Annual Report
December 31, 2019

TABLE OF CONTENTS

Letter to Shareholders

Dear Fellow Shareholders:

First Bancshares, Inc. and its subsidiary Stockmens Bank recorded the best results to date due to the continued diligence and hard work of the employees, management team, and the Board of Directors. Our 2019 focus on gaining operational efficiencies and remixing the balance sheet resulted in the best earnings and efficiency ratios in the organizations history.

First Bancshares, Inc. sustained consistent growth in the earning asset portfolio, continued to grow the core deposit base with sound, generational depositors in all locations, and bolstered capital reserves. Most importantly, these results were achieved in conjunction with establishing the organization as a consistent dividend payer, rewarding our shareholders for their continued support.

Total assets, liabilities, and equity at December 31, 2019 totaled $352.6 million, $314.9 million, and $37.7 million compared to $345.0 million, $311.2 million, and $33.8 million at December 31, 2018, respectively. Net income for the year totaled $3,573,645, or $1.41 per share, compared to a $2,982,518 for the year ended December 31, 2018 or $1.17 per share for the year ended December 31, 2018.

Based on the above described results, the Board of Directors approved the payment of a $0.24 per share cash dividend to shareholders of record as of February 28, 2020 and paid on March 16, 2020.

We look forward to seeing you at our Annual Shareholders Meeting on Wednesday, April 29, 2020 at 11:00 a.m. Mountain Time, at Stockmens Bank located at 25 N. Cascade Avenue, Suite 100, Colorado Springs, Colorado. 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. If you need information regarding the proxy materials or the Annual Meeting, please contact Shannon Peterson, Vice President, 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 nine full service branch facilities in Mountain Grove, MO, Marshfield, MO, Ava, MO, Kissee Mills, MO, Gainesville, MO, Sparta, MO, Crane, MO, Springfield, MO and Bartley, NE. The Bank provides its customers with a full array of community banking services and is primarily engaged in the business of attracting deposits from, and making loans to, the general public, including individuals and businesses. The Bank originates real estate loans, including one-to-four family residential mortgage loans, multi-family residential loans, commercial real estate loans, agricultural real estate loans and home equity loans, as well as, non-real estate loans, including commercial business, agricultural business and consumer loans. The Bank also invests in mortgage-back securities, United States Government and agency securities and other assets.

At December 31, 2019, the Company had total consolidated assets of $352.6 million and consolidated stockholders’ equity of $37.7 million.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

	At December 31,			
	2019	2018	2017	2016
	(In thousands)			
FINANCIAL CONDITION DATA:				
Total Assets	**$ 352,585**	$ 345,034	$ 355,993	$ 219,482
Loans receivable, net	**268,959**	260,402	249,278	136,802
Cash, interest-bearing deposits and securities	**20,892**	21,524	39,970	12,249
Deposits	**303,264**	296,829	307,996	181,727
Repurchase agreements	**5,686**	5,566	4,609	5,185
FHLB Advances	**499**	3,999	7,997	12,000
Stockholders' equity	**37,667**	33,816	31,066	19,767

	Years Ended			
	2019	2018	2017	2016
	(In thousands, except per share information)			
OPERATING DATA:				
Interest income	**$ 16,760**	$ 14,855	$ 9,844	$ 7,209
Interest expense	**3,281**	2,493	1,584	1,216
Net interest income	**13,479**	12,362	8,260	5,993
Provision for loan losses	**1,236**	441	115	-
Net interest income after provision for loan losses	**12,243**	11,921	8,145	5,993
Gains (losses) on securities	**13**	(1)	(20)	14
Non-interest income, excluding gains (losses) on securities	**1,299**	1,281	1,051	1,003
Non-interest expense	**8,797**	9,195	8,221	6,296
Income (loss) before taxes	**4,758**	4,006	955	714
Income tax expense (benefit)	**1,185**	1,024	1,518	(454)
Net income (loss)	**$ 3,573**	$ 2,982	$ (563)	$ 1,168
Basic earnings (loss) per share	**$ 1.41**	$ 1.17	$ (0.29)	$ 0.75
Diluted earnings (loss) per share	**$ 1.41**	$ 1.17	$ (0.29)	$ 0.75
Dividends per share	**$ 0.24**	$ 0.24	$ -	$ -

	Year Ended			
	2019	2018	2017	2016
KEY OPERATING RATIOS:				
Return (loss) on average assets	**1.00**	0.84	(0.21)	0.54
Return (loss) on average equity	**10.00**	9.28	(2.29)	5.95
Average equity to average assets	**10.04**	9.08	9.04	9.03
Interest rate spread for period	**3.83**	3.76	3.85	2.95
Net interest margin for period	**3.89**	3.80	3.87	2.97
Non-interest expense to average assets	**2.47**	2.60	3.02	2.90
Average interest-earning assets to interest-bearing liabilities	**106.51**	104.18	102.69	102.98
Allowance for loan losses to total loans at end of period	**1.23**	0.84	0.98	1.23
Net charge-offs (recoveries) to average loans outstanding during the period	**0.04**	0.03	(0.02)	-
Dividend payout ratio	**0.24**	0.24	N/A	N/A

	At December 31,			
	2019	2018	2017	2016
OTHER DATA:				
Number of:				
Loans outstanding	**2,033**	2,157	2,264	1,849
Deposit accounts	**16,125**	16,531	16,990	14,896
Full service offices	**10**	10	10	8

plante moran

Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
plantemoran.com

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of First Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bancshares, Inc. and Subsidiary as of December 31, 2019 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Consolidated Financial Statements and Restatement

The consolidated financial statements of First Bancshares, Inc. and Subsidiary as of December 31, 2018 were audited by other auditors, whose report dated February 26, 2019 expressed an unmodified opinion on those statements.

Plante & Moran, PLLC

February 24, 2020

Consolidated Balance Sheet

December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 3,402,231	$ 5,955,161
Interest-bearing deposits in other financial institutions	17,489,885	15,569,014
Investment securities - Available for sale (Note 4)	39,671,228	41,530,118
Investment securities - Held to maturity (Note 4)	113,434	119,198
Federal Home Loan Bank stock - Cost	358,600	482,400
Loans - Net of allowance for loan losses of $3,344,420 and $2,194,326 as of December 31, 2019 and 2018, respectively (Note 5)	268,958,822	260,402,210
Real estate owned and other repossessed assets - Net	347,496	195,400
Premises and equipment - Net (Note 6)	8,675,279	7,473,137
Goodwill and intangibles	2,229,344	2,372,299
Deferred tax asset (Note 11)	300,680	1,065,469
Cash surrender value of bank-owned life insurance	6,090,610	5,916,487
Other assets	4,946,958	3,953,520
Total assets	**$ 352,584,567**	**$ 345,034,413**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 8)	$ 303,264,061	$ 296,829,254
Repurchase agreements (Note 9)	5,685,787	5,565,990
Federal Home Loan Bank borrowings (Note 10)	499,392	3,998,751
Subordinated borrowings (Note 10)	2,502,084	2,508,335
Accrued and other liabilities	2,966,291	2,315,451
Total liabilities	314,917,615	311,217,781
Stockholders' Equity		
Preferred stock - $0.01 par value: Authorized - 2,000,000 shares at December 31, 2019 and 2018 None issued and outstanding	-	-
Common stock - $0.01 par value: Authorized - 8,000,000 shares at December 31, 2019 and 2018 Issued - 3,898,808 shares at December 31, 2019 and 2018 Outstanding - 2,524,927 and 2,544,298 shares at December 31, 2019 and 2018, respectively	38,988	38,988
Treasury stock, at cost, 1,373,881 and 1,354,510 shares at December 31, 2019 and 2018, respectively	(19,372,179)	(19,244,361)
Additional paid-in capital	29,706,202	29,706,202
Retained earnings	27,472,882	24,508,769
Accumulated other comprehensive loss	(178,941)	(1,192,966)
Total stockholders' equity	37,666,952	33,816,632
Total liabilities and stockholders' equity	**$ 352,584,567**	**$ 345,034,413**

See notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Interest Income		
Loans - Including fees	$ 15,602,652	$ 13,755,701
Investment securities	754,793	793,219
Dividends	16,317	21,674
Other interest income	386,398	284,812
Total interest income	16,760,160	14,855,406
Interest Expense		
Deposits	2,880,795	2,076,534
Repurchase agreements	181,387	127,934
Federal Home Loan Bank borrowings	218,349	288,476
Total interest expense	3,280,531	2,492,944
Net Interest Income	13,479,629	12,362,462
Provision for Loan Losses (Note 5)	1,236,288	441,217
Net Interest Income after Provision for Loan Losses	12,243,341	11,921,245
Noninterest Income (Loss)		
Service charges - Deposits	1,052,118	1,056,960
Net gain (loss) on sale of investment securities	12,750	(590)
Increase in cash surrender of value of bank-owned life insurance	174,123	173,283
Gain on sale of real estate owned and other repossessed assets	59,559	18,227
Other	13,657	31,922
Total noninterest income (loss)	1,312,207	1,279,802
Noninterest Expense		
Salaries and employee benefits	4,735,999	4,785,261
Occupancy and equipment	1,487,825	1,472,604
Professional fees	451,730	842,792
Other	2,121,753	2,094,058
Total noninterest expense	8,797,307	9,194,715
Income - Before income taxes	4,758,241	4,006,332
Income Tax Expense (Note 11)	1,184,596	1,023,814
Net Income	**$ 3,573,645**	**$ 2,982,518**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 3,573,645	$ 2,982,518
Other Comprehensive Income (Loss) - Net of tax		
Unrealized gain (loss) on securities:		
Arising during the year	1,364,784	(155,525)
Reclassification adjustment	(12,750)	(590)
Tax effect	(338,009)	39,029
Total other comprehensive income (loss)	1,014,025	(117,086)
Comprehensive Income	**$ 4,587,670**	**$ 2,865,432**

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2019 and 2018

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2018	$ 38,988	$ (19,129,667)	$ 29,706,202	$ 21,526,251	$ (1,075,880)	$ 31,065,894
Comprehensive income (loss):						
Net income	-	-	-	2,982,518	-	2,982,518
Other comprehensive loss	-	-	-	-	(117,086)	(117,086)
Purchase of 8,214 shares of treasury stock	-	(114,694)	-	-	-	(114,694)
Balance - December 31, 2018	38,988	(19,244,361)	29,706,202	24,508,769	(1,192,966)	33,816,632
Comprehensive income:						
Net income	-	-	-	3,573,645	-	3,573,645
Other comprehensive income	-	-	-	-	1,014,025	1,014,025
Purchase of 19,371 shares of treasury stock	-	(127,818)	-	-	-	(127,818)
Dividends declared	-	-	-	(609,532)	-	(609,532)
Balance - December 31, 2019	**$ 38,988**	**$ (19,372,179)**	**$ 29,706,202**	**$ 27,472,882**	**$ (178,941)**	**$ 37,666,952**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	$ 3,573,645	$ 2,982,518
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	677,119	653,717
Provision for loan losses	1,236,288	441,217
Net premium amortization of securities	55,058	67,385
Deferred income taxes	426,780	717,227
Loss (gain) on sale of premises and equipment	3,205	(3,409)
Gain on sale of real estate owned and repossessed assets	(59,559)	(18,227)
(Gain) loss on sale of securities	(12,750)	590
Write-down of real estate owned	24,000	-
Net change in:		
Increase in cash surrender value of bank-owned life insurance	(174,123)	(173,283)
Operating lease assets and liabilities	(25,976)	-
Increase in other assets	(993,438)	(236,113)
(Decrease) increase in accrued and other liabilities	(595,172)	503,961
Net cash and cash equivalents provided by operating activities	4,135,077	4,935,583
Cash Flows from Investing Activities		
Net (increase) decrease in interest-bearing deposits in other financial institutions	(1,920,871)	3,727,454
Proceeds from sales, maturities, and principal paydowns of securities available for sale	3,168,617	2,626,681
Proceeds from calls and maturities of securities held to maturity	5,764	24,177
Net increase in loans receivable	(10,500,601)	(11,933,430)
Proceeds from sales of real estate owned and repossessed assets	591,164	394,927
Additions to premises and equipment	(473,228)	(122,461)
Purchase of Federal Home Loan Bank stock	-	(61,500)
Proceeds from sale of Federal Home Loan Bank stock	123,800	-
Proceeds from sales of premises and equipment	5,704	13,736
Net cash and cash equivalents used in investing activities	(8,999,651)	(5,330,416)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	6,434,807	(11,166,312)
Net increase in federal funds purchased and securities sold under agreements to repurchase	119,797	963,716
Repayment of subordinated borrowings	(6,251)	(6,250)
Repayment of Federal Home Loan Bank borrowings	(3,499,359)	(4,000,000)
Purchase of common stock for treasury	(127,818)	(114,694)
Cash dividends paid on common stock	(609,532)	-
Net cash and cash equivalents provided by (used in) financing activities	2,311,644	(14,323,540)
Net Decrease in Cash and Cash Equivalents	(2,552,930)	(14,718,373)
Cash and Cash Equivalents - Beginning of year	5,955,161	20,673,534
Cash and Cash Equivalents - End of year	**$ 3,402,231**	**$ 5,955,161**
Supplemental Cash Flow Information - Cash paid for		
Interest on deposits and other borrowings	$ 3,587,166	$ 2,534,477
Income taxes	201,474	137,699
Significant Noncash Transactions - Loans transferred to real estate owned and other repossessed assets	$ 707,701	$ 368,232

See notes to consolidated financial statements.

Note 1 - Nature of Business

First Bancshares, Inc., a Missouri corporation (the "Company"), is a bank holding company. First Bancshares, Inc.'s wholly owned subsidiary is Stockmens Bank (the "Bank"). The Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southern Missouri, eastern Colorado, and southwestern Nebraska. The Company and the Bank are also subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Note 2 - Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank, and the Bank's wholly owned subsidiaries, Fybar Service Corporation and SB Cascade. All significant intercompany balances and transactions have been eliminated in consolidation. Fybar Service Corporation was fully absorbed by the Bank during fiscal year 2019.

Use of Estimates

The preparation of financial statements in conformity with 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the fair value of financial instruments, the allowance for loan losses, goodwill, and deferred tax assets.

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, and 4 counties surrounding the metropolitan area of Colorado Springs, Colorado. The Company's loan portfolio consists of residential real estate, commercial real estate loans, land, and consumer loans. As of December 31, 2019 and 2018, 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 consists of cash on hand and deposits with other financial institutions. Cash equivalents include highly liquid instruments with an original maturity of three months or less. Cash flows from interest-bearing deposits in other financial institutions, loans, deposits, and retail repurchase agreements are reported net.

Interest-bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions are carried at cost and consist of certificates of deposit, money market accounts, and other balances due from banks with original maturities more than three months. All certificates of deposit in other financial institutions had balances less than $250,000 and, as such, were fully insured by the FDIC.

Securities

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

Note 2 - Significant Accounting Policies (Continued)

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

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

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

Federal Home Loan Bank Stock

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

Loans

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 pay-off 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.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Note 2 - Significant Accounting Policies (Continued)

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Any interest payments received on nonaccrual loans are accounted for as a reduction to the unpaid principal balance of the nonaccrual loan for financial reporting purposes. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. If a loan is returned to accrual, the interest payments previously received continue to be reported as a reduction of the unpaid principal balance until the loan is paid off, at which time the interest payments are recognized in interest income.

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.

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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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.

Note 2 - Significant Accounting Policies (Continued)

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

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.

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.

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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 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.

No impairment charge was recognized during the years ended December 31, 2019 and 2018. It is reasonably possible that management's estimates of the carrying amount of goodwill will change in the near term.

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, 2019 and 2018 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.

Revenue Recognition

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

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

Note 2 - Significant Accounting Policies (Continued)

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

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.

Other Comprehensive Income (Loss)

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

Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 presentation. These reclassifications had no effect on total net income or stockholders' equity.

Upcoming Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets, including the Company’s loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity’s current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Company's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is still quantifying the impact of the new standard.

Note 2 - Significant Accounting Policies (Continued)

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The standard simplifies the subsequent measurement of goodwill, requiring only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value, instead of the current two-step test. A qualitative assessment may still be completed first to determine if a quantitative impairment test is required. This standard is effective on a prospective basis for fiscal years beginning after December 15, 2020. The Company early adopted the standard on January 1, 2018, with no significant impact on the consolidated financial statements.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including February 24, 2020, which is the date the consolidated financial statements were available to be issued.

Note 3 - Adoption of New Accounting Pronouncement

As of January 1, 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the consolidated statement of operations. The Company elected to adopt the ASU using the modified retrospective method as of January 1, 2019. The Company has elected to apply the following practical expedients:

- The Company did not reassess if expired or existing contracts are or contain a lease.
- The Company did not reassess the lease classification for expired or existing leases.
- The Company did not reassess initial direct costs for any existing leases.
- The Company has used hindsight to determine the lease term and for assessing impairment of the right-to-use assets for existing leases.
- The Company has not reassessed whether any existing or expired land easements that were not previously classified as leases are or contain a lease.

As a result of the adoption of the ASU, the Company recorded a right-to-use asset of $1,330,579 and a lease liability of $1,834,286 (inclusive of $503,707 in deferred rent related to lease incentives previously recorded as a liability) as of January 1, 2019 for existing operating leases. The right-to-use asset is recorded in premises and equipment, and the lease liability is recorded in accrued and other liabilities within the Company's consolidated balance sheet. There was no impact on retained earnings as a result of adopting the new ASU.

Note 4 - Securities

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

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
United States government and federal agency obligations	$ 27,998,815	$ 70	$ (61,675)	$ 27,937,210
Municipal securities	841,893	-	(3,116)	838,777
Federal agency residential mortgage-backed securities	2,422,286	1,760	(12,010)	2,412,036
Federal agency collateralized mortgage obligations	8,646,820	4,526	(168,141)	8,483,205
Total available for sale	$ 39,909,814	$ 6,356	$ (244,942)	$ 39,671,228
Held to Maturity -				
Municipal securities	$ 113,434	$ -	$ -	$ 113,434

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

Note 4 - Securities (Continued)

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2019 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 maturities date, such as residential mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,115,172	$ 2,112,039	$ -	$ -
Due in one through five years	26,725,536	26,663,948	-	-
Due after five years through ten years	-	-	113,434	113,434
Due after ten years	-	-	-	-
Subtotal	28,840,708	28,775,987	113,434	113,434
Federal agency residential mortgage-backed securities and collateralized mortgage obligations	11,069,106	10,895,241	-	-
Total	$ 39,909,814	$ 39,671,228	$ 113,434	$ 113,434

During the years ended December 31, 2019 and 2018, gross realized gain (loss) on the sale of securities was $12,750 and $(590), respectively.

The carrying value of securities pledged on repurchase agreements at December 31, 2019 and 2018, was $27,446,646 and $25,124,950, respectively.

Information pertaining to investment securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2019					
	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:						
United States government and federal agency obligations	$ (3,050)	$ 1,996,950	$ (58,625)	$ 16,940,190	$ (61,675)	$ 18,937,140
Municipal securities	(84)	115,089	(3,032)	282,321	(3,116)	397,410
Federal agency residential mortgage-backed securities	-	-	(12,010)	1,712,195	(12,010)	1,712,195
Federal agency collateralized mortgage obligations	-	-	(168,141)	7,910,118	(168,141)	7,910,118
Total available-for-sale securities	$ (3,134)	$ 2,112,039	$ (241,808)	$ 26,844,824	$ (244,942)	$ 28,956,863

Note 4 - Securities (Continued)

	2018					
	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:						
United States government and federal agency obligations	$ -	$ -	$ (910,211)	$ 27,088,180	$ (910,211)	$ 27,088,180
Municipal securities	-	-	(18,882)	879,204	(18,882)	879,204
Federal agency residential mortgage-backed securities	-	-	(95,836)	2,780,386	(95,836)	2,780,386
Federal agency collateralized mortgage obligations	-	-	(565,692)	10,075,178	(565,692)	10,075,178
Total available-for-sale securities	$ -	$ -	$ (1,590,621)	$ 40,822,948	$ (1,590,621)	$ 40,822,948

As of December 31, 2019 and 2018, the portfolio had 42 and 56 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, 2019 and 2018.

Note 5 - Loans and Allowance for Loan Losses

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

	2019	2018
Residential real estate	$ 71,788,625	$ 76,588,594
Commercial real estate	122,235,273	114,779,512
Land	3,896,171	6,239,991
Commercial	71,853,650	62,647,517
Consumer	2,306,793	2,152,399
Total loans	272,080,512	262,408,013
Less allowance for loan losses	3,344,420	2,194,326
Plus net deferred loan fees	222,730	188,523
Net loans	$ 268,958,822	$ 260,402,210

Note 5 - Loans and Allowance for Loan Losses (Continued)

The Company's activity in the allowance for loan losses for the years ended December 31, 2019 and 2018, by loan segment, is summarized below:

	Year Ended December 31, 2019					
	Residential Real Estate	Commercial Real Estate	Land	Commercial	Consumer	Total
Beginning balance	$ 560,071	$ 749,282	$ 89,113	$ 774,660	$ 21,200	$ 2,194,326
Charge-offs	(10,949)	(30,138)	(40,702)	(198,440)	(1,698)	(281,927)
Recoveries	4,100	16,197	-	171,665	3,771	195,733
Provision	42,445	629,829	23,415	527,476	13,123	1,236,288
Ending balance	$ 595,667	$ 1,365,170	$ 71,826	$ 1,275,361	$ 36,396	$ 3,344,420
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 30,700	$ -	$ -	$ 289,100	$ 15,890	$ 335,690
Collectively evaluated for impairment	564,967	1,365,170	71,826	986,261	20,506	3,008,730
Ending allowance balance	$ 595,667	$ 1,365,170	$ 71,826	$ 1,275,361	$ 36,396	$ 3,344,420
Loans:						
Individually evaluated for impairment	$ 124,598	$ -	$ -	$ 322,662	$ 15,890	$ 463,150
Collectively evaluated for impairment	71,664,027	122,235,273	3,896,171	71,530,988	2,290,903	271,617,362
Total loans	$ 71,788,625	$122,235,273	$ 3,896,171	$ 71,853,650	$ 2,306,793	$ 272,080,512

	Year Ended December 31, 2018					
	Residential Real Estate	Commercial Real Estate	Land	Commercial	Consumer	Total
Beginning balance	$ 555,151	$ 684,146	$ 46,375	$ 528,489	$ 21,803	$ 1,835,964
Charge-offs	(125,587)	-	-	(31,493)	(4,996)	(162,076)
Recoveries	57,627	14,278	-	2,725	4,591	79,221
Provision	72,880	50,858	42,738	274,939	(198)	441,217
Ending balance	$ 560,071	$ 749,282	$ 89,113	$ 774,660	$ 21,200	$ 2,194,326
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 39,700	$ -	$ -	$ -	$ -	$ 39,700
Collectively evaluated for impairment	520,371	749,282	89,113	774,660	21,200	2,154,626
Ending allowance balance	$ 560,071	$ 749,282	$ 89,113	$ 774,660	$ 21,200	$ 2,194,326
Loans:						
Individually evaluated for impairment	$ 1,043,385	$ -	$ 8,523	$ 147,049	$ -	$ 1,198,957
Collectively evaluated for impairment	75,545,209	114,779,512	6,231,468	62,500,468	2,152,399	261,209,056
Total loans	$ 76,588,594	$114,779,512	$ 6,239,991	$ 62,647,517	$ 2,152,399	$ 262,408,013

Note 5 - Loans and Allowance for Loan Losses (Continued)

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 accretable 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.

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, 2019 and 2018 are summarized below:

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful	Ending Balance
Residential real estate	$ 70,936,889	$ 371,654	$ 480,082	$ -	$ 71,788,625
Commercial real estate	120,647,666	1,349,194	238,413	-	122,235,273
Land	3,896,171	-	-	-	3,896,171
Commercial	71,632,059	-	221,591	-	71,853,650
Consumer	2,281,683	-	25,110	-	2,306,793
Total	$ 269,394,468	$ 1,720,848	$ 965,196	$ -	$ 272,080,512

Note 5 - Loans and Allowance for Loan Losses (Continued)

	December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful	Ending Balance
Residential real estate	$ 75,395,073	$ 150,136	$ 1,043,385	$ -	$ 76,588,594
Commercial real estate	112,124,079	2,646,910	8,523	-	114,779,512
Land	6,239,991	-	-	-	6,239,991
Commercial	62,000,512	499,956	147,049	-	62,647,517
Consumer	2,132,732	19,667	-	-	2,152,399
Total	$ 257,892,387	$ 3,316,669	$ 1,198,957	$ -	$ 262,408,013

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.

Age Analysis of Past-due Loans

The Company's age analysis of past-due loans at December 31, 2019 and 2018, by loan segment and class, is summarized below:

	December 31, 2019				
	30-89 Days Past Due	Nonaccrual Loans	Current Loans	Total Loans	Recorded Investment > 90 Days and Accruing
Residential real estate	$ 651,795	$ 45,698	$ 71,091,132	$ 71,788,625	$ 222
Commercial real estate	-	216,473	122,018,800	122,235,273	-
Land	-	-	3,896,171	3,896,171	-
Commercial	48,561	426,988	71,378,101	71,853,650	31,246
Consumer	15,430	422	2,290,941	2,306,793	-
Total	$ 715,786	$ 689,581	$ 270,675,145	$ 272,080,512	$ 31,468

	December 31, 2018				
	30-89 Days Past Due	Nonaccrual Loans	Current Loans	Total Past Due	Recorded Investment > 90 Days and Accruing
Residential real estate	$ 203,391	$ 148,637	$ 76,236,566	$ 76,588,594	$ -
Commercial real estate	-	-	114,779,512	114,779,512	-
Land	-	338,705	5,901,286	6,239,991	-
Commercial	629	-	62,646,888	62,647,517	-
Consumer	-	-	2,152,399	2,152,399	-
Total loans	$ 204,020	$ 487,342	$ 261,716,651	$ 262,408,013	$ -

Note 5 - Loans and Allowance for Loan Losses (Continued)

Impaired Loans

Impaired loans, by loan segment and class, are as follows at December 31, 2019 and 2018:

	As of and for the Year Ended December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With an allowance recorded:					
Residential real estate	$ 124,598	$ 132,131	$ 30,700	$ 127,264	$ 4,884
Commercial	322,662	338,397	289,100	360,773	23,774
Consumer	15,890	15,890	15,890	15,890	1,441
Total with an allowance recorded	463,150	486,418	335,690	503,927	30,099
Total	$ 463,150	$ 486,418	$ 335,690	$ 503,927	$ 30,099

	As of and for the Year Ended December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Residential real estate	$ 861,526	$ 861,526	$ -	$ 746,396	$ 43,899
Land	8,523	8,523	-	276,704	9,585
Commercial	147,049	147,049	-	826,293	82,657
Total with no related allowance recorded	1,017,098	1,017,098	-	1,849,393	136,141
With an allowance recorded - Residential real estate	181,859	181,859	39,700	345,019	11,132
Total	$ 1,198,957	$ 1,198,957	$ 39,700	$ 2,194,412	$ 147,273

Impaired loans for which no allowance has been provided as of December 31, 2019 and 2018 have adequate collateral based on management's current estimates.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

As of December 31, 2019 and 2018, troubled debt restructurings totaled $59,086 and $2,783, respectively. One contract was modified during 2019 with a premodification and postmodification balance of $56,303. There were no contracts modified during 2018.

Note 6 - Premises and Equipment

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

	2019	2018
Land	$ 974,954	$ 974,954
Buildings and building improvements	9,259,046	9,248,012
Furniture, fixtures, and equipment	5,920,557	4,217,949
Vehicles	90,166	49,320
Construction in progress	20,150	2,253
Total cost	16,264,873	14,492,488
Accumulated depreciation	(7,589,594)	(7,019,351)
Net premises and equipment	$ 8,675,279	$ 7,473,137

Note 7 - Leases

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-to-use asset and related lease liability have been calculated using a discount rate of 3.63 percent 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 $163,584 and $164,098 for 2019 and 2018, respectively.

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-to-use asset and lease liability.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2020	$ 157,452
2021	157,452
2022	157,452
2023	157,452
2024	157,452
Thereafter	1,456,431
Total	2,243,691
Less amount representing interest	493,972
Present value of net minimum lease payments	1,749,719
Long-term obligations under capital leases	$ 1,749,719

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2019 and 2018:

	2019	2018
Interest-bearing deposits	$ 155,779,951	$ 141,509,564
Non-interest-bearing deposits	45,221,827	47,441,142
Super-saver money market	21,131,928	21,888,389
Savings and money market accounts	14,403,286	17,318,790
Certificates of deposit	66,727,069	68,671,369
Total	$ 303,264,061	$ 296,829,254

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2019 and 2018 totaled approximately $6,020,840 and $6,053,082, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2020	$ 37,094,087
2021	13,161,706
2022	6,527,833
2023	6,272,680
2024	3,180,455
Thereafter	490,308
Total	$ 66,727,069

Note 9 - Repurchase Agreements

The Bank offers repurchase agreements as an additional product offering to its customers. Repurchase agreements allow customers to have excess checking account balances "swept" from the checking accounts into a noninsured, interest-bearing account. The customers' investment in these noninsured accounts is collateralized by securities of the Bank pledged at FHLB for that purpose. The agreements mature daily and carry a weighted-average interest rate of 2.24 percent and 2.64 percent at December 31, 2019 and 2018, respectively.

Note 10 - Borrowings

The Company has advances from the Federal Home Loan Banks of Topeka and Des Moines (collectively the "FHLB") totaling approximately $499,392 and $3,998,751 at December 31, 2019 and 2018, respectively. The interest rate on the balance outstanding at December 31, 2019 was 1.89 percent. Interest is payable monthly, and the advance matures in 2021. The advances are collateralized by approximately $32,825,000 of investment securities as of December 31, 2019, under a blanket collateral agreement. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the FHLB.

At December 31, 2019, the Company had outstanding letters of credit at the FHLB of approximately $3,150,000. These letters of credit were collateralized by a collateral pledge agreement under which the Company had pledged investments with a carrying value of $32,825,000 at December 31, 2019. There were none outstanding as of December 31, 2019 and 2018.

Note 10 - Borrowings (Continued)

On September 30, 2015, the Company signed a promissory note payable to Community Funding CLO, Ltd. for $2,500,000. The note matures on October 1, 2025. The note bears interest at a rate of 7.10 percent, fixed for the remaining life of the note. The Company may pay down the note without penalty upon the five-year anniversary of the closing date. The debt is unsecured and is subordinate to claims of senior and general creditors. Interest expense for the years ended December 31, 2019 and 2018 was $179,965.

Future obligations of the advances are as follows at December 31, 2019:

Years Ending	Amount
2020	$ -
2021	499,392
2022	-
2023	-
2024	-
Thereafter	2,502,084
Total	$ 3,001,476

Note 11 - 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:

	2019	2018
Current income tax expense	$ 757,816	$ 306,587
Deferred income tax expense	426,780	717,227
Total income tax expense	$ 1,184,596	$ 1,023,814

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

	2019	2018
Income tax expense, computed at 21 percent of pretax income	$ 999,231	$ 841,330
State income tax expense	240,291	179,803
Tax-exempt income	(7,433)	(7,011)
Bank-owed life insurance	(45,359)	(36,389)
Other - Net	(2,134)	46,081
Total provision for income taxes	$ 1,184,596	$ 1,023,814

Note 11 - Income Taxes (Continued)

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

	2019	2018
Deferred tax assets:		
Allowance for doubtful accounts	$ 871,221	$ 548,202
Loan fair value adjustment	155,409	302,131
Missouri low-income housing and other credits	-	49,814
Net unrealized loss on available-for-sale securities	59,647	397,656
Tenant allowance	132,455	127,028
Other	3,958	1,248
Federal net operating loss carryforwards	-	448,550
Gross deferred tax assets	1,222,690	1,874,629
Deferred tax liabilities:		
Premises and equipment	(493,425)	(359,029)
Section 481(a) adjustment	-	(51,859)
Core deposit intangible	(207,922)	(235,117)
Investment in partnership interest	(89,380)	(71,855)
FHLB stock dividends	(7,020)	(11,595)
Prepaid expenses	(39,033)	(32,606)
Deferred loan costs - Net of fees	(58,021)	(47,099)
Other	(27,209)	-
Gross deferred tax liabilities	(922,010)	(809,160)
Net deferred tax asset	$ 300,680	$ 1,065,469

The Company used $2,135,950 of net operating loss carryforwards during 2019 to reduce income taxes, and $0 remains for future use.

Note 12 - Goodwill and Intangible Assets

The core deposit intangible asset has an economic life of 8.1 years. Intangible assets of the Company at December 31, 2019 and 2018 are summarized as follows:

	2019		2018	
	Net Carrying Amount	Amortization Expense	Net Carrying Amount	Amortization Expense
Amortized intangible assets - Core deposit intangible	$ 798,165	$ 142,955	$ 941,120	$ 142,955

The balance of goodwill for the years ended December 31, 2019 and 2018 was the result of the Stockmens Bank acquisition in 2017. Goodwill has an indefinite life.

The recorded amounts of goodwill at December 31, 2019 and 2018 are as follows:

	2019	2018
Goodwill	$ 1,431,179	$ 1,431,179

Note 13 - 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, 2019 and 2018, was approximately $120,000. This plan is not subject to the requirements of Accounting Standards Codification (ASC) Topics 715 and 958.

The First Home Bank Employee Stock Ownership and 401(k) Plan covers all employees that are age 21 and have completed six months of service. The Company makes contributions on a matching basis 100 percent on the first 3 percent of employee deferrals and 50 percent on the next 2 percent of employee deferrals. Expense for the employee stock ownership and 401(k) plan for the years ended December 31, 2019 and 2018 was $108,792 and $106,630, respectively.

Note 14 - Stock Option Plan

During the year, 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. 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. No compensation expense has been recognized as of December 31, 2019 as no stock options have been granted.

Note 15 - Related Party Transactions

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

Loans to officers and directors as of December 31, 2019 and 2018 were $11,268,377 and $7,524,063 respectively.

Note 16 - 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.

Note 16 - Commitments and Contingencies (Continued)

Contract Amounts

As of December 31, 2019 and 2018, the following financial instruments whose contract amounts represent credit risk were outstanding:

	Contract Amount	
	2019	2018
Commitments to grant loans	$ 23,291,300	$ 7,193,257
Unfunded commitments under lines of credit	69,746,138	53,731,190
Standby letters of credit	5,009,400	76,000
Total	$ 98,046,838	$ 61,000,447

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 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, and equipment, and real estate.

Note 17 - Fair Value of Financial Instruments

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 whereby 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 Corporation.

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Cash and Cash Equivalents

The carrying amounts approximate fair values.

Note 17 - Fair Value of Financial Instruments (Continued)

Cash Surrender Value of Bank-owned Life Insurance

The fair value of cash surrender value of life insurance is estimated by discounting projected cash flows at the corresponding U.S. treasury rate plus 1 percent.

Investment Securities

The fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the issuers.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Repurchase Agreements

The carrying amount of retail repurchase agreements approximates fair value.

Federal Home Loan Bank Borrowings

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Commitments to Extend Credit, Letters of Credit, and Lines of Credit

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

Subordinated Borrowings

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

Note 17 - Fair Value of Financial Instruments (Continued)

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 3,402,231	$ 3,402,231	$ 5,955,161	$ 5,955,161
Interest-bearing deposits in other financial institutions	17,489,885	17,489,885	15,569,014	15,569,014
Available-for-sale securities	39,671,228	39,671,228	41,530,118	41,530,118
Held to maturity securities	113,434	113,434	119,198	119,198
Cash surrender value of bank-owned life insurance	6,090,610	6,090,610	5,916,487	5,916,487
Federal Home Loan Bank stock - Cost	358,600	358,600	482,400	482,400
Loans - Net of allowance for loan losses	268,958,822	270,836,509	260,402,210	265,147,553
Accrued interest receivable	2,473,731	2,473,731	1,787,012	1,786,952
Financial Liabilities				
Deposits	303,264,061	290,219,280	296,829,254	274,214,500
Repurchase agreements	5,685,787	5,758,160	5,565,990	5,575,291
Federal Home Loan Bank borrowings	499,392	500,074	3,998,751	3,967,784
Accrued interest payable	163,069	163,069	123,044	132,778
Subordinated borrowings	2,502,084	3,188,448	2,508,335	3,079,842

Note 18 - Minimum Regulatory Capital Requirements

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Company met all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent notification from the Company's primary regulator categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios, as set forth in the following table. This table does not include the 2.5 percent capital conservation buffer requirement. A bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the bank would be subject to increasing limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero. There are no conditions or events since the notification that management believes have changed the Company's category. The Company's actual capital amounts and ratios as of December 31, 2019 and 2018 are also presented in the table.

Note 18 - Minimum Regulatory Capital Requirements (Continued)

	Actual		Minimum for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Common equity tier 1 capital (to risk-weighted assets)	$ 34,436	12.00 %	$ 12,908	4.50 %	$ 18,646	6.50 %
Total risk-based capital (to risk-weighted assets)	40,280	14.04	22,948	8.00	28,686	10.00
Tier 1 capital (to risk-weighted assets)	34,436	12.00	17,211	6.00	22,948	8.00
Tier 1 capital (to average assets)	34,436	9.69	14,209	4.00	17,761	5.00
As of December 31, 2018						
Common equity tier 1 capital (to risk-weighted assets)	31,805	11.86	12,068	4.50	17,432	6.50
Total risk-based capital (to risk-weighted assets)	36,499	13.61	21,454	8.00	26,818	10.00
Tier 1 capital (to risk-weighted assets)	31,805	11.86	10,727	4.00	21,454	8.00
Tier 1 capital (to average assets)	31,805	9.29	13,694	4.00	17,118	5.00

Note 19 - 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 and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are 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 whereby 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.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

The following tables present information about the Company’s assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the Company to determine those fair values.

Note 19 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Securities available for sale:				
United States government and federal agency obligations	$ -	$ 27,937,210	$ -	$ 27,937,210
Municipal securities	-	838,777	-	838,777
Federal agency residential mortgage-backed securities	-	2,412,036	-	2,412,036
Federal agency collateralized mortgage obligations	-	8,483,205	-	8,483,205
Total securities available for sale	$ -	$ 39,671,228	$ -	$ 39,671,228

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Securities available for sale:				
United States government and federal agency obligations	$ -	$ 27,088,180	$ -	$ 27,088,180
Municipal securities	-	1,388,374	-	1,388,374
Federal agency residential mortgage-backed securities	-	2,780,386	-	2,780,386
Federal agency collateralized mortgage obligations	-	10,075,178	-	10,075,178
Common and preferred stocks	-	-	198,000	198,000
Total securities available for sale	$ -	$ 41,332,118	$ 198,000	$ 41,530,118

The fair value of securities available for sale at December 31, 2019 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.

Note 19 - 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 2 measurements. In some cases, adjustments are made to the appraised values due to various factors, including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair market measurement is categorized as a Level 3 measurement.

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 described below:

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Real estate owned and other repossessed assets	$ -	$ -	$ 347,496	$ 347,496
Impaired loans	-	-	127,460	127,460

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Real estate owned and other repossessed assets	$ -	$ -	$ 195,400	$ 195,400
Impaired loans	-	-	142,159	142,159

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 20, 2020, there were 305 registered stockholders and 2,674,855 shares of common stock outstanding. This does not reflect the number of persons or entities who hold stock in nominee or "street name."

Due to the financial results of the company, the Board of Directors authorized the payment of a $0.24/share cash dividend to the shareholders of record as of February 28th, 2020, payable on March 16th, 2020.

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 to repurchase up to 35,000 shares of the Company's stock. As of March 20, 2020, 19,371 authorized shares had been repurchased at an average price of $13.55 per share.

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

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

Year Ended December 31, 2019	High	Low	Dividend
First Quarter	$ 15.00	$ 13.50	0.24
Second Quarter	$ 15.50	$ 14.25	N/A
Third Quarter	$ 15.00	$ 14.55	N/A
Fourth Quarter	$ 20.00	$ 14.75	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. Mitch Ashlock
Chairman, President and Chief Executive Officer
First Federal Savings and Loan Bank of Olathe

D. Edward Sauer
Director
First Bancshares, Inc.

John G. Moody
Director
First Bancshares, Inc.

Mark E. Gardner
Director
Gardner Capital

Bradley M. Segebarth
Chief Operating Officer
Lebanon Auto Transport

Jeffrey Timmerman
Owner/Operator
Sunset Land & Cattle

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

STOCKMENS BANK

DIRECTORS:

Robert M. Alexander
Chairman and
Chief Executive Officer

D. Edward Sauer
Vice Chairman

Brady J. Nachtrieb, CPA
Chief Financial Officer

Judith Ingels
Executive Vice President

John Gumper
Executive Vice President

Robert J. Breidenthal, Jr.
Director

Thomas M. Sutherland
Director

Matthew Springer
Director

Jeffrey Timmerman
Director

Bradley M. Segebarth
Director

ADVISORY DIRECTORS:

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

EXECUTIVE OFFICERS

FIRST BANCSHARES, INC.

OFFICERS:
Robert M. Alexander
Chairman and
Chief Executive Officer

Brady J. Nachtrieb, CPA
Chief Financial Officer

Shannon Peterson
Corporate Secretary

STOCKMENS BANK

OFFICERS:
Robert M. Alexander
Chairman and
Chief Executive Officer

Brady J. Nachtrieb, CPA
Chief Financial Officer

John Gumper
Corporate Secretary

Judith Ingels
Executive Vice President

E. Steve Moody
Missouri President

CORPORATE INFORMATION

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

INDEPENDENT AUDITORS:
Plante Moran, PLLC
Auburn Hills, Michigan

GENERAL COUNSEL:
Millington, Glass, Love & Young
Springfield, Missouri

SPECIAL COUNSEL:
Breyer & Associates PC
McLean, Virginia

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

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

ANNUAL MEETING

The Annual Meeting of Stockholders will be held Wednesday, April 29, 2020, at 11:00 a.m., Mountain Time, at Stockmens Bank located at 25 N. Cascade Ave., Colorado Springs, CO.

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

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

Phone: 719-955-2800
Fax: 719-442-4330
www.thestockmensbank.com