00
Average equity to average assets	**9.82**	10.34	10.81	10.04
Interest rate spread for period	**4.03**	4.03	3.69	3.84
Net interest margin for period	**4.06**	4.05	3.73	3.89
Non-interest expense to average assets	**2.43**	2.39	2.41	2.47
Average interest-earning assets to interest-bearing liabilities	**106.18**	106.37	106.32	106.51
Allowance for loan losses to total loans at end of period	**1.61**	1.59	1.40	1.23
Net charge-offs (recoveries) to average loans outstanding during the period	**(0.01)**	0.00	(0.05)	0.04
Dividend payout ratio	**0.30**	0.25	0.24	0.24

	At December 31,			
	2022	2021	2020	2019
OTHER DATA:				
Number of:				
Loans outstanding	**2,088**	1,925	2,051	2,033
Deposit accounts	**15,449**	15,941	15,999	16,125
Full service offices	**11**	10	10	10

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of First Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of First Bancshares, Inc. and Subsidiary for the year ended December 31, 2021, were audited by other auditors, who expressed an unmodified opinion on those statements on February 11, 2022.

Responsibilities of Management for the Financial Statements

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

(Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of First Bancshares, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Denver, Colorado
March 6, 2023

FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from banks	$ 10,069,333	$ 28,551,725
Federal funds sold	11,712,000	33,805,000
Cash and cash equivalents	21,781,333	62,356,725
Term deposits in other financial institutions	980,733	1,225,401
Investment securities – available for sale	12,551,594	14,200,270
Investment securities – held to maturity (fair value $100,640 and $105,520 as of December 31, 2022 and 2021, respectively)	100,640	105,520
Total securities	12,652,234	14,305,790
Loans, net of allowance of $6,645,524 and $5,492,923 as of December 31, 2022 and 2021, respectively	405,121,845	340,766,817
Federal Home Loan Bank stock – cost	451,900	408,100
Premises and equipment – net	9,235,928	9,210,653
Goodwill	1,431,179	1,431,179
Core deposit intangible	369,300	512,255
Deferred tax asset, net	1,546,220	781,649
Bank-owned life insurance	9,642,098	9,380,545
Other assets	8,502,463	6,471,086
Total assets	$ 471,715,233	$ 446,850,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest-bearing	$ 179,390,793	$ 173,316,211
Interest-bearing	241,301,439	224,964,892
Total deposits	420,692,232	398,281,103
Repurchase agreements	863,961	489,696
Other borrowings	-	1,500,000
Accrued expenses and other liabilities	2,572,976	2,418,653
Total liabilities	424,129,169	402,689,452
Stockholders' equity		
Preferred stock, $0.01 par value; authorized 2,000,000 shares at December 31, 2022 and 2021, none issued and outstanding	-	-
Common stock, voting, $0.01 par value; authorized 8,000,000 shares at December 31, 2022 and 2021; issued 4,038,397 and 4,038,447 at December 31, 2022 and 2021, respectively; outstanding 2,439,582 and 2,442,377 at December 31, 2022 and 2021, respectively	40,384	40,384
Treasury stock, at cost, 1,598,865 and 1,596,070 shares at December 31, 2022 and 2021	(22,947,483)	(22,898,016)
Additional paid-in capital	32,015,831	32,015,831
Retained earnings	39,764,940	35,214,838
Accumulated other comprehensive loss	(1,287,608)	(212,289)
Total stockholders' equity	47,586,064	44,160,748
	$ 471,715,233	$ 446,850,200

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2022 and 2021

	2022	2021
Interest income		
Loans, including fees	$ 18,801,847	$ 17,259,593
Investment securities	141,089	202,003
Dividends	10,208	3,827
Other	434,792	101,187
Total interest income	19,387,936	17,566,610
Interest expense		
Deposits	1,571,998	1,123,708
Repurchase agreements	6,296	9,374
Other interest expense	72,033	3,697
Total interest expense	1,650,327	1,136,779
Net interest income	17,737,609	16,429,831
Provision for loan losses	1,100,000	1,341,964
Net interest income after provision for loan losses	16,637,609	15,087,867
Noninterest income		
Service charges – deposits	1,001,830	1,024,132
Gain on sale of investment securities	-	127,524
Increase in cash surrender of value of bank-owned life insurance	261,553	253,373
Gain on sale of premises and equipment	-	129,777
Gain on sale of real estate owned and other repossessed assets	-	7,953
Other	453,218	182,390
Total noninterest income	1,716,601	1,725,149
Noninterest expense		
Salaries and employee benefits	6,676,386	5,813,766
Occupancy and equipment	1,829,299	1,684,519
Professional fees	352,008	291,128
Other	2,357,891	2,313,947
Total noninterest expense	11,215,584	10,103,360
Income before income taxes	7,138,626	6,709,656
Income tax expense	1,855,814	1,616,903
Net income	$ 5,282,812	$ 5,092,753

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2022 and 2021

	2022	2021
Net income	$ 5,282,812	$ 5,092,753
Other comprehensive loss:		
Unrealized gains (losses) on securities:		
Unrealized holding losses arising during the period	(1,433,758)	(512,628)
Reclassification adjustment for gains included in net income	-	(127,524)
Tax effect	358,439	160,038
Total other comprehensive loss	(1,075,319)	(480,114)
Comprehensive income	$ 4,207,493	$ 4,612,639

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2022 and 2021

	Common Shares Amount	Common Stock	Treasury Shares Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2021	2,614,655	$ 40,384	1,423,792	$(20,334,774)	$ 32,015,831	$ 30,775,370	$ 267,825	$ 42,764,636
Net income	-	-	-	-	-	5,092,753	-	5,092,753
Other comprehensive income	-	-	-	-	-	-	(480,114)	(480,114)
Purchase of treasury stock	(172,278)	-	172,278	(2,563,242)	-	-	-	(2,563,242)
Cash dividends declared ($0.25 per share)	-	-	-	-	-	(653,285)	-	(653,285)
Balance, December 31, 2021	2,442,377	40,384	1,596,070	(22,898,016)	32,015,831	35,214,838	(212,289)	44,160,748
Net income	-	-	-	-	-	5,282,812	-	5,282,812
Other comprehensive income	-	-	-	-	-	-	(1,075,319)	(1,075,319)
Purchase of treasury stock	(2,795)	-	2,795	(49,467)	-	-	-	(49,467)
Cash dividends declared ($0.30 per share)	-	-	-		-	(732,710)	-	(732,710)
Balance, December 31, 2022	2,439,582	$ 40,384	1,598,865	$(22,947,483)	$ 32,015,831	$ 39,764,940	$ (1,287,608)	$ 47,586,064

See accompanying notes to consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net income	$ 5,282,812	$ 5,092,753
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation and amortization	760,024	776,504
Provision for loan losses	1,100,000	1,341,964
Net premium amortization of securities	39,918	81,517
Deferred income tax benefit	(406,131)	(145,906)
Gain on sale of premises and equipment	-	(129,777)
Gain on sale of real estate owned and repossessed assets	-	(7,953)
Gain on sale of investment securities	-	(127,524)
Increase in cash surrender value of bank-owned life insurance	(261,553)	(253,373)
Net change in:		
(Increase) decrease in other assets	(2,031,378)	462,067
Increase in accrued expenses and other liabilities	154,323	344,874
Net cash from operating activities	4,638,015	7,435,146
Cash flows from investing activities		
Net decrease in term deposits in other financial institutions	244,668	527,694
Purchase of securities available for sale	-	(15,926,687)
Proceeds from sales, maturities, calls, and principal paydowns of securities available for sale	175,000	22,057,039
Proceeds from maturities, calls, and principal paydowns of securities held to maturity	4,880	4,617
Proceeds from sales of real estate owned and repossessed assets	-	25,373
Net increase in loans receivable	(65,455,028)	(50,597,497)
Purchases of premises and equipment	(642,344)	(1,490,535)
Proceeds from sales of premises and equipment	-	1,149,998
Purchase of Federal Home Loan Bank stock	(43,800)	(46,300)
Net cash used in investing activities	(65,716,624)	(44,296,298)
Cash flows from financial activities		
Net increase in deposits	22,411,129	39,648,381
Net increase (decrease) in repurchase agreements	374,265	(1,135,130)
Repayment of other borrowings	(1,500,000)	-
Repayment of subordinated borrowings	-	(2,500,000)
Repayment of Federal Home Loan Bank borrowings	-	(499,953)
Purchase of common stock for treasury	(49,467)	(2,563,242)
Cash dividends paid on common stock	(732,710)	(653,285)
Proceeds from other borrowings	-	1,500,000
Net cash from financial activities	20,503,217	33,796,771
Net decrease in cash and cash equivalents	(40,575,392)	(3,064,381)
Cash and cash equivalents at beginning of year	62,356,725	65,421,106
Cash and cash equivalents at end of year	$ 21,781,333	$ 62,356,725
Supplemental cash flow information		
Interest paid	$ 1,620,979	$ 1,243,650
Income taxes paid	2,170,755	1,752,280

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southern Missouri, eastern Colorado, and southwestern Nebraska. The Company and the Bank are also subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

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

Concentrations of Credit Risk: Most of the Company's lending activity is with customers located within Missouri, Colorado, and Nebraska. The customers are located in 11 counties in southwest Missouri, 3 rural counties in southwestern Nebraska, 1 county in northeast Colorado, and 4 counties surrounding the metropolitan area of Colorado Springs, Colorado. The Company's loan portfolio consists of residential real estate, commercial real estate (including farmland), land, commercial (including agricultural), and consumer loans. As of December 31, 2022 and 2021, the Company does not have any significant concentrations within any one industry or with any one customer.

Cash and Cash Equivalents: For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and deposits with other financial institutions with maturities fewer than 90 days. Cash equivalents include highly liquid instruments with an original maturity of three months or less. Cash flows from interest-bearing deposits in other financial institutions, loans, deposits, and retail repurchase agreements are reported net.

Term Deposits in Other Financial Institutions: Term deposits in other financial institutions are carried at cost and have maturities ranging from May 2023 to December 2026.

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates debt securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt 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 debt 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.

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

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

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

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

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

Allowance for Loan Losses: The allowance for loan losses (the "allowance") is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific reserve relates to loans that are classified as impaired, and an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

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

A troubled debt restructuring of a loan is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule and is classified as impaired. All modified loans are evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan under terms that the Company would not otherwise consider. To make this determination, the Company must determine whether (a) the borrower is experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition does not inherently mean the borrower is experiencing financial difficulties.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) the borrower is currently in default on its debts, (2) the borrower has declared or is in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component covers loans that are collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent two years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

Residential real estate loans include loans secured by residential real estate, including single-family, multi-family dwellings, and construction and land development loans. Hazard insurance is normally required. Adverse economic conditions in the Company's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans. The risk of loss on a residential real estate loan is primarily dependent on borrower’s ability to repay and secondarily dependent upon the property’s value upon default.

Commercial loans include loans secured by commercial real estate or business assets (non-real estate). Often commercial loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Commercial loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business. Commercial non-real estate loans are generally secured by accounts receivable, inventory and equipment. The collateral securing commercial non-real estate loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Adverse economic conditions may affect the repayment ability of these loans.

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

Consumer and other loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by customer deposit accounts, vehicles and other household goods. The collateral securing consumer loans may depreciate over time.

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

Real Estate Owned and Repossessed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and initially recorded at the fair value of the real estate, less estimated costs to sell, through a charge to the allowance for loan losses, if necessary. Subsequent to foreclosure, valuations are periodically performed by management, and write- downs required by changes in estimated fair value are charged against earnings through a valuation allowance and reported in other noninterest expenses.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Repurchase Agreements: Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. Securities sold under agreements to repurchase generally mature within one day to 12 months from the transaction date.

Goodwill and Intangibles: Goodwill results from the Company's acquisition ("the acquisition") of Stockmens Bank effective July 31, 2017 and represents the excess of the purchase price over the fair value of the acquired assets, liabilities, and identifiable intangible assets. Goodwill is subject to an impairment test annually or more often if conditions indicate a possible impairment.

The recorded amounts of goodwill from prior business combinations are based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized but rather is assessed at least on an annual basis for impairment.

The core deposit intangible asset resulted from the acquisition and is amortized using the straight-line method over its useful life of 8.1 years. The core deposit intangible had an original value of $1,144,000, and amortization expense for the years ended December 31, 2022 and 2021 was $142,955.

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

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

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Stock-Based Compensation: The Company applies the recognition and measurement of stock-based compensation accounting rules for stock-based compensation, which is referred to as the fair value method. Compensation cost is based on the fair value of equity issued to employees. No stock options have been granted since 2007 and there are no unvested or unexcercised stock options outstanding.

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

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

Subsequent Events: The consolidated financial statements and related disclosures include evaluation of events up through and including March 6, 2023, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – SECURITIES

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

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

(Continued)

NOTE 2 – SECURITIES (Continued)

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Agencies	$ 10,996,994	$ -	$ (258,884)	$ 10,738,110
Municipal securities	3,486,328	12,198	(36,366)	3,462,160
Total available for sale	$ 14,483,322	$ 12,198	$ (295,250)	$ 14,200,270
Held to maturity				
Municipal securities	$ 105,520	$ -	$ -	$ 105,520

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2022 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, such as residential mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	December 31, 2022			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 135,024	$ 131,755	$ 100,640	$ 100,640
Due in one year through five years	10,347,206	9,239,512	-	-
Due after five years through ten years	3,786,174	3,180,327	-	-
	$ 14,268,404	$ 12,551,594	$ 100,640	$ 100,640

There were no realized gains or losses on the sale of securities during the year ended December 31, 2022. During the year ended December 31, 2021 realized gains on the sale of securities were $127,524.

The carrying value of securities pledged at December 31, 2022 and 2021 was approximately $1,687,000 and $13,770,000, respectively.

Information pertaining to investment securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale securities:						
Agencies	$ -	$ -	$ (1,422,690)	$ 9,574,860	$ (1,422,690)	$ 9,574,860
Municipal securities	(51,801)	591,297	(242,486)	2,123,722	(294,287)	2,715,019
	$ (51,801)	$ 591,297	$ (1,665,176)	$ 11,698,582	$ (1,716,977)	$ 12,289,879

NOTE 2 – SECURITIES (Continued)

	2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available-for-sale securities:						
Agencies	$ (228,265)	$ 9,768,730	$ (30,619)	$ 969,380	$ (258,884)	$ 10,738,110
Municipal securities	(36,366)	2,361,028	-	-	(36,366)	2,361,028
	$ (264,631)	$ 12,129,758	$ (30,619)	$ 969,380	$ (295,250)	$ 13,099,138

As of December 31, 2022 and 2021, the portfolio had 28 and 21 securities, respectively, in an unrealized loss position. Management evaluated its investments with unrealized losses for impairment, and, based on the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022 and 2021.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

At December 31, 2022 and 2021, loans consisted of the following:

	2022	2021
Construction and land development	$ 30,224,918	$ 19,862,466
Residential real estate	88,540,182	75,207,554
Commercial		
Commercial real estate	84,438,592	79,062,848
Commercial other	48,228,241	43,250,602
Agriculture		
Farmland real estate	118,330,873	93,489,655
Agriculture other	38,834,132	32,462,102
Consumer	3,031,866	2,753,883
Total loans	411,628,804	346,089,110
Deferred loan costs	138,565	170,630
Allowance for loan losses	(6,645,524)	(5,492,923)
Net loans	$ 405,121,845	$ 340,766,817

(Continued)

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

The Company's activity in the allowance for loan losses for the years ended December 31, 2022 and 2021, by loan segment, is summarized below:

	Year ended December 31, 2022					
	Construction and Land	Residential Real Estate	Commercial	Agriculture	Consumer	Total
Beginning balance	$ 316,455	$ 1,000,824	$ 2,096,432	$ 2,025,698	$ 53,514	$ 5,492,923
Provision	169,599	55,404	340,574	549,999	(15,576)	1,100,000
Charge-offs	-	-	-	-	-	-
Recoveries	813	20,772	30,652	-	364	52,601
Ending balance	$ 486,867	$ 1,077,000	$ 2,467,658	$ 2,575,697	$ 38,302	$ 6,645,524
Ending allowance balance Attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ 446,888	$ -	$ -	$ 446,888
Collectively evaluated for impairment	486,867	1,077,000	2,020,770	2,575,697	38,302	6,198,636
Ending allowance balance	$ 486,867	$ 1,077,000	$ 2,467,658	$ 2,575,697	$ 38,302	$ 6,645,524
Loans						
Individually evaluated for impairment	$ -	$ -	$ 4,868,859	$ 604,237	$ -	$ 5,473,096
Collectively evaluated for impairment	30,224,918	88,540,182	127,797,974	156,560,768	3,031,866	406,155,708
Total loans	$ 30,224,918	$ 88,540,182	$ 132,666,833	$ 157,165,005	$ 3,031,866	$ 411,628,804

(Continued)

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

	Year ended December 31, 2021					
	Construction and Land	Residential Real Estate	Commercial	Agriculture	Consumer	Total
Beginning balance	$ 211,123	$ 924,789	$ 1,534,908	$ 1,438,112	$ 29,680	$ 4,138,612
Provision	105,332	88,562	539,919	587,586	20,565	1,341,964
Charge-offs	-	(21,089)	-	-	(1,922)	(23,011)
Recoveries	-	8,562	21,605	-	5,191	35,358
Ending balance	$ 316,455	$ 1,000,824	$ 2,096,432	$ 2,025,698	$ 53,514	$ 5,492,923
Ending allowance balance						
Attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 2,844	$ 2,844
Collectively evaluated for impairment	316,455	1,000,824	2,096,432	2,025,698	50,670	5,490,079
Ending allowance balance	$ 316,455	$ 1,000,824	$ 2,096,432	$ 2,025,698	$ 53,514	$ 5,492,923
Loans						
Individually evaluated for impairment	$ -	$ -	$ 617,376	$ -	$ 720	$ 618,096
Collectively evaluated for impairment	19,862,466	75,207,554	121,696,074	125,951,757	2,753,163	345,471,014
Total loans	$ 19,862,466	$ 75,207,554	$ 122,313,450	$ 125,951,757	$ 2,753,883	$ 346,089,110

There were no purchased credit impaired (PCI) loans acquired in the Stockmens Bank transaction in 2017. For non-PCI loans, loan fair value adjustments consist of an accreditable yield and credit loss component on each individual loan, which is accreted to loan interest income based on the straight-line method over the estimated remaining life of loans. As these acquired loans are recorded at fair value, they are excluded from the Company's allowance for loan loss analysis for the purpose of determining required reserves; however, they are included in the total loan balance in the tables above. Subsequent deterioration results in an increase to the allowance for loan losses and provision expense.

(Continued)

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

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

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

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

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

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

The Company's credit quality indicators, by loan segment and class, at December 31, 2022 and 2021 are summarized below:

	Year ended December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$ 30,224,918	$ -	$ -	$ -	$ 30,224,918
Residential real estate	88,369,160	52,940	118,082	-	88,540,182
Commercial					
Commercial real estate	79,569,733	-	4,868,859	-	84,438,592
Commercial other	48,228,241	-	-	-	48,228,241
Agriculture					
Farmland real estate	118,330,873	-	-	-	118,330,873
Agriculture other	38,229,895	-	604,237	-	38,834,132
Consumer	3,031,866	-	-	-	3,031,866
	$ 405,984,686	$ 52,940	$ 5,591,178	$ -	$ 411,628,804

	Year ended December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Construction and land development	$ 19,862,466	$ -	$ -	$ -	$ 19,862,466
Residential real estate	75,021,388	-	186,166	-	75,207,554
Commercial					
Commercial real estate	77,923,118	-	1,139,730	-	79,062,848
Commercial other	43,250,602	-	-	-	43,250,602
Agriculture					
Farmland real estate	93,489,655	-	-	-	93,489,655
Agriculture other	32,462,102	-	-	-	32,462,102
Consumer	2,753,883	-	-	-	2,753,883
	$ 344,763,214	$ -	$ 1,325,896	$ -	$ 346,089,110

(Continued)

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

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

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2022 and 2021:

	December 31, 2022		December 31, 2021	
	Nonaccrual by Class	Over 89 Days Past Due Still Accruing	Nonaccrual by Class	Over 89 Days Past Due Still Accruing
Residential real estate	$ 10,194	$ -	$ -	$ -
Commercial other	604,237	-	576,719	-
Total	$ 614,431	$ -	$ 576,719	$ -

The following tables present the aging of the recorded investment in past due loans as of December 31, 2022 and 2021 by class of loans:

	Year ended December 31, 2022				
	30-59 Days Past Due	60-89 Days Past Due	Over 89 Days Past Due	Not Past Due	Total
Construction and land development	$ -	$ -	$ -	$ 30,224,918	$ 30,224,918
Residential real estate	190,729	91,030	10,194	88,248,229	88,540,182
Commercial					
Commercial real estate	-	-	-	84,438,592	84,438,592
Commercial other	-	-	-	48,228,241	48,228,241
Agriculture					
Farmland real estate	-	-	-	118,330,873	118,330,873
Agriculture other	1,883	45,062	-	38,787,187	38,834,132
Consumer	-	-	-	3,031,866	3,031,866
	$ 192,612	$ 136,092	$ 10,194	$ 411,289,906	$ 411,628,804

	Year ended December 31, 2021				
	30-59 Days Past Due	60-89 Days Past Due	Over 89 Days Past Due	Not Past Due	Total
Construction and land development	$ -	$ -	$ -	$ 19,862,466	$ 19,862,466
Residential real estate	414,738	154,221	-	74,638,595	75,207,554
Commercial					
Commercial real estate	-	-	-	79,062,848	79,062,848
Commercial other	-	-	-	43,250,602	43,250,602
Agriculture					
Farmland real estate	-	-	-	93,489,655	93,489,655
Agriculture other	2,025,746	-	-	30,436,356	32,462,102
Consumer	-	-	-	2,753,883	2,753,883
	$ 2,440,484	$ 154,221	$ -	$ 343,494,405	$ 346,089,110

(Continued)

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

The following table presents information for impaired loans for the years ended December 31, 2022 and 2021:

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

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
With no related allowance recorded:				
Commercial real estate	$ 433,483	$ 433,483	$ -	$ 311,779
Commercial other	183,893	183,893	-	180,644
Subtotal	617,376	617,376	-	492,423
With an allowance recorded:				
Consumer	720	720	2,844	20,355
Total	$ 618,096	$ 618,096	$ 2,844	$ 512,778

Impaired loans for which no allowance has been provided as of December 31, 2022 and 2021 have adequate collateral based on management's current estimates. Interest income recognized for the years ended December 31, 2022 and 2021 on these impaired loans is not material.

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

(Continued)

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

Troubled Debt Restructurings: As of December 31, 2022, the Company has a recorded investment in one loan classified as a troubled debt restructuring of $1,078,471. The modification of the loan performed during the year ended December 31, 2022 included an extension of the maturity date at a stated rate of interest lower than the current market rate. The Company has allocated no specific allowance for this loan as of December 31, 2022 and has committed to lend no additional amounts to those borrowers. As of December 31, 2021, the Company has a recorded investment in troubled debt restructurings of $56,000. The Company has allocated no specific allowance for those loans as of December 31, 2021 and has committed to lend no additional amounts to those borrowers. There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2022 and 2021.

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

NOTE 4 – PREMISES AND EQUIPMENT

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

	2022	2021
Land	$ 1,075,482	$ 1,048,296
Buildings and building improvements	11,671,136	11,050,951
Furniture, fixtures and equipment	5,285,450	4,940,658
Vehicles	91,493	91,493
Construction in progress	21,445	380,488
	18,145,006	17,511,886
Less: accumulated depreciation	(8,909,078)	(8,301,233)
Net premises and equipment	$ 9,235,928	$ 9,210,653

Buildings and building improvements include right of use assets of $1,261,594 and $1,351,460 at December 31, 2022 and 2021, respectively. Depreciation expense was approximately $617,000 and $558,000 for 2022 and 2021, respectively.

NOTE 5 – LEASES

Operating leases are recorded as right of use assets and lease liabilities are included in premises and equipment, net and accrued expenses and other liabilities, respectively, in the Consolidated Balance Sheets. The Company is obligated under an operating lease from a related party for the Bank's full-service branch office in Colorado Springs, Colorado, expiring in 2031. The Company has the option to renew this lease for one additional term of 36 months. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The right of use asset and related lease liability have been calculated using a discount rate of 3.63%, which is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The lease requires the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $177,637 and $177,866 for 2022 and 2021, respectively, and is included in occupancy and equipment in the Consolidated Statements of Operations.

(Continued)

NOTE 5 – LEASES (Continued)

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

The following is a schedule by year of future undiscounted lease payments under the operating lease, together with the present value of net minimum lease payments at year-end 2022.

2023	$ 157,452
2024	157,452
2025	157,452
2026	157,452
2027	157,452
Thereafter	984,075
Total undiscounted lease payments	1,771,335
Less: imputed interest	(121,715)
Net lease liabilities	$ 1,649,620

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

		December 31, 2022	December 31, 2021
Right of use assets:			
Operating leases	Premises, and equipment, net	$ 1,261,594	$ 1,351,460
Lease liabilities:			
Operating leases	Accrued expenses and other liabilities	$ 1,649,620	$ 1,774,328

Supplemental Lease Information

	December 31, 2022	December 31, 2021
Operating lease weighted average remaining lease term (years)	9.9	10.9
Operating lease weighted average discount rate	3.63%	3.63%
Cash paid for amounts included in the measurement of lease liabilities	183,144	157,452
Right of use assets obtained in exchange for new lease liabilities	-	215,535

(Continued)

NOTE 6 – DEPOSITS

The following is a summary of the distribution of deposits at December 31, 2022 and 2021:

	2022	2021
Non-interest bearing deposits	$ 179,390,793	$ 173,316,211
Interest-bearing deposits	135,246,740	110,427,919
Savings	39,151,308	36,545,679
Money market savings	13,700,593	14,562,442
Time deposits	53,202,798	63,428,852
	$ 420,692,232	$ 398,281,103

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2022 and 2021 totaled $8,372,671 and $10,887,254, respectively.

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

2023	$ 36,944,637
2024	8,660,837
2025	4,066,730
2026	2,382,290
2027	1,019,310

NOTE 7 – REPURCHASE AGREEMENTS

The Bank offers repurchase agreements as an additional product offering to its customers. Repurchase agreements allow customers to have excess checking account balances swept from the checking accounts into a noninsured, interest-bearing account. The customers' investment in these noninsured accounts is $863,961 and $489,696 as of December 31, 2022 and 2021, respectively. Repurchase agreements are secured by securities of the Bank pledged at FHLB for that purpose with a carrying amount of $863,961 and $489,696 at year-end 2022 and 2021. The agreements mature daily and carry a weighted-average interest rate of 0.50% at December 31, both 2022 and 2021.

NOTE 8 – BORROWINGS

Advances from the Federal Home Loan Bank were $0 at both December 31, 2022 and 2021. At December 31, 2022, the Company had outstanding letters of credit at the FHLB of approximately $18,000,000. Advances and letters of credit were collateralized by a blanket collateral pledge agreement under which the Company had pledged loans with a carrying value of approximately $42,351,000 at December 31, 2022. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $24,351,000.

The Company entered into a line of credit on November 30, 2021 with Bankers' Bank of the West for an amount up to $5,000,000. The line of credit is collateralized by the stock of the Bank and matures on November 30, 2023. At December 31, 2022, there was no outstanding balance on the line of credit with a variable interest rate based on the national prime rate with a floor of 3.25%. As of December 31, 2022, the interest rate was 7.50%.

(Continued)

NOTE 8 – BORROWINGS (Continued)

On September 30, 2015, the Company signed a promissory note payable to Community Funding CLO, Ltd. for $2,500,000, which was paid in full during 2021. The note had a maturity date of October 1, 2025 and interest at a rate of 7.10%, fixed for the remaining life of the note. The Company paid the note without penalty upon the five-year anniversary of the closing date. The debt was unsecured and subordinate to claims of senior and general creditors.

NOTE 9 – INCOME TAXES

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

	2022	2021
Current income tax expense	$ 2,261,945	$ 1,762,809
Deferred income tax benefit	(406,131)	(145,906)
Total	$ 1,855,814	$ 1,616,903

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

	2022	2021
Income tax expense, computed at 21% of pretax income	$ 1,499,111	$ 1,409,027
State income tax expense	328,788	299,009
Tax-exempt income	(11,303)	(21,144)
Bank-owned life insurance	(54,926)	(53,208)
Other, net	94,144	(16,781)
Total provision for income taxes	$ 1,855,814	$ 1,616,903

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

	2022	2021
Deferred tax assets:		
Allowance for doubtful accounts	$ 1,658,058	$ 1,370,675
Loan fair value adjustments	41,007	55,660
Net unrealized loss on available-or-sale securities	429,203	70,763
Lease liability	412,620	441,649
Other	81,255	-
Gross deferred tax assets	2,622,143	1,938,747
Deferred tax liabilities:		
Premises and equipment	(424,213)	(440,349)
Core deposit intangible	(92,140)	(127,826)
Investment in partnership interest	(105,001)	(101,833)
FHLB stock dividends	(7,249)	(5,279)
Right of Use Asset	(314,768)	(339,170)
Prepaid expenses	(37,525)	(55,267)
Deferred loan costs, net of fees	(34,573)	(42,578)
Other	(60,454)	(44,796)
Gross deferred tax liabilities	(1,075,923)	(1,157,098)
Net deferred tax asset	$ 1,546,220	$ 781,649

(Continued)

NOTE 9 – INCOME TAXES (Continued)

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

The Company has no unrecognized tax benefits as of December 31, 2022 and 2021. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income tax expense accounts; no such accruals existed as of December 31, 2022 and 2021. The Company and its subsidiaries file U.S. Corporation federal, Colorado, and Missouri income tax returns. The returns are subject to examination by the taxing authority for all years after 2017.

NOTE 10 – GOODWILL AND INTANGIBLE ASSETS

Intangible assets of the Company as and for the years ended December 31, 2022 and 2021 are summarized as follows:

	2022		2021	
	Net Carrying Amount	Amortization Expense	Net Carrying Amount	Amortization Expense
Amortized intangible assets				
Core deposit intangible	$ 369,300	$ 142,955	$ 512,255	$ 142,955

The balance of goodwill for the years ended December 31, 2022 and 2021 was the result of the Stockmens Bank acquisition in 2017. Goodwill has an indefinite life.

The recorded amounts of goodwill at December 31, 2022 and 2021 are as follows:

	2022	2021
Goodwill	$ 1,431,179	$ 1,431,179

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2022, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

(Continued)

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Bank had participated in a multiple-employer defined benefit pension plan covering substantially all employees. In fiscal year 2006, the Bank opted to freeze the plan. Participants in the plan became entitled to their vested benefits at the date it was frozen. The Bank limited its future obligations to the funding amount required by the annual actuarial evaluation of the plan and administrative costs. No participants will be added to the plan. Pension expense for the years ended December 31, 2022 and 2021 was approximately $32,934 and $60,000, respectively.

The Stockmens Bank Employee Stock Ownership Plan and Trust and the Stockmens Bank 401(k) Savings Plan (together replacing the First Home Bank Employee Stock Ownership and 401(k) Plan as of January 1, 2020) cover all employees who are age 18 and have completed 90 days of service (age 21 and six months of service until January 1, 2020). The Company makes contributions on a matching basis of 100 percent on the first 3 percent of employee deferrals and 50 percent on the next 2 percent of employee deferrals. Expense for the employee stock ownership and 401(k) plans for the years ended December 31, 2022 and 2021 was $139,353 and $182,172, respectively.

NOTE 12 – STOCK OPTION PLAN

During 2019, the Company approved the First Bancshares, Inc. 2019 Stock Option Plan (the "Plan"), which permits the grant of incentive stock or nonqualified stock options to its participants for up to 100,000 shares of common stock. There have been no stock option grants under this plan, therefore there are no shares outstanding, vested, or expected to vest and no compensation expense for the years ended December 31, 2022 or 2021. Eligible participants in the Plan consist of directors, emeritus directors, or employees of the Company. The Company believes that such awards better align the interests of its participants with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. Compensation expense for stock-based awards is recorded over the vesting period at the fair value of the award at the time of grant.

NOTE 13 – RELATED PARTY TRANSACTIONS

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

Loans to officers and directors as of December 31, 2022 and 2021 were $6,627,680 and $3,628,767, respectively. Deposits from officers and directors as of December 31, 2022 and 2021 were $4,061,784 and $4,065,067, respectively.

(Continued)

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Credit – Related Financial Instruments

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

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

Contract Amounts

As of December 31, 2022 and 2021, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2022	2021
Commitments to grant loans	$ 39,559,000	$ 91,550,000
Unfunded commitments under lines of credit	105,084,000	96,836,000
Standby letters of credit	2,991,000	13,258,000
Total	$ 147,634,000	$ 201,644,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

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

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

(Continued)

NOTE 15 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

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

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies’ capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8.5% as of December 31, 2021 and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio greater than 7.5% as of December 31, 2021 and greater than 8% thereafter.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of December 31, 2021, the Bank was a qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework. As of June 30, 2022, the Bank reverted back to the risk-weighting framework.

(Continued)

NOTE 15 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year-end for the Bank. Under the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules), the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer of 2.50% is not included in the required rates of the table presented below as of December 31, 2022.

	Bank's Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk Weighted Assets	$ 52,045	12.10%	$ 34,407	8.0%	$ 43,009	10.0%
Tier 1 (Core) Capital to Risk Weighted Assets	46,652	10.85%	25,805	6.0%	34,407	8.0%
Common Equity Tier 1 (CET 1)	46,652	10.85%	19,354	4.5%	38,708	6.5%
Tier 1 (Core) Capital to Average Assets	46,652	10.00%	18,655	4.0%	23,319	5.0%

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework	
	Amount	Ratio	Amount	Ratio
December 31, 2021				
Tier 1 capital (to average assets)	$ 43,583	9.97%	$ 37,157	8.50%

Dividend Restrictions - The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. As of December 31, 2022, $7,040,000 of retained earnings is available to pay dividends.

NOTE 16 – FAIR VALUE MEASUREMENTS

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

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

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

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

Level 3 inputs are significant unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

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

The following tables present information about the Company's assets measured at fair value on a recurring basis at December 31, 2022 and 2021 and the valuation techniques used by the Company to determine those fair values:

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

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
Securities available for sale:				
Agencies	$ -	$ 10,738,110	$ -	$ 10,738,110
Municipal securities	-	3,462,160	-	3,462,160
Total	$ -	$ 14,200,270	$ -	$ 14,200,270

The fair value of securities available for sale at December 31, 2022 and 2021 was determined primarily based on Level 2 inputs. The Company estimates the fair value of these investments based on quoted prices for similar assets in active markets.

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

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

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

Real Estate Owned and Other Repossessed Assets: Real estate owned and other repossessed assets are carried at the estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals and market valuations. As with impaired loans, if significant adjustments are made to the appraised value, based upon unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

The Company has estimated the fair values of these assets based primarily on Level 3 inputs, as summarized below:

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

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Impaired loans				
Commercial	$ -	$ -	$ 615,252	$ 615,252

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

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

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

	Fair Value Measurements at December 31, 2022			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 21,781,333	$ 21,781,333	$ -	$ -
Term deposits in other financial institutions	980,733	980,733	-	-
Available-for-sale securities	12,551,594	-	12,551,594	-
Held-to-maturity securities	100,640	-	100,640	-
Loans, net of allowance for loan losses	405,121,845	-	419,762,689	-
Accrued interest receivable	3,497,662	2,469	3,495,193	-
Financial liabilities				
Deposits	$ 420,692,232	$ 179,390,793	$ 187,664,342	$ -
Repurchase agreements	863,961	-	792,367	-
Accrued interest payable	107,298	12,228	95,070	-

(Continued)

NOTE 16 – FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at December 31, 2021			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 62,356,725	$ 62,356,725	$ -	$ -
Term deposits in other financial institutions	1,225,401	1,225,401	-	-
Available-for-sale securities	14,200,270	-	14,200,270	-
Held-to-maturity securities	105,520	-	105,520	-
Loans, net of allowance for loan losses	340,766,817	-	342,445,624	-
Accrued interest receivable	2,074,679	3,313	2,071,366	-
Financial liabilities				
Deposits	$ 398,281,103	$ 173,316,211	$ 205,423,217	$ -
Repurchase agreements	489,696	-	482,373	-
Accrued interest payable	76,928	2,415	75,535	-

FIRST BANCSHARES, INC. AND SUBSIDIARIES

ADDITIONAL INFORMATION

COMMON STOCK INFORMATION

The common stock of First Bancshares, Inc. is traded on the Over-the-Counter Bulletin Board under the symbol "FBSI". As of March 3, 2023, there were 263 registered stockholders and 2,439,582 shares of common stock outstanding. This does not reflect the number of persons or entities who hold stock in nominee or "street name."

Due to the financial results of the Company, the Board of Directors authorized the payment of a $0.30/share cash dividend to the shareholders of record as of April 1st, 2023, payable on April 15th, 2023.

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

The Company's Board of Directors authorized a stock repurchase plan in October 2019 and extended the plan several times to repurchase up to 216,849 shares of the Company's stock. March 3, 2023, 194,644 authorized shares had been repurchased at an average price of $14.79 per share.

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

Year Ended December 31, 2021	High	Low	Dividend
First Quarter	$ 15.00	$ 11.25	0.25
Second Quarter	$ 15.90	$ 14.25	N/A
Third Quarter	$ 15.90	$ 14.80	N/A
Fourth Quarter	$ 17.15	$ 15.25	N/A

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

DIRECTORS

FIRST BANCSHARES, INC.

DIRECTORS:
Robert M. Alexander
Chairman and Chief Executive Officer

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

D. Edward Sauer
Director
First Bancshares, Inc.

John G. Moody
Director
First Bancshares, Inc.

Bradley M. Segebarth
Chief Operating Officer
Lebanon Auto Transport

Jeffrey Timmerman
Owner/Operator
Sunset Land & Cattle

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

STOCKMENS BANK

DIRECTORS:
Robert M. Alexander
Chairman and Chief Executive Officer

D. Edward Sauer
Vice Chairman

Brady J. Nachtrieb, CPA
Chief Operating Officer

Judith Ingels
Executive Vice President

John Gumper
Executive Vice President

Robert J. Breidenthal, Jr.
Director

Thomas M. Sutherland, Sr.
Director

Elaine Durham
CO President

Jeffrey Timmerman
Director

Bradley M. Segebarth
Director

E. Steve Moody
Executive Director

W. Jared Balady, CPA
Chief Financial Officer

ADVISORY DIRECTORS:
John G. Moody
Matthew Springer
Steven McConville

EXECUTIVE OFFICERS

FIRST BANCSHARES, INC.

OFFICERS:

Robert M. Alexander
Chairman and Chief Executive Officer

Brady J. Nachtrieb, CPA
President

E. Steve Moody
Vice President

W. Jared Balady, CPA
Chief Financial Officer

Shannon Peterson
Corporate Secretary

Judith Ingels
Assistant Corporate Secretary

STOCKMENS BANK

OFFICERS:

Robert M. Alexander
Chairman and Chief Executive Officer

Brady J. Nachtrieb, CPA
Chief Operating Officer

John Gumper
Chief Credit Officer
Assistant Corporate Secretary

Judith Ingels
Executive Vice President

E. Steve Moody
MO President

Elaine Durham
CO President

W. Jared Balady, CPA
Chief Financial Officer

Shannon Peterson
Corporate Secretary
Senior Vice President

CORPORATE INFORMATION

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

INDEPENDENT AUDITORS:
Crowe LLP
Denver, Colorado

GENERAL COUNSEL:
Millington & Glass
Springfield, Missouri

SPECIAL COUNSEL:
Bradley, Arant, Boult, Cummings LLP
Dallas, Texas

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

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

ANNUAL MEETING

The Annual Meeting of Stockholders will be held Tuesday, April 25, 2023, at 11:00 a.m., Mountain Time, via virtual WebEx conference.

Please email annualmeeting@thestockmensbank.com by April 12, 2023 to receive the WebEx meeting details and invitation.

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

First Bancshares, Inc.
P.O. Box 777
Mountain Grove, MO 65711

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