# Annual Report

# December 31, 2020

## TABLE OF CONTENTS

# Letter to Shareholders

Dear Fellow Shareholders:

Despite a global pandemic, political and social unrest, as well as significant volatility in the economy and interest rates, First Bancshares, Inc. and its subsidiary Stockmens Bank has, once again, recorded the best operational results in the Company's history.

The Company continued to make strides in our core effort of maximizing efficiency, but more importantly, had one of the best years ever in terms of service to our customers and stakeholders. Along with navigating a global pandemic and the adjustments required to protect our customers and employees, the Company was also slated with delivering the much-needed aid provided through the CARES Act. Our employees responded to the unprecedented consequences of the Pandemic exceptionally with hard work and diligence in a very difficult environment. We will continue striving to increase efficiencies, earnings, and service to the communities we represent with a push towards improving our technology and continuing development of additional revenue sources.

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 on December 31, 2020 totaled $406.3 million, $363.5 million, and $42.8 million compared to $352.6 million, $314.9 million, and $37.7 million at December 31, 2019, respectively. Net income for the year totaled $3,944,459, or $1.49 per share, compared to $3,573,645, or $1.41 per share, for the year ended December 31, 2019.

Based on the above-described results, the Board of Directors approved the payment of a $0.25 per share cash dividend to shareholders of record as of March 15, 2021 and paid on April 1, 2021.

We look forward to seeing you at our Annual Shareholders Meeting on Tuesday, April 27, 2021 at 11:00 a.m. Mountain Time, via a WebEx virtual conference call. In anticipation of the meeting, you should have received this year's Annual Report via mail or electronically from your broker, your First Bancshares' proxy materials, and notice of our annual shareholder meeting. We ask you to vote on the two proposals. Voting is easy and can be done via return mail, telephone, or online; those details are provided in the materials you received. Due to the virtual nature of the meeting this year, we highly suggest you vote using the telephonic or online voting methods provided in your materials. If you need information regarding the proxy materials or the Annual Meeting, please contact Shannon Peterson, 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, 2020, the Company had total consolidated assets of $406.3 million and consolidated stockholders' equity of $42.8 million.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

| | At December 31, | | | |
|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 |
| | (In thousands) | | | |
| FINANCIAL CONDITION DATA: | | | | |
| Total Assets | **$ 406,279** | $ 352,585 | $ 345,034 | $ 355,993 |
| Loans receivable, net | **291,511** | 268,959 | 260,402 | 249,278 |
| Cash, interest-bearing deposits and securities | **65,421** | 20,892 | 21,524 | 39,970 |
| Deposits | **356,489** | 303,264 | 296,829 | 307,996 |
| Repurchase agreements | **1,625** | 5,686 | 5,566 | 4,609 |
| FHLB Advances | **500** | 499 | 3,999 | 7,997 |
| Stockholders' equity | **42,765** | 37,667 | 33,816 | 31,066 |

| | Years Ended | | | |
|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 |
| | (In thousands, except per share information) | | | |
| OPERATING DATA: | | | | |
| Interest income | **$ 16,288** | $ 16,760 | $ 14,855 | $ 9,844 |
| Interest expense | **2,330** | 3,281 | 2,493 | 1,584 |
| Net interest income | **13,958** | 13,479 | 12,362 | 8,260 |
| Provision for loan losses | **856** | 1,236 | 441 | 115 |
| Net interest income after provision for loan losses | **13,102** | 12,243 | 11,921 | 8,145 |
| Gains (losses) on securities | **62** | 13 | (1) | (20) |
| Non-interest income, excluding gains (losses) on securities | **1,141** | 1,299 | 1,281 | 1,051 |
| Non-interest expense | **9,164** | 8,797 | 9,195 | 8,221 |
| Income (loss) before taxes | **5,141** | 4,758 | 4,006 | 955 |
| Income tax expense (benefit) | **1,197** | 1,185 | 1,024 | 1,518 |
| Net income (loss) | **$ 3,944** | $ 3,573 | $ 2,982 | $ (563) |
| Basic earnings (loss) per share | **$ 1.49** | $ 1.41 | $ 1.17 | $ (0.29) |
| Diluted earnings (loss) per share | **$ 1.49** | $ 1.41 | $ 1.17 | $ (0.29) |
| Dividends per share | **$ 0.24** | $ 0.24 | $ 0.24 | $ - |

| | Year Ended | | | |
|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 |
| KEY OPERATING RATIOS: | | | | |
| Return (loss) on average assets | **1.04** | 1.00 | 0.84 | (0.21) |
| Return (loss) on average equity | **9.61** | 10.00 | 9.28 | (2.29) |
| Average equity to average assets | **10.81** | 10.04 | 9.08 | 9.04 |
| Interest rate spread for period | **3.71** | 3.83 | 3.76 | 3.85 |
| Net interest margin for period | **3.73** | 3.89 | 3.80 | 3.87 |
| Non-interest expense to average assets | **2.41** | 2.47 | 2.60 | 3.02 |
| Average interest-earning assets to interest-bearing liabilities | **106.32** | 106.51 | 104.18 | 102.69 |
| Allowance for loan losses to total loans at end of period | **1.40** | 1.23 | 0.84 | 0.98 |
| Net charge-offs (recoveries) to average loans outstanding during the period | **(0.05)** | 0.04 | 0.03 | (0.02) |
| Dividend payout ratio | **0.24** | 0.24 | 0.24 | N/A |

| | At December 31, | | | |
|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 |
| OTHER DATA: | | | | |
| Number of: | | | | |
| Loans outstanding | **2,051** | 2,033 | 2,157 | 2,264 |
| Deposit accounts | **15,999** | 16,125 | 16,531 | 16,990 |
| Full service offices | **10** | 10 | 10 | 10 |

plante moran

**Plante & Moran, PLLC**
Suite 300
1445 Market Street
Denver, CO 80202
Tel: 303.740.9400
Fax: 303.740.9009
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, 2020 and 2019 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 24, 2021

# Consolidated Balance Sheet

**December 31, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 16,385,624 | $ 3,402,231 |
| Interest-bearing deposits in other financial institutions | 49,035,482 | 17,489,885 |
| Investment securities - Available for sale (Note 3) | 20,924,767 | 39,671,228 |
| Investment securities - Held to maturity (Note 3) | 110,137 | 113,434 |
| Federal Home Loan Bank stock - Cost | 361,800 | 358,600 |
| Loans - Net of allowance for loan losses of $4,138,612 and $3,344,420 as of December 31, 2020 and 2019, respectively (Note 4) | 291,511,284 | 268,958,822 |
| Real estate owned and other repossessed assets - Net | 17,420 | 347,496 |
| Premises and equipment - Net (Note 5) | 9,373,888 | 8,675,279 |
| Goodwill and intangibles (Note 11) | 2,086,389 | 2,229,344 |
| Deferred tax asset (Note 10) | 475,705 | 300,680 |
| Cash surrender value of bank-owned life insurance | 9,127,173 | 6,090,610 |
| Other assets | 6,869,446 | 4,946,958 |
| Total assets | **$ 406,279,115** | **$ 352,584,567** |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Deposits (Note 7) | $ 356,488,800 | $ 303,264,061 |
| Repurchase agreements (Note 8) | 1,624,826 | 5,685,787 |
| Federal Home Loan Bank borrowings (Note 9) | 499,953 | 499,392 |
| Subordinated borrowings (Note 9) | 2,500,000 | 2,502,084 |
| Accrued and other liabilities | 2,400,900 | 2,966,291 |
| Total liabilities | 363,514,479 | 314,917,615 |
| **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 - Voting - $0.01 par value: Authorized - 8,000,000 shares at December 31, 2020 and 2019 Issued - 4,038,447 and 3,898,808 shares at December 31, 2020 and 2019, respectively Outstanding - 2,614,655 and 2,535,216 shares at December 31, 2020 and 2019, respectively | 40,384 | 38,988 |
| Treasury stock, at cost, 1,423,792 and 1,363,592 shares at December 31, 2020 and 2019, respectively | (20,334,774) | (19,372,179) |
| Additional paid-in capital | 32,015,831 | 29,706,202 |
| Retained earnings | 30,775,370 | 27,472,882 |
| Accumulated other comprehensive income (loss) | 267,825 | (178,941) |
| Total stockholders' equity | 42,764,636 | 37,666,952 |
| Total liabilities and stockholders' equity | **$ 406,279,115** | **$ 352,584,567** |

See notes to consolidated financial statements.

# Consolidated Statement of Operations

**Years Ended December 31, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **Interest Income** | | |
| Loans - Including fees | $ 15,720,076 | $ 15,602,652 |
| Investment securities | 344,101 | 754,793 |
| Dividends | 5,919 | 16,317 |
| Other | 218,163 | 386,398 |
| Total interest income | 16,288,259 | 16,760,160 |
| **Interest Expense** | | |
| Deposits | 2,025,095 | 2,880,795 |
| Repurchase agreements | 61,292 | 181,387 |
| Other interest expense | 243,906 | 218,349 |
| Total interest expense | 2,330,293 | 3,280,531 |
| **Net Interest Income** | 13,957,966 | 13,479,629 |
| **Provision for Loan Losses** (Note 4) | 856,347 | 1,236,288 |
| **Net Interest Income after Provision for Loan Losses** | 13,101,619 | 12,243,341 |
| **Noninterest Income (Loss)** | | |
| Service charges - Deposits | 789,423 | 1,052,118 |
| Gain on sale of investment securities | 62,262 | 12,750 |
| Increase in cash surrender of value of bank-owned life insurance | 196,563 | 174,123 |
| (Loss) gain on sale of real estate owned and other repossessed assets | (17,690) | 59,559 |
| Other | 172,807 | 13,657 |
| Total noninterest income | 1,203,365 | 1,312,207 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 5,143,507 | 4,735,999 |
| Occupancy and equipment | 1,590,720 | 1,505,028 |
| Professional fees | 405,341 | 451,730 |
| Other | 2,024,169 | 2,104,550 |
| Total noninterest expense | 9,163,737 | 8,797,307 |
| **Income** - Before income taxes | 5,141,247 | 4,758,241 |
| **Income Tax Expense** (Note 10) | 1,196,788 | 1,184,596 |
| **Net Income** | **$ 3,944,459** | **$ 3,573,645** |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

**Years Ended December 31, 2020 and 2019**

| | 2020 | 2019 |
|---|---|---|
| **Net Income** | $ 3,944,459 | $ 3,573,645 |
| **Other Comprehensive Income (Loss)** - Net of tax | | |
| Unrealized gain (loss) on securities: | | |
| Arising during the year | 657,950 | 1,364,784 |
| Reclassification adjustment | (62,262) | (12,750) |
| Tax effect | (148,922) | (338,009) |
| Total other comprehensive income | 446,766 | 1,014,025 |
| **Comprehensive Income** | **$ 4,391,225** | **$ 4,587,670** |

See notes to consolidated financial statements.

# Consolidated Statement of Stockholders' Equity

**Years Ended December 31, 2020 and 2019**

| | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total |
|---|---|---|---|---|---|---|
| **Balance** - January 1, 2019 | $ 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 |
| Comprehensive income: | | | | | | |
| Net income | - | - | - | 3,944,459 | - | 3,944,459 |
| Other comprehensive income | - | - | - | - | 446,766 | 446,766 |
| Issuance of 139,639 shares of common stock, at $0.01 par value, for a subscription price of $16.55 per share. | 1,396 | - | 2,309,629 | - | - | 2,311,025 |
| Purchase of 60,200 shares of treasury stock | - | (962,595) | - | - | - | (962,595) |
| Dividends declared | - | - | - | (641,971) | - | (641,971) |
| **Balance** - December 31, 2020 | **$ 40,384** | **$ (20,334,774)** | **$ 32,015,831** | **$ 30,775,370** | **$ 267,825** | **$ 42,764,636** |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

## Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 3,944,459 | $ 3,573,645 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 785,896 | 651,143 |
| Provision for loan losses | 856,347 | 1,236,288 |
| Net premium amortization of securities | 140,593 | 55,058 |
| Deferred income taxes | (323,947) | 426,780 |
| (Gain) loss on sale of premises and equipment | (56,482) | 3,205 |
| Loss (gain) on sale of real estate owned and repossessed assets | 17,690 | (59,559) |
| Gain on sale of investment securities | (62,262) | (12,750) |
| Write-down of real estate owned | 11,841 | 24,000 |
| Net change in: | | |
| Increase in cash surrender value of bank-owned life insurance | (196,563) | (174,123) |
| Increase in other assets | (1,922,488) | (993,438) |
| Decrease in accrued and other liabilities | (565,391) | (595,172) |
| Net cash and cash equivalents provided by operating activities | 2,629,693 | 4,135,077 |
| **Cash Flows from Investing Activities** | | |
| Net increase in interest-bearing deposits in other financial institutions | (31,545,597) | (1,920,871) |
| Proceeds from sales, maturities, and principal paydowns of securities available for sale | 39,294,260 | 3,168,617 |
| Proceeds from calls and maturities of securities held to maturity | 3,297 | 5,764 |
| Net increase in loans receivable | (23,408,809) | (10,500,601) |
| Proceeds from sales of real estate owned and repossessed assets | 300,545 | 591,164 |
| Additions to premises and equipment | (1,340,304) | (473,228) |
| Purchase of Federal Home Loan Bank stock | (3,200) | - |
| Proceeds from sale of Federal Home Loan Bank stock | - | 123,800 |
| Proceeds from sales of premises and equipment | 55,236 | 5,704 |
| Purchase of additional bank-owned life insurance | (2,840,000) | - |
| Purchase of securities available for sale | (20,030,442) | - |
| Net cash and cash equivalents used in investing activities | (39,515,014) | (8,999,651) |
| **Cash Flows from Financing Activities** | | |
| Net increase in deposits | 53,224,739 | 6,434,807 |
| Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase | (4,060,961) | 119,797 |
| Repayment of subordinated borrowings | (2,084) | (6,251) |
| Proceeds (repayment) of Federal Home Loan Bank borrowings | 561 | (3,499,359) |
| Issuance of common stock | 2,311,025 | - |
| Purchase of common stock for treasury | (962,595) | (127,818) |
| Cash dividends paid on common stock | (641,971) | (609,532) |
| Net cash and cash equivalents provided by financing activities | 49,868,714 | 2,311,644 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 12,983,393 | (2,552,930) |
| **Cash and Cash Equivalents** - Beginning of year | 3,402,231 | 5,955,161 |
| **Cash and Cash Equivalents** - End of year | **$ 16,385,624** | **$ 3,402,231** |
| **Supplemental Cash Flow Information** - Cash paid for | | |
| Interest on deposits and other borrowings | $ 2,327,687 | $ 3,587,166 |
| Income taxes | 1,503,541 | 201,474 |
| **Significant Noncash Transactions** - Loans transferred to real estate owned and other repossessed assets | $ - | $ 707,701 |

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 subsidiary, SB Cascade. All significant intercompany balances and transactions have been eliminated in consolidation.

***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 (including farm land), land, commercial (including agricultural), and consumer loans. As of December 31, 2020 and 2019, the Company does not have any significant concentrations within any one industry or with any one customer.

***Cash and Cash Equivalents***

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and deposits with other financial institutions. 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 of 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 on the consolidated balance sheet. For debt securities, 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)

Changes in unrealized gain or loss for equity securities with a readily determinable fair value are recorded through earnings. Equity securities without a readily determinable fair value are evaluated for impairment with any impairment recorded through earnings.

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. Discounts are accreted into interest income over the estimated life of the related security and premiums are amortized against income to the earlier of the call date or weighted-average life of the related security using the interest method.

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 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) the borrower is currently in default on its debts, (2) the borrower has declared or is in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

### *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, 2020 and 2019. 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, 2020 and 2019 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.

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.

## Note 2 - Significant Accounting Policies (Continued)

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*

Comprehensive income consists of net income 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.

### *Upcoming Accounting Pronouncement*

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): 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.

### *Subsequent Events*

The consolidated financial statements and related disclosures include evaluation of events up through and including February 24, 2021, which is the date the consolidated financial statements were available to be issued.

## Note 3 - Securities

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

| | 2020 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Available for Sale** | | | | |
| United States government and federal agency obligations | $ 9,997,076 | $ 4,326 | $ (1,782) | $ 9,999,620 |
| Municipal securities | 10,570,591 | 357,740 | (3,184) | 10,925,147 |
| Total available for sale | $ 20,567,667 | $ 362,066 | $ (4,966) | $ 20,924,767 |
| **Held to Maturity** - | | | | |
| Municipal securities | $ 110,137 | $ - | $ - | $ 110,137 |

| | 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 |

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2020 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, such as residential mortgage-backed securities and collateralized mortgage obligations, are shown separately.

| | Available for Sale | | Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 324,971 | $ 330,614 | $ 110,137 | $ 110,137 |
| Due in one through five years | 9,934,879 | 10,107,370 | - | - |
| Due after five years through ten years | 8,143,012 | 8,284,393 | - | - |
| Due after ten years | 2,164,805 | 2,202,390 | - | - |
| Total | $ 20,567,667 | $ 20,924,767 | $ 110,137 | $ 110,137 |

During the years ended December 31, 2020 and 2019, gross realized gain on the sale of securities was $62,262 and $12,750, respectively.

The carrying value of securities pledged on repurchase agreements at December 31, 2020 and 2019 was approximately $16,475,000 and $27,445,000, respectively.

## Note 3 - Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ (1,782) | $ 1,999,210 | $ - | $ - | $ (1,782) | $ 1,999,210 |
| Municipal securities | (3,184) | 376,724 | - | - | (3,184) | 376,724 |
| Total available-for-sale securities | $ (4,966) | $ 2,375,934 | $ - | $ - | $ (4,966) | $ 2,375,934 |

| | 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 |

As of December 31, 2020 and 2019, the portfolio had 3 and 42 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, 2020 and 2019.

## Note 4 - Loans and Allowance for Loan Losses

At December 31, 2020 and 2019, loans consisted of the following:

| | 2020 | 2019 |
|---|---|---|
| Residential real estate | $ 76,009,241 | $ 71,788,625 |
| Commercial real estate | 136,967,402 | 122,235,273 |
| Land | 4,355,227 | 3,896,171 |
| Commercial | 76,076,814 | 71,853,650 |
| Consumer | 2,301,543 | 2,306,793 |
| Total loans | 295,710,227 | 272,080,512 |
| Less allowance for loan losses | 4,138,612 | 3,344,420 |
| (Less) plus net deferred loan (fees) costs | (60,331) | 222,730 |
| Net loans | $ 291,511,284 | $ 268,958,822 |

## Note 4 - Loans and Allowance for Loan Losses (Continued)

During 2020, the Company funded loans under the Small Business Administration's (SBA) Paycheck Protection Program (PPP) designed to provide liquidity to small businesses during the COVID-19 pandemic. The loans are guaranteed by the SBA, and loan proceeds to borrowers are forgivable by the SBA if certain criteria are met. The Company originated PPP loans totaling $20,912,000 during the year. As of December 31, 2020, approximately $15,263,000 of PPP loans was included on the consolidated balance sheet. PPP processing fees received from the SBA totaling $608,733 were deferred along with loan origination costs and recognized as interest income using the effective yield method. Upon forgiveness of a loan and resulting repayment by the SBA, any unrecognized net fee for a given loan is recognized as interest income. Fees of $305,926 were recognized in 2020.

The Company's activity in the allowance for loan losses for the years ended December 31, 2020 and 2019, by loan segment, is summarized below:

| | Year Ended December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Real Estate | Commercial Real Estate | Land | Commercial | Consumer | Total |
| Beginning balance | $ 595,667 | $ 1,365,170 | $ 71,826 | $ 1,275,361 | $ 36,396 | $ 3,344,420 |
| Charge-offs | - | - | - | (221,591) | (12,104) | (233,695) |
| Recoveries | 74,268 | 30,000 | - | 58,653 | 8,619 | 171,540 |
| Provision | 220,115 | 396,644 | 12,612 | 220,311 | 6,665 | 856,347 |
| Ending balance | $ 890,050 | $ 1,791,814 | $ 84,438 | $ 1,332,734 | $ 39,576 | $ 4,138,612 |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | $ 31,480 | $ - | $ - | $ - | $ - | $ 31,480 |
| Collectively evaluated for impairment | 858,570 | 1,791,814 | 84,438 | 1,332,734 | 39,576 | 4,107,132 |
| Ending allowance balance | $ 890,050 | $ 1,791,814 | $ 84,438 | $ 1,332,734 | $ 39,576 | $ 4,138,612 |
| Loans: | | | | | | |
| Individually evaluated for impairment | $ 48,052 | $ 190,075 | $ - | $ 177,394 | $ - | $ 415,521 |
| Collectively evaluated for impairment | 75,961,189 | 136,777,327 | 4,355,227 | 75,899,420 | 2,301,543 | 295,294,706 |
| Total loans | $ 76,009,241 | $136,967,402 | $ 4,355,227 | $ 76,076,814 | $ 2,301,543 | $ 295,710,227 |

## Note 4 - Loans and Allowance for Loan Losses (Continued)

| | 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 |

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.

## Note 4 - Loans and Allowance for Loan Losses (Continued)

***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, 2020 and 2019 are summarized below:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Ending Balance |
| Residential real estate | $ 75,386,982 | $ 334,125 | $ 239,827 | $ 48,307 | $ 76,009,241 |
| Commercial real estate | 134,688,673 | 891,789 | 1,386,940 | - | 136,967,402 |
| Land | 4,355,227 | - | - | - | 4,355,227 |
| Commercial | 74,706,284 | - | 1,370,530 | - | 76,076,814 |
| Consumer | 2,301,543 | - | - | - | 2,301,543 |
| Total | $ 291,438,709 | $ 1,225,914 | $ 2,997,297 | $ 48,307 | $ 295,710,227 |

| | 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 |

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.

## Note 4 - Loans and Allowance for Loan Losses (Continued)

### *Age Analysis of Past-due Loans*

The Company's age analysis of past-due loans at December 31, 2020 and 2019, by loan segment and class, is summarized below:

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | 30-89 Days Past Due | Nonaccrual Loans | Current Loans | Total Loans | Recorded Investment > 90 Days and Accruing |
| Residential real estate | $ 254,619 | $ 48,052 | $ 75,706,570 | $ 76,009,241 | $ - |
| Commercial real estate | - | 190,075 | 136,777,327 | 136,967,402 | - |
| Land | - | - | 4,355,227 | 4,355,227 | - |
| Commercial | - | 177,394 | 75,899,420 | 76,076,814 | - |
| Consumer | - | - | 2,301,543 | 2,301,543 | - |
| Total | $ 254,619 | $ 415,521 | $ 295,040,087 | $ 295,710,227 | $ - |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | 30-89 Days Past Due | Nonaccrual Loans | Current Loans | Total Past Due | 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 |

### *Impaired Loans*

Impaired loans, by loan segment and class, are as follows at December 31, 2020 and 2019:

| | As of and for the Year Ended December 31, 2020 | | | |
|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment for the Year |
| With no related allowance recorded: | | | | |
| Residential real estate | $ 8,062 | $ 8,062 | $ - | $ 8,062 |
| Commercial real estate | 190,075 | 243,044 | - | 190,075 |
| Commercial | 177,394 | 177,394 | - | 177,394 |
| Total with no related allowance recorded | 375,531 | 428,500 | - | 375,531 |
| With an allowance recorded - Residential real estate | 39,990 | 48,307 | 31,480 | 45,525 |
| Total | $ 415,521 | $ 476,807 | $ 31,480 | $ 421,056 |

## Note 4 - Loans and Allowance for Loan Losses (Continued)

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

Impaired loans for which no allowance has been provided as of December 31, 2020 and 2019 have adequate collateral based on management's current estimates. Interest income recognized for the years ended December 31, 2020 and 2019 on these impaired loans was *de minimus*.

***Troubled Debt Restructurings***

A modification of a loan constitutes a troubled debt restructuring 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, 2020 and 2019, troubled debt restructurings totaled $55,853 and $59,086, respectively. There were no contracts modified during 2020. One contract was modified during 2019 with a premodification and postmodification balance of $56,303.

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law. Among other things, the CARES Act suspends the requirements related to accounting for TDRs for certain loan modifications related to the COVID-19 pandemic. As a result of the pandemic, the Company provided a modification program to borrowers that included certain concessions, such as interest-only or payment deferrals. The Company granted pandemic-related modifications of loans totaling approximately $21,065,000. As of December 31, 2020, approximately $4,505,000 of loans remained under a modification agreement that are not disclosed as TDRs. Regardless of whether a modification is classified as a TDR, the Company continues to apply policies for risk rating, accruing interest, and classifying loans as impaired.

## Note 5 - Premises and Equipment

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

| | 2020 | 2019 |
|---|---|---|
| Land | $ 1,734,514 | $ 974,954 |
| Buildings and building improvements | 9,655,532 | 9,259,046 |
| Furniture, fixtures, and equipment | 5,983,599 | 5,920,557 |
| Vehicles | 91,493 | 90,166 |
| Construction in progress | 140,801 | 20,150 |
| Total cost | 17,605,939 | 16,264,873 |
| Accumulated depreciation | (8,232,051) | (7,589,594) |
| Net premises and equipment | $ 9,373,888 | $ 8,675,279 |

## Note 6 - 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 $165,873 and $163,584 for 2020 and 2019, 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. The right-to-use asset is included in premises and equipment and the lease liability is included in accrued and other liabilities on the consolidated balance sheet.

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

| Years Ending December 31 | Amount |
|---|---|
| 2021 | $ 157,452 |
| 2022 | 157,452 |
| 2023 | 157,452 |
| 2024 | 157,452 |
| 2025 | 157,452 |
| Thereafter | 1,298,979 |
| Total | 2,086,239 |
| Less amount representing interest | 432,036 |
| Present value of net minimum lease payments | 1,654,203 |
| Long-term obligations under operating leases | $ 1,654,203 |

## Note 7 - Deposits

The following is a summary of the distribution of deposits at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Interest-bearing deposits | $ 167,459,104 | $ 155,779,951 |
| Non-interest-bearing deposits | 79,836,896 | 45,221,827 |
| Super-saver money market | 27,407,453 | 21,131,928 |
| Savings and money market accounts | 15,139,860 | 14,403,286 |
| Certificates of deposit | 66,645,487 | 66,727,069 |
| Total | $ 356,488,800 | $ 303,264,061 |

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2020 and 2019 totaled $11,331,139 and $6,020,840, respectively.

## Note 7 - Deposits (Continued)

At December 31, 2020, the scheduled maturities of time deposits are as follows:

| Years Ending | Amount |
|---|---|
| 2021 | $ 40,384,689 |
| 2022 | 11,795,878 |
| 2023 | 6,771,182 |
| 2024 | 4,323,374 |
| 2025 | 3,086,873 |
| Thereafter | 283,491 |
| Total | $ 66,645,487 |

## Note 8 - 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 0.66 percent and 2.24 percent at December 31, 2020 and 2019, respectively.

## Note 9 - Borrowings

The Company has advances from the Federal Home Loan Banks of Topeka totaling $499,953 and $499,392 at December 31, 2020 and 2019, respectively. The interest rate on the balance outstanding at December 31, 2020 and 2019 was 1.89 percent. Interest is payable monthly, and the advance matures in 2021. The advances are collateralized by approximately $16,475,000 of investment securities as of December 31, 2020, 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, 2020, the Company had outstanding letters of credit at the FHLB of approximately $4,000,000. These letters of credit were collateralized by a collateral pledge agreement under which the Company had pledged investments with a carrying value of $16,475,000 at December 31, 2020. There were none outstanding as of December 31, 2020 or 2019.

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, 2020 and 2019 was $180,000. The note was paid in full on January 4, 2021.

Future obligations of the advances are as follows at December 31, 2020:

| Years Ending | Amount |
|---|---|
| 2021 | $ 499,953 |
| 2022 | - |
| 2023 | - |
| 2024 | - |
| 2025 | 2,500,000 |
| Total | $ 2,999,953 |

## Note 10 - 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:

| | 2020 | 2019 |
|---|---|---|
| Current income tax expense | $ 1,520,735 | $ 757,816 |
| Deferred income tax (benefit) expense | (323,947) | 426,780 |
| Total income tax expense | $ 1,196,788 | $ 1,184,596 |

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:

| | 2020 | 2019 |
|---|---|---|
| Income tax expense, computed at 21 percent of pretax income | $ 1,079,662 | $ 999,231 |
| State income tax expense | 260,821 | 240,291 |
| Tax-exempt income | (29,552) | (7,433) |
| Bank-owed life insurance | (41,278) | (45,359) |
| Other - Net | (72,865) | (2,134) |
| Total provision for income taxes | $ 1,196,788 | $ 1,184,596 |

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

| | 2020 | 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | $ 1,027,901 | $ 871,221 |
| Loan fair value adjustment | 103,818 | 155,409 |
| Net unrealized loss on available-for-sale securities | - | 59,647 |
| Tenant allowance | 111,021 | 132,455 |
| Unearned PPP fee income | 75,208 | - |
| Other | 252 | 3,958 |
| Gross deferred tax assets | 1,318,200 | 1,222,690 |
| Deferred tax liabilities: | | |
| Premises and equipment | (395,757) | (493,425) |
| Net unrealized gain on available-for-sale securities | (89,275) | - |
| Core deposit intangible | (162,734) | (207,922) |
| Investment in partnership interest | (71,641) | (89,380) |
| FHLB stock dividends | (5,254) | (7,020) |
| Prepaid expenses | (57,599) | (39,033) |
| Deferred loan costs - Net of fees | (60,224) | (58,021) |
| Other | (11) | (27,209) |
| Gross deferred tax liabilities | (842,495) | (922,010) |
| Net deferred tax asset | $ 475,705 | $ 300,680 |

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

## Note 11 - Goodwill and Intangible Assets

The core deposit intangible asset has an economic life of 8.1 years. Intangible assets of the Company as of and for the years ended December 31, 2020 and 2019 are summarized as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Net Carrying Amount | Amortization Expense | Net Carrying Amount | Amortization Expense |
| Amortized intangible assets - Core deposit intangible | $ 655,210 | $ 142,955 | $ 798,165 | $ 142,955 |

The balance of goodwill for the years ended December 31, 2020 and 2019 was the result of the Stockmens Bank acquisition in 2017. Goodwill has an indefinite life.

The recorded amounts of goodwill at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Goodwill | $ 1,431,179 | $ 1,431,179 |

## Note 12 - 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, 2020 and 2019 was approximately $120,000. This plan is not subject to the requirements of Accounting Standards Codification (ASC) 715 and 958.

The Stockmens Bank Employee Stock Ownership Plan and Trust and the Stockmens Bank 401(k) Savings Plan (together replacing the First Home Bank Employee Stock Ownership and 401(k) Plan as of January 1, 2020) cover all employees who are age 18 and have completed 90 days of service (age 21 and six months of service until January 1, 2020). The Company makes contributions on a matching basis of 100 percent on the first 3 percent of employee deferrals and 50 percent on the next 2 percent of employee deferrals. Expense for the employee stock ownership and 401(k) plans for the years ended December 31, 2020 and 2019 was $195,368 and $108,792, respectively.

## Note 13 - Stock Option Plan

During 2019, the Company approved the First Bancshares, Inc. 2019 Stock Option Plan (the "Plan"), which permits the grant of incentive stock or nonqualified stock options to its participants for up to 100,000 shares of common stock. 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, 2020 and 2019, as no stock options have been granted.

## Note 14 - Related Party Transactions

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

Loans to officers and directors as of December 31, 2020 and 2019 were $10,042,779 and $11,268,377, respectively.

## Note 15 - Commitments and Contingencies

***Credit-related Financial Instruments***

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

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

***Contract Amounts***

As of December 31, 2020 and 2019, the following financial instruments whose contract amounts represent credit risk were outstanding:

| | Contract Amount | |
|---|---|---|
| | 2020 | 2019 |
| Commitments to grant loans | $ 57,326,798 | $ 23,291,300 |
| Unfunded commitments under lines of credit | 84,799,985 | 69,746,138 |
| Standby letters of credit | 5,114,147 | 5,009,400 |
| Total | $ 147,240,930 | $ 98,046,838 |

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.

## Note 15 - Commitments and Contingencies (Continued)

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

## Note 16 - 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 where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Fair value accounting standards exclude certain financial instruments and all nonfinancial instruments from their disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

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

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | $ 16,385,624 | $ 16,385,624 | $ 3,402,231 | $ 3,402,231 |
| Interest-bearing deposits in other financial institutions | 49,035,482 | 49,035,482 | 17,489,885 | 17,489,885 |
| Available-for-sale securities | 20,924,767 | 20,924,767 | 39,671,228 | 39,671,228 |
| Held to maturity securities | 110,137 | 110,137 | 113,434 | 113,434 |
| Cash surrender value of bank-owned life insurance | 9,127,173 | 9,127,173 | 6,090,610 | 6,090,610 |
| Federal Home Loan Bank stock - Cost | 361,800 | 361,800 | 358,600 | 358,600 |
| Loans - Net of allowance for loan losses | 291,511,284 | 290,799,504 | 268,958,822 | 270,836,509 |
| Accrued interest receivable | 2,518,857 | 2,518,857 | 2,473,731 | 2,473,731 |
| **Financial Liabilities** | | | | |
| Deposits | 356,488,800 | 350,279,409 | 303,264,061 | 290,219,280 |
| Repurchase agreements | 1,624,826 | 1,639,364 | 5,685,787 | 5,758,160 |
| Federal Home Loan Bank borrowings | 499,953 | 500,571 | 499,392 | 500,074 |
| Accrued interest payable | 173,844 | 173,844 | 163,069 | 163,069 |
| Subordinated borrowings | 2,500,000 | 3,273,784 | 2,502,084 | 3,188,448 |

## Note 17 - 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.

## Note 17 - Minimum Regulatory Capital Requirements (Continued)

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework, for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Company. This final rule is applicable to all non-advanced approaches of FDIC-supervised institutions with less than $10 billion in total consolidated assets. The community bank leverage ratio removes the requirement to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. The community bank leverage ratio will be 8 percent for 2020, 8.5 percent for calendar year 2021, and 9 percent for calendar year 2022 and beyond. If the minimum ratio is met, banks adopting the framework are considered well capitalized for prompt corrective action purposes. The rule allows for a two-quarter grace period to correct a ratio that falls below the required amount and allows for the reversion back to the risk-weighting framework without restriction.

Prior to the adoption of the community bank leverage ratio in 2020, quantitative measures established by regulation to ensure capital adequacy required the Company to maintain minimum amounts and ratios (set forth in the following table for the year ended December 31, 2019) 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). These capital guidelines involved quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The capital amounts and classification were also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

As of the latest consolidated balance sheet date, the most recent regulatory notifications categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum ratios as set forth in the following table. Management believes, as of December 31, 2020 and 2019, that the Company met all capital adequacy requirements to which it is subject. There are no conditions or events since that notification that management believes have changed the institution's category.

| | 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, 2020** | | | | | | |
| Tier 1 capital (to average assets) | $ 39,325 | 9.83 % | $ - | - % | $ 32,017 | 8.00 % |
| **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 |

## Note 18 - 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 where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Investments that are measured at fair value using 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, 2020 and 2019 and the valuation techniques used by the Company to determine those fair values:

| | Assets Measured at Fair Value on a Recurring Basis at December 31, 2020 | | | |
|---|---|---|---|---|
| | 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, 2020 |
| Securities available for sale: | | | | |
| United States government and federal agency obligations | $ - | $ 9,999,620 | $ - | $ 9,999,620 |
| Municipal securities | - | 10,925,147 | - | 10,925,147 |
| Total securities available for sale | $ - | $ 20,924,767 | $ - | $ 20,924,767 |

## Note 18 - 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 |

The fair value of securities available for sale at December 31, 2020 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.

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.

## Note 18 - Fair Value Measurements (Continued)

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

| | Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2020 | | | |
|---|---|---|---|---|
| | 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, 2020 |
| Real estate owned and other repossessed assets | $ - | $ - | $ 17,420 | $ 17,420 |
| Impaired loans | - | - | 384,041 | 384,041 |

| | 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 |

## 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 19, 2021, there were 289 registered stockholders and 2,610,276 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 $0.25/share cash dividend to the shareholders of record as of March 15th, 2021, payable on April 1st, 2021.

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 19, 2021, 25,950 authorized shares had been repurchased at an average price of $13.71 per share.

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

| **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 |

| **Year Ended December 31, 2020** | High | Low | Dividend |
|---|---|---|---|
| First Quarter | $ 14.00 | $ 14.00 | 0.24 |
| Second Quarter | $ 14.00 | $ 14.00 | N/A |
| Third Quarter | $ 13.50 | $ 13.50 | N/A |
| Fourth Quarter | $ 13.01 | $ 13.01 | N/A |

## DIRECTORS

**FIRST BANCSHARES, INC.**

<u>DIRECTORS:</u>
Robert M. Alexander
Chairman and
Chief Executive Officer

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

D. Edward Sauer
Director
First Bancshares, Inc.

John G. Moody
Director
First Bancshares, Inc.

Bradley M. Segebarth
Chief Operating Officer
Lebanon Auto Transport

Jeffrey Timmerman
Owner/Operator
Sunset Land & Cattle

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

**STOCKMENS BANK**

<u>DIRECTORS:</u>
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

<u>ADVISORY DIRECTORS:</u>
John G. Moody
D. Mitch Ashlock
Steven McConville

## 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

Judith Ingels
Assistant Corporate Secretary

**STOCKMENS BANK**

OFFICERS:
Robert M. Alexander
Chairman and
Chief Executive Officer

Brady J. Nachtrieb, CPA
Chief Financial Officer

John Gumper
Assistant Corporate Secretary
Executive Vice President

Judith Ingels
Executive Vice President

E. Steve Moody
Missouri President

Shannon Peterson
Corporate Secretary
Vice 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 Tuesday, April 27, 2021, at 11:00 a.m., Mountain Time, via virtual WebEx conference.

Please email annualmeeting@thestockmensbank.com by April 15, 2021 to receive the WebEx meeting details and invitation.

---

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