































FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the trailing twenty-four month period. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: changes in lending policies, procedures, and practices, including underwriting standards and collection and charge-off and recovery practices; international, national, regional and local economic trends and conditions; nature and volume of loans; changes in the experience, ability, and depth of lending management and other staff; levels of and severity of past due loans, nonaccrual loans, and classified loans; quality of the Corporation's loan review system; levels of concentrations of credit; and effects of changes in other external factors such as competition and legal and regulatory requirements.

The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management's current estimates of what constitutes a reasonable allowance for credit losses.

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

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

Concentration of Credit Risk: The Bank is a full service bank headquartered in Merrillville, Indiana with 57 branch offices located in Lake, Porter, LaPorte, Marion, Marshall, St. Joseph, Allen, Hamilton, Boone, Elkhart and Tippecanoe Counties. The Bank makes a variety of loans including real estate mortgage, consumer and commercial loans. Substantially all of the Bank's loans are made within the eleven Indiana county trade areas. The loan portfolio at December 31, 2021 had a concentration of 53% of total loans classified as commercial real estate (10% office including medical, 10% commercial construction, 9% retail, 8% multifamily, 7% hospitality, 5% in other commercial industries, and 4% industrial). The remainder of the portfolio was well diversified and substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate.

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

Advertising Expense: Advertising costs are expensed as incurred. Advertising expense was approximately \$1,957 and \$1,757 for year-end December 31, 2021 and 2020, respectively.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. The carrying value of loan servicing rights was \$6,447 and \$5,876 at December 31, 2021 and 2020, respectively, and are included in accrued interest receivable and other assets on the consolidated balance sheets. There was no valuation allowance at December 31, 2021 and 2020. Mortgage servicing rights fair value approximated the carrying value as of December 31, 2021 and 2020.

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

Loans serviced for others, principally the Federal Home Loan Mortgage Corporation (FHLMC), are not included in loans on the consolidated balance sheets and were \$1,024,279 and \$942,094 at year-end 2021 and 2020.

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

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

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

---

(Continued)



FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Derivatives: The Corporation enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as other noninterest income. The Corporation is exposed to losses if a counterparty fails to make its payments under a contract in which the Corporation is in the net receiving position. At December 31, 2021, the Corporation anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, the Corporation obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which the Corporation is a party settle monthly. Further, the Corporation has netting agreements with the dealers with which it does business.

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

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

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

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

Associate Stock Ownership Plan (ASOP): The cost of shares issued to the ASOP, but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ASOP shares reduce retained earnings; dividends on unearned ASOP shares reduce any related debt and accrued interest. At December 31, 2021 and 2020, there were no unearned ASOP shares.

Earnings Per Share: Basic earnings per share is based on the weighted average common shares outstanding. The weighted average number of common shares outstanding was 113,263 and 113,263 for 2021 and 2020. Diluted earnings per share includes the dilutive effect of the outstanding subordinated debentures which have the option to convert as of April 15 and October 15 each year. The diluted weighted average number of common shares was 113,873 and 113,906 for 2021 and 2020.

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

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial Instruments with Off-Balance-Sheet Risk: The Corporation, in the normal course of business, makes commitments to extend credit which are not reflected in the financial statements and are recorded when funded. See Note 14 for a summary of these commitments.

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

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

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

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

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance-sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

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

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

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

Accounting Standards Not Yet Effective:

The FASB has issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning January 1, 2022 for the Corporation. The Corporation is still evaluating the impact to the consolidated financial statements.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The FASB has issued ASU No. 2016-13, *Financial Instrument – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to enhance their credit loss estimates. The amendment requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning January 1, 2023. Early adoption was permitted beginning December 31, 2018. The Corporation expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses upon adoption. The magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements cannot yet be reasonably estimated. The Corporation established an internal committee that meets on a regular basis to oversee activities and monitor progress of model development.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. As of December 31, 2021 cash and cash equivalents is defined to include cash on hand and deposits in other institutions.

At December 31, 2021, the Corporation's interest-bearing cash accounts and non-interest bearing transaction deposits held at other institutions exceeded the \$250 federally insured limits by approximately \$442,966. The Federal Home Loan Bank and Federal Reserve Bank are government sponsored entities not insured by the FDIC. Of the \$442,966 the Corporation held approximately \$436,959 with the Federal Home Loan Bank and Federal Reserve Bank. Each correspondent bank's financial performance and market rating are reviewed on a quarterly basis to ensure the Corporation has deposits only at institutions providing minimal risk for those exceeding the federally insured limits.

The Federal Reserve Board announced on March 15, 2020 the reduction of the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated the restriction on a portion of the Bank's cash and cash equivalents for December 31, 2021 and 2020. At December 31, 2021 and 2020, the required reserve balance was \$0.

**NOTE 3 - MUTUAL FUND INVESTMENT**

The Corporation invested in the Wells Fargo Advantage Adjustable Rate Government Fund (the Fund) with a carrying value of \$10,707 at December 31, 2020. The Fund invests primarily in mortgage and asset-backed securities issued or guaranteed by the U.S. government or government-sponsored enterprises (GSE's). The Corporation purchased the investment in order to secure its obligation under a letter of credit which was issued with Wells Fargo. In 2021, the Corporation terminated the investment and the carrying value was \$0 at December 31, 2021. The Corporation is actively working with Wells Fargo to secure its obligation. The letter of credit expires May 15, 2022.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 4 - SECURITIES**

The following table summarizes the amortized cost and fair value of the available-for-sale securities at December 31, 2021 and 2020 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2021:				
U.S. government agencies	\$ 24,638	\$ 124	\$ (144)	\$ 24,618
State and political subdivisions	354,252	11,049	(1,187)	364,114
Mortgage-backed - residential	201,172	1,451	(1,877)	200,746
Collateralized mortgage obligations	150,002	657	(1,936)	148,723
Other	13,629	125	(75)	13,679
	<u>\$ 743,693</u>	<u>\$ 13,406</u>	<u>\$ (5,219)</u>	<u>\$ 751,880</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale 2020:				
U.S. government agencies	\$ 5,481	\$ 287	\$ -	\$ 5,768
State and political subdivisions	219,271	14,419	(38)	233,652
Mortgage-backed - residential	178,072	3,178	(68)	181,182
Collateralized mortgage obligations	145,281	2,270	(73)	147,478
Other	1,500	-	(2)	1,498
	<u>\$ 549,605</u>	<u>\$ 20,154</u>	<u>\$ (181)</u>	<u>\$ 569,578</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 4 - SECURITIES (Continued)**

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2021 and December 31, 2020, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At year end 2021:						
U.S. government agencies	\$ 20,328	\$ (144)	\$ -	\$ -	\$ 20,328	\$ (144)
State and political subdivisions	107,610	(1,071)	4,409	(116)	112,019	(1,187)
Mortgage-backed - residential	129,116	(1,606)	12,181	(271)	141,297	(1,877)
Collateralized mortgage obligations	83,694	(1,485)	14,069	(451)	97,763	(1,936)
Other	8,704	(75)	-	-	8,704	(75)
Total available-for-sale	<u>\$ 349,452</u>	<u>\$ (4,381)</u>	<u>\$ 30,659</u>	<u>\$ (838)</u>	<u>\$ 380,111</u>	<u>\$ (5,219)</u>
At year end 2020:						
State and political subdivisions	\$ 8,084	\$ (38)	\$ -	\$ -	\$ 8,084	\$ (38)
Mortgage-backed - residential	27,604	(68)	-	-	27,604	(68)
Collateralized mortgage obligations	34,047	(73)	-	-	34,047	(73)
Other	1,498	(2)	-	-	1,498	(2)
Total available-for-sale	<u>\$ 71,233</u>	<u>\$ (181)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,233</u>	<u>\$ (181)</u>

Certain available for sale securities are reported in the financial statements at amounts less than their historical cost. The historical cost of these securities totaled \$385,330 and \$71,414 at December 31, 2021 and 2020, respectively. Total fair value of these securities was \$380,111 and \$71,233, which is approximately 51% and 13% of the Corporation's available for sale portfolio at December 31, 2021 and 2020, respectively.

The corporation's management believes the decline in fair value for these securities was temporary. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income during the period the OTTI is identified.

There was no other-than-temporary impairment (OTTI) recognized in accumulated other comprehensive income at December 31, 2021 and 2020. For the years ended December 31, 2021 and 2020, there were no OTTI charges recorded in the consolidated statements of income, respectively.

*State and Political Subdivisions*

The unrealized losses on the Corporation's investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those securities do not permit the issuer to settle the securities at a price less than the amortized cost basis of the securities. Because the Corporation does not intend to sell the securities and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those securities to be other-than-temporarily impaired at December 31, 2021.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 4 - SECURITIES** (Continued)

*Mortgage-backed – Residential and Collateralized Mortgage Obligations*

The unrealized losses of the Corporation's investments in mortgage-backed securities and collateralized mortgage obligations were a result of interest rate changes. The Corporation expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Corporation does not intend to sell the securities and it is not more likely than not that the Corporation will be required to sell the securities before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those securities to be other-than-temporarily impaired at December 31, 2021.

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

	<u>2021</u>	<u>2020</u>
Proceeds	\$ 3,704	\$ 32,780
Gross gains	385	314
Gross losses	-	-

The amortized cost and fair value of debt securities at December 31, 2021 by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	<u>Available For Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 2,685	\$ 2,685
Due from one to five years	5,596	5,745
Due from five to ten years	96,338	100,505
Due after ten years	263,262	268,858
U.S. government agencies	24,638	24,618
Mortgage-backed - residential	201,172	200,746
Collateralized mortgage obligations	150,002	148,723
	<u>\$ 743,693</u>	<u>\$ 751,880</u>

Securities with a carrying value of \$68,883 and \$121,307 at December 31, 2021 and 2020, were specifically pledged to secure borrowed funds, securities sold under agreements to repurchase, public deposits and for other purposes as required or permitted by law.

At year-end 2021 and 2020, there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 5 - LOANS**

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

	<u>2021</u>	<u>2020</u>
Commercial, substantially secured by real estate	\$ 3,922,451	\$ 3,781,285
Residential	378,750	414,866
Installment	<u>482,967</u>	<u>488,287</u>
Subtotal	4,784,168	4,684,438
Allowance for loan losses	(63,115)	(67,690)
Net deferred loan (fees) costs	<u>49,739</u>	<u>48,135</u>
Loans, net	<u>\$ 4,770,792</u>	<u>\$ 4,664,883</u>

Included in commercial loans at both December 31, 2021 and 2020 were \$926,037 and \$788,718 of mortgage warehouse lines. At December 31, 2021, there were 51 lines with maximum individual limits ranging between \$3,000 and \$300,000. Activity transacted through these mortgage warehouse lines during the years 2021 and 2020 totaled \$7,963,742 and \$11,824,185.

---

(Continued)



FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS** (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year-ending December 31, 2021 and 2020:

December 31, 2021	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Beginning balance	\$ 60,990	\$ 4,234	\$ 2,466	\$ 67,690
Provision (credit) for loan losses	1,300	(1,050)	(1,150)	(900)
Loans charged-off	(4,294)	(244)	(16)	(4,554)
Recoveries	705	99	75	879
Total ending allowance balance	<u>\$ 58,701</u>	<u>\$ 3,039</u>	<u>\$ 1,375</u>	<u>\$ 63,115</u>
December 31, 2020	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Beginning balance	\$ 37,550	\$ 3,962	\$ 1,893	\$ 43,405
Provision for loan losses	26,494	298	728	27,520
Loans charged-off	(4,315)	(106)	(376)	(4,797)
Recoveries	1,261	80	221	1,562
Total ending allowance balance	<u>\$ 60,990</u>	<u>\$ 4,234</u>	<u>\$ 2,466</u>	<u>\$ 67,690</u>

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2021 and 2020:

December 31, 2021	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$ 1,266	\$ 230	\$ 39	\$ 1,535
Collectively evaluated for impairment	57,435	2,809	1,336	61,580
Total ending allowance balance	<u>\$ 58,701</u>	<u>\$ 3,039</u>	<u>\$ 1,375</u>	<u>\$ 63,115</u>
Loans:				
Loans individually evaluated for impairment	\$ 15,680	\$ 4,179	\$ 885	\$ 20,744
Loans collectively evaluated for impairment	3,903,715	376,728	532,720	4,813,163
Total ending loans balance	<u>\$ 3,919,395</u>	<u>\$ 380,907</u>	<u>\$ 533,605</u>	<u>\$ 4,833,907</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS (Continued)**

December 31, 2020	Commercial	Residential	Installment	Total
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$ 1,271	\$ 306	\$ 56	\$ 1,633
Collectively evaluated for impairment	<u>59,719</u>	<u>3,928</u>	<u>2,410</u>	<u>66,057</u>
Total ending allowance balance	<u>\$ 60,990</u>	<u>\$ 4,234</u>	<u>\$ 2,466</u>	<u>\$ 67,690</u>
Loans:				
Loans individually evaluated for impairment	\$ 14,911	\$ 2,352	\$ 1,058	\$ 18,321
Loans collectively evaluated for impairment	<u>3,762,567</u>	<u>415,119</u>	<u>536,566</u>	<u>4,714,252</u>
Total ending loans balance	<u>\$ 3,777,478</u>	<u>\$ 417,471</u>	<u>\$ 537,624</u>	<u>\$ 4,732,573</u>

The manufactured home class, which is part of the installment segment, is presented at recorded investment which includes \$47,496 and \$46,726 of deferred dealer reserve costs at December 31, 2021 and 2020. The dealer reserve costs range from 1.25% to 1.50% premium established at the origination of the manufactured home loans. The dealer earns the premium over the life of the loan. The Corporation retains 70% of this premium in a deposit account. Accrued interest receivable associated with those accounts was deemed immaterial for adjustment to recorded investments.

The following tables present information related to impaired loans by class of loans as of and for the year-end December 31, 2021 and 2020. For purposes of this presentation, unpaid principal balance is not adjusted for prior charge-offs, due to immateriality.

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	\$ 723	\$ 723	\$ -	\$ 746	\$ -	\$ -
Commercial non-real estate	850	852	-	2,988	2	-
Residential	3,272	3,229	-	3,225	15	-
Other consumer	48	49	-	50	-	-
Manufactured housing	-	-	-	-	-	-
Credit lines	72	72	-	76	2	-
Overdrafts	-	-	-	-	-	-
Subtotal	<u>4,965</u>	<u>4,925</u>	<u>-</u>	<u>7,085</u>	<u>19</u>	<u>-</u>
With an allowance recorded:						
Commercial real estate	14,069	14,073	1,264	14,231	13	-
Commercial non-real estate	32	32	2	35	-	-
Residential	938	950	230	953	-	-
Other consumer	324	328	18	351	1	-
Manufactured housing	189	189	9	198	-	-
Credit lines	246	247	12	253	-	-
Overdrafts	-	-	-	-	-	-
Subtotal	<u>15,798</u>	<u>15,819</u>	<u>1,535</u>	<u>16,021</u>	<u>14</u>	<u>-</u>
Total	<u>\$ 20,763</u>	<u>\$ 20,744</u>	<u>\$ 1,535</u>	<u>\$ 23,106</u>	<u>\$ 33</u>	<u>\$ -</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS (Continued)**

December 31, 2020	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial real estate	\$ 131	\$ 131	\$ -	\$ 130	\$ 5	\$ -
Commercial non-real estate	565	569	-	626	27	-
Residential	2,143	2,168	-	2,211	15	-
Other consumer	378	382	-	415	6	-
Manufactured housing	268	268	-	279	23	-
Credit lines	275	277	-	294	3	-
Overdrafts	-	-	-	-	-	-
Subtotal	<u>3,760</u>	<u>3,795</u>	<u>-</u>	<u>3,955</u>	<u>79</u>	<u>-</u>
With an allowance recorded:						
Commercial real estate	14,067	14,072	1,252	14,069	670	-
Commercial non-real estate	138	140	19	160	9	-
Residential	184	184	306	184	-	-
Other consumer	40	41	28	42	1	-
Manufactured housing	49	49	15	50	3	-
Credit lines	40	40	13	42	-	-
Overdrafts	-	-	-	-	-	-
Subtotal	<u>14,518</u>	<u>14,526</u>	<u>1,633</u>	<u>14,547</u>	<u>683</u>	<u>-</u>
Total	<u>\$ 18,278</u>	<u>\$ 18,321</u>	<u>\$ 1,633</u>	<u>\$ 18,502</u>	<u>\$ 762</u>	<u>\$ -</u>

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2021 and 2020:

	2021		2020	
	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Commercial real estate	\$ 306	\$ -	\$ 112	\$ -
Commercial non-real estate	684	-	334	-
Residential	1,781	-	2,116	246
Other consumer	265	-	380	-
Manufactured housing	-	-	-	-
Credit lines	319	-	318	-
Overdrafts	-	-	-	-
Total	<u>\$ 3,355</u>	<u>\$ -</u>	<u>\$ 3,260</u>	<u>\$ 246</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS** (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2021 and 2020 by class of loans:

December 31, 2021	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due Over 90 Days	Total Past Due	Loans Not Past Due	Total
Commercial real estate	\$ -	\$ -	\$ 290	\$ 290	\$ 2,532,381	\$ 2,532,671
Commercial non-real estate	1,290	105	657	2,052	1,384,672	1,386,724
Residential	2,013	874	480	3,367	377,540	380,907
Other consumer	373	169	550	1,092	48,435	49,527
Manufactured housing	2,291	1,638	-	3,929	335,006	338,935
Credit lines	71	73	174	318	143,500	143,818
Overdrafts	-	-	-	-	1,325	1,325
Total	<u>\$ 6,038</u>	<u>\$ 2,859</u>	<u>\$ 2,151</u>	<u>\$ 11,048</u>	<u>\$ 4,822,859</u>	<u>\$ 4,833,907</u>
December 31, 2020	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due Over 90 Days	Total Past Due	Loans Not Past Due	Total
Commercial real estate	\$ 3	\$ -	\$ 95	\$ 98	\$ 2,353,612	\$ 2,353,710
Commercial non-real estate	133	357	257	747	1,423,021	1,423,768
Residential	3,153	519	1,767	5,439	412,032	417,471
Other consumer	174	110	120	404	69,014	69,418
Manufactured housing	1,033	1,672	-	2,705	333,373	336,078
Credit lines	45	-	58	103	131,280	131,383
Overdrafts	-	-	-	-	745	745
Total	<u>\$ 4,541</u>	<u>\$ 2,658</u>	<u>\$ 2,297</u>	<u>\$ 9,496</u>	<u>\$ 4,723,077</u>	<u>\$ 4,732,573</u>

**Troubled Debt Restructurings:**

Included in the impaired loan totals previously presented for 2021 and 2020 are \$2,749 and \$395 of loans for which the terms have been modified in troubled debt restructurings. The Corporation has allocated \$10 and \$15 of reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020. The Corporation has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2021 and 2020.

During the years ending December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans were a combination of forbearance with period of short term payment relief followed by period of increased payments; an extension of the amortization period; and extension of the maturity date. Modifications involving a forbearance period were for a period of 1 month to 2 years. Modifications involving an extension of the amortization period were for periods of 6 months.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS** (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ending December 31, 2021 and 2020:

December 31, 2021	Number of loans	Outstanding balance	Pre- Modification Weighted Rate	Post- Modification Weighted Rate
Troubled Debt Restructurings:				
Commercial real estate	-	\$ -	-	-
Commercial non-real estate	-	-	-	-
Residential	3	2,603	3.11%	3.11%
Other consumer	3	77	6.33%	6.33%
Manufactured housing	3	69	7.21%	7.21%
Credit lines	-	-	-	-
Overdrafts	-	-	-	-
Total	<u>9</u>	<u>\$ 2,749</u>	3.30%	3.30%
December 31, 2020	Number of loans	Outstanding balance	Pre- Modification Weighted Rate	Post- Modification Weighted Rate
Troubled Debt Restructurings:				
Commercial real estate	-	\$ -	-	-
Commercial non-real estate	1	235	7.50%	7.50%
Residential	-	-	-	-
Other consumer	1	20	4.25%	4.25%
Manufactured housing	4	140	8.00%	8.00%
Credit lines	-	-	-	-
Overdrafts	-	-	-	-
Total	<u>6</u>	<u>\$ 395</u>	7.51%	7.51%

The troubled debt restructurings described above for the years ending December 31, 2021 and 2020 did not have an impact on the allowance for loan losses or result in charge-offs as the modified loans had allowance allocations in excess of any concession amounts previously assigned.

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

There were no troubled debt restructurings that subsequently defaulted during 2021 and 2020.

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

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 5 - LOANS** (Continued)

**Impact of COVID-19 on the Corporation:**

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose which can ultimately affect the financial position, results of operations and cash flows of the Corporation, as well as the Corporation's customers. In response to economic concerns over COVID-19, in March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The 2021 Consolidated Appropriations Act, passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Corporation into 2021.

The CARES Act included several provisions designed to help financial institutions like the Corporation in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Corporation has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2021, the Corporation has approximately \$30,600 of outstanding loans that were modified during 2021 and 2020 under the CARES Act guidance, that remain on modified terms. The Corporation modified other loans during 2021 under the guidance that have since returned to normal repayment status as of December 31, 2021. The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The 2021 Consolidated Appropriations Act approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Corporation, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Corporation if the borrower's loan is not forgiven and is then not repaid by the customer. The Corporation earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Corporation originated approximately \$127,000 and \$327,000 in PPP loans during 2021 and 2020 respectively, of which approximately \$22,000 are still outstanding at December 31, 2021.

**Credit Quality Indicators:**

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

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

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

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS** (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 will sustain some loss if the deficiencies are not corrected.

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

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

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

December 31, 2021	Pass	Watch	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial real estate	\$ 2,268,042	\$ 218,696	\$ 31,183	\$ 14,750	\$ -	\$ -	\$ 2,532,671
Commercial non-real estate	1,357,082	28,257	699	686	-	-	1,386,724
Residential	-	69	-	184	-	380,654	380,907
Other consumer	-	-	-	-	-	49,527	49,527
Manufactured housing	-	-	-	-	-	338,935	338,935
Credit lines	2,508	-	-	-	-	141,310	143,818
Overdrafts	-	-	-	-	-	1,325	1,325
Total	<u>\$ 3,627,632</u>	<u>\$ 247,022</u>	<u>\$ 31,882</u>	<u>\$ 15,620</u>	<u>\$ -</u>	<u>\$ 911,751</u>	<u>\$ 4,833,907</u>

  

December 31, 2020	Pass	Watch	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial real estate	\$ 1,925,148	\$ 383,337	\$ 16,056	\$ 14,136	\$ -	\$ 15,033	\$ 2,353,710
Commercial non-real estate	1,408,066	14,157	1,071	474	-	-	1,423,768
Residential	-	76	-	184	-	417,211	417,471
Other consumer	-	-	-	-	-	69,418	69,418
Manufactured housing	-	-	-	-	-	336,078	336,078
Credit lines	1,097	-	-	-	-	130,286	131,383
Overdrafts	-	-	-	-	-	745	745
Total	<u>\$ 3,334,311</u>	<u>\$ 397,570</u>	<u>\$ 17,127</u>	<u>\$ 14,794</u>	<u>\$ -</u>	<u>\$ 968,771</u>	<u>\$ 4,732,573</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 5 - LOANS (Continued)**

The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2021 and 2020:

	Residential	Other Consumer	Manufactured Housing	Credit Lines
December 31, 2021				
Performing	\$ 379,126	\$ 49,262	\$ 338,935	\$ 143,499
Nonperforming	1,781	265	-	319
Total	<u>\$ 380,907</u>	<u>\$ 49,527</u>	<u>\$ 338,935</u>	<u>\$ 143,818</u>
December 31, 2020				
Performing	\$ 415,355	\$ 69,038	\$ 336,078	\$ 131,065
Nonperforming	2,116	380	-	318
Total	<u>\$ 417,471</u>	<u>\$ 69,418</u>	<u>\$ 336,078</u>	<u>\$ 131,383</u>

**NOTE 6 - PREMISES AND EQUIPMENT, NET**

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

	2021	2020
Land	\$ 12,536	\$ 13,136
Buildings and improvements	29,159	27,029
Furniture, fixtures and equipment	47,353	47,714
Total cost	89,048	87,879
Accumulated depreciation and amortization	(56,522)	(53,211)
	<u>\$ 32,526</u>	<u>\$ 34,668</u>

(Continued)



FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 7 - TIME DEPOSITS**

The aggregate amount of certificates of deposit with a balance of \$250 thousand or more was approximately \$126.7 million at December 31, 2021 and \$111.4 million at December 31, 2020.

At year-end 2021, stated maturities of time deposits were as follows:

2022	\$ 446,068
2023	49,395
2024	23,654
2025	23,762
2026	<u>10,387</u>
	<u>\$ 553,266</u>

**NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES**

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

	<u>2021</u>	<u>2020</u>
Maturities range from 2025 through 2030, with fixed rates between 0.44% to 3.28%, averaging 1.51%	\$ 260,000	\$ 260,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by \$707,586 and \$923,566 of one to four family residential mortgage loans, multifamily residential mortgage loans and commercial real estate loans under a blanket lien arrangement at year-end 2021 and 2020. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to a total of \$600,000 at year-end 2021.

Payments over the next five years are as follows:

2022	\$ -
2023	-
2024	-
2025	30,000
2026	50,000
Thereafter	<u>180,000</u>
	<u>\$ 260,000</u>

The Federal Home Loan Bank holds put options on \$190,000 of advances that have scheduled maturities ranging from 2026 to 2030.

At December 31, 2021, the Corporation had available \$25,000 in a credit line with the FHLB.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 9 - SUBORDINATED DEBENTURES**

In 2016 the Corporation issued convertible subordinated debentures totaling \$7,500. The debentures are unsecured, bear interest at a fixed rate of 5.25% and pay interest semi-annually. The debentures mature on April 15, 2022. The Corporation may elect to redeem the debentures at any time, subject to regulatory approval.

Starting on April 15, 2019 note holders have the option to convert their notes to shares of common stock. The election to convert is exercisable every April 15<sup>th</sup> and October 15<sup>th</sup> until the debentures reach maturity. If conversion is exercised, notes are converted to shares of common stock of the Corporation at the fair value of the common stock at the date of conversion. The subordinated debentures will be cancelled in the event the debentures are redeemed or converted to common stock. The option to convert notes to shares of common stock was not exercised in April or October 2021. The balance of convertible subordinated debentures was \$4,000 as of December 31, 2021.

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

**NOTE 10 - OTHER BORROWINGS**

On June 29, 2017 the Corporation issued \$50,000 of senior notes. The notes bear interest at the rate of 4.25% payable semiannually and have a maturity date of July 1, 2022. The notes are unsecured and unsubordinated.

At year-end 2021 and 2020 the Corporation had \$49,800 and \$49,800 of senior notes outstanding.

**NOTE 11 - EMPLOYEE BENEFIT PLANS**

The Bank has a trustee contributory profit-sharing plan covering substantially all employees. All contributions to the plan are funded with the trustee and are made at the discretion of the Bank's Board of Directors. The Bank did not make a contribution to the plan for year-end December 31, 2021 or 2020. The Bank's profit-sharing plan also includes a 401(k) feature for the exclusive benefit of its employees. The 401(k) feature is a voluntary benefit and participation is at the discretion of the employee.

For 2021 and 2020, the Bank matched 66.67% of the employee contributions to a maximum of 6% of employee qualified earnings. For the years ended December 31, 2021 and 2020, these matching funds amounted to \$2,437 and \$2,238.

The Corporation has an Associate Stock Ownership Plan (ASOP). All contributions to the plan are funded with a trustee and are at the discretion of the Corporation's Board of Directors. The Corporation's contributions and expense for the years ended December 31, 2021 and 2020 were \$3,500 and \$3,000.

During the year-ended December 31, 2021, no shares were purchased and 63 shares were distributed from the plan and during the year-ended December 31, 2020, no shares were purchased and 4 shares were distributed from the plan. As of December 31, 2021 and 2020, the ASOP held 11,272 and 11,335 shares of the Corporation's stock of which 497 shares and 485 shares are unallocated to employees. Upon distribution of shares to a participant, the participant has the right to require the Corporation to purchase shares at the most recent appraised value in accordance with the terms and conditions of the plan. The fair value of the shares held by the ASOP approximated \$100,219 and \$83,562 at December 31, 2021 and 2020.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 12 - INCOME TAXES**

Income tax expense was as follows:

	<u>2021</u>	<u>2020</u>
Federal		
Current	\$ 19,396	\$ 22,756
Deferred	710	(5,677)
	<u>20,106</u>	<u>17,079</u>
State		
Current	5,603	6,115
Deferred	156	(910)
	<u>5,759</u>	<u>5,205</u>
Total	<u>\$ 25,865</u>	<u>\$ 22,284</u>

Effective tax rates differ from federal statutory rate of 21% for 2021 and 2020 applied to income before income tax expense due to the following:

	<u>2021</u>	<u>2020</u>
Income taxes computed at statutory federal income tax rate	\$ 22,894	\$ 19,783
Increase (decrease) in taxes resulting from:		
Tax-exempt interest income	(1,433)	(1,213)
Bank owned life insurance	(111)	(144)
Captive insurance income not subject to tax	(95)	(378)
State income tax, net of federal income tax	4,550	4,112
Change in unrecognized tax benefits	-	-
Tax credits	(47)	(47)
Other	107	171
Total	<u>\$ 25,865</u>	<u>\$ 22,284</u>

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 12 - INCOME TAXES** (continued)

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

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Allowance for loan losses	\$ 15,447	\$ 16,567
Nonaccrual loan and security interest	229	235
Deferred compensation liability	32	58
Retirement benefits liability	254	194
Fixed asset depreciation	358	-
Other real estate owned	-	472
Other	850	266
	<u>17,170</u>	<u>17,792</u>
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	(1,712)	(4,208)
Prepaid assets	(1,079)	(1,104)
Stock dividends	(81)	(81)
Mortgage servicing rights	(1,578)	(1,438)
Fixed asset depreciation	-	(75)
Deferred loan fees and costs	(549)	(345)
Other	(21)	(21)
	<u>(5,020)</u>	<u>(7,272)</u>
Net deferred tax assets	<u>\$ 12,150</u>	<u>\$ 10,520</u>

The Corporation evaluated its deferred tax asset at year-end 2021 and has concluded that it is more likely than not that it will be realized. The Corporation expects to have taxable income in the future such that the deferred tax asset will be realized. Therefore, no valuation allowance is required.

Included in accrued interest payable and other liabilities in the consolidated balance sheets at December 31, 2021 and 2020, was an income tax contingency reserve in the amount of \$1,000 and \$1,150, respectively, related to uncertain matters from state income tax returns. The Corporation does not expect a significant change in unrecognized tax benefits in the next twelve months.

The total amount of interest and penalties recorded in the consolidated statements of income for the years ended December 31, 2021 and 2020 was \$0 and \$0, and the amount accrued for interest and penalties at December 31, 2021 and 2020 were \$0 and \$0, respectively.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the State of Indiana and various other states. The Corporation is no longer subject to examination by taxing authorities for years before 2018.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 13 - RELATED PARTY TRANSACTIONS**

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

At December 31, 2021 and 2020, the outstanding loans to directors, executive officers and their interests amounted to \$114,162 and \$95,310, which includes loans originated by the Bank sold servicing retained.

In addition, there are related parties that have ownership interest in certain assets which are leased on a long-term basis by the Bank. These lease commitments are included in Note 14 and are as follows:

Related Party Leases	Lease Start Date	Lease End Date	Monthly Payments as of 12/31/2021
Schererville East Branch	January 2016	December 2025	\$ 20
Retail Operations Department	January 2017	December 2021	\$ 7
Loan Review	October 2017	September 2022	\$ 4
Highland Branch	November 2017	October 2023	\$ 7
Operations Center	November 2017	June 2028	\$ 237
Dyer Branch	April 2018	April 2023	\$ 9
Talent Development	July 2018	June 2023	\$ 3
Mortgage Center	August 2020	July 2025	\$ 20
Storage Space	September 2020	July 2025	\$ 3

The aggregate rent expense under all related party leases was \$3,716 in 2021 and \$3,634 in 2020.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

The Bank leases twenty-five of its branch offices, six ATM locations and seventeen other properties under lease agreements which expire between March 31, 2022 and June 30, 2033 and require various minimum annual rentals. The total future minimum rental commitments at December 31, 2021, including the related party leases reported above, under the leases are \$32,793 and are payable as follows: 2022 - \$5,283; 2023 - \$5,192; 2024 - \$5,111; 2025 - \$4,785; 2026 - \$4,236 and thereafter \$8,186. The total rental expense amounted to \$5,455 and \$5,405 for the years ended December 31, 2021 and 2020.

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

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 14 - COMMITMENTS AND CONTINGENCIES** (Continued)

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

	<u>2021</u>	<u>2020</u>
Commitments to extend credit	\$ 24,254	\$ 25,934
Revolving lines of credit	1,048,037	762,357
Standby letters of credit	22,776	21,143

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

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

**NOTE 15 - FAIR VALUE**

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

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

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

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

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

Mutual Fund Investment: The fair value of mutual fund investments are determined by obtaining quoted prices on nationally recognized security exchanges (Level 1 inputs).

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs)

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 15 - FAIR VALUE** (Continued)

Mortgage Loans Held for Sale, at Fair Value:

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

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

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

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

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

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 15 - FAIR VALUE (Continued)**

**Assets Measured on a Recurring Basis**

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

	December 31, 2021 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>				
Securities available-for-sale:				
U.S. government agencies	\$ 24,618	\$ -	\$ 24,618	\$ -
State and political subdivisions	364,116	-	364,116	-
Mortgage-backed - residential	200,745	-	200,745	-
Collateralized mortgage obligations	148,723	-	148,723	-
Other	13,678	-	13,678	-
<b>Total securities available-for-sale</b>	<b>\$ 751,880</b>	<b>\$ -</b>	<b>\$ 751,880</b>	<b>\$ -</b>
Mutual fund investments	-	-	-	-
Mortgage loans held for sale	10,932	-	10,932	-
Mortgage banking derivative asset	781	-	781	-
Interest rate swaps - assets	53,977	-	53,977	-
<b>Financial Liabilities:</b>				
Interest rate swaps - liabilities	53,977	-	53,977	-
Forward contracts related to mortgage loans held for sale	7	-	7	-
	Fair Value Measurements at December 31, 2020 Using:			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>				
Securities available-for-sale:				
U.S. government agencies	\$ 5,768	\$ -	\$ 5,768	\$ -
State and political subdivisions	233,652	-	233,652	-
Mortgage-backed - residential	181,182	-	181,182	-
Collateralized mortgage obligations	147,478	-	147,478	-
Other	1,498	-	1,498	-
<b>Total securities available-for-sale</b>	<b>\$ 569,578</b>	<b>\$ -</b>	<b>\$ 569,578</b>	<b>\$ -</b>
Mutual fund investments	10,707	10,707	-	-
Mortgage loans held for sale	23,279	-	23,279	-
Mortgage banking derivative asset	2,614	-	2,614	-
Interest rate swaps - assets	99,417	-	99,417	-
<b>Financial Liabilities:</b>				
Interest rate swaps - liabilities	99,417	-	99,417	-
Forward contracts related to mortgage loans held for sale	422	-	422	-

(Continued)



FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 15 - FAIR VALUE (Continued)**

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2021 and 2020.

Assets Measured on a Non-Recurring Basis

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

Fair Value Measurements at December 31, 2021 Using:					
Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Impaired loans (collateral dependent)	\$ 533	\$ -	\$ -	\$ 533	
Other real estate owned	250	-	-	250	

  

Fair Value Measurements at December 31, 2020 Using:					
Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Impaired loans	\$ 18,321	\$ -	\$ -	\$ 18,321	
Other real estate owned	12,467	-	-	12,467	

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2021 and 2020:

December 31, 2021	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range <sup>(1)</sup> (Weighted Average)
Impaired loans (collateral dependent)	\$ 533	Collateral based measurements	Discount to reflect current market conditions and ultimate collectibility	0%
Other real estate owned	\$ 250	Sales comparison approach	Adjustment for difference between the comparable sales	0%

  

December 31, 2020	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans	\$ 18,321	Sales comparison approach	Adjustment for differences between the comparable sales Capitalization rate Discount for collection issues and changes in market conditions	2 to 9% (8%) n/a 0 to 10% (10%)
Other real estate owned	\$ 12,467	Sales comparison approach	Adjustment for difference between the comparable sales	0 to 3% (2%)

(1) For 2021, the table represent one impaired loan and one other real estate owned property and therefore, a range is not applicable.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 15 - FAIR VALUE** (Continued)

Financial Instruments Recorded Using Fair Value Option

The Corporation records loans held for sale at fair value. These loans are intended for sale and the Corporation believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Corporation's policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of December 31, 2021 and December 31, 2020.

As of December 31, 2021 and December 31, 2020, the aggregate fair value, contractual balance (including accrued interest), and gain or loss was as follows:

	2021	2020
Aggregate fair value	\$ 10,932	\$ 23,279
Contractual fair value	10,618	18,134
Gain (loss)	<u>\$ 314</u>	<u>\$ 5,145</u>

The total amount of gains and losses from changes in fair value included in earnings for the years ended December 31, 2021 and December 31, 2020 for loans held for sale was:

	2021	2020
Interest income	\$ -	\$ -
Interest expense	-	-
Change in fair value	(924)	1,017
Total change in fair value	<u>\$ (924)</u>	<u>\$ 1,017</u>

**NOTE 16 - REGULATORY MATTERS**

The Corporation and Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, for the Bank, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the fully phased Basel III rules, the Bank must hold a capital conservation buffer of 2.50% above the adequately capitalized risk-based capital ratios. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Corporation and the Bank met all capital adequacy requirements to which they are subject.

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

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 16 - REGULATORY MATTERS** (continued)

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

	<u>Actual</u>		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Requirements	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2021</u>						
Total capital (to risk w eighted assets)						
Consolidated	\$ 622,907	12.18%	\$ 536,868	10.50%	N/A	N/A
Bank	\$ 665,373	13.02%	\$ 536,428	10.50%	\$ 510,884	10.00%
Tier 1 capital (to risk w eighted assets)						
Consolidated	\$ 559,792	10.95%	\$ 434,607	8.50%	N/A	N/A
Bank	\$ 602,258	11.79%	\$ 434,252	8.50%	\$ 408,707	8.00%
Common tier 1 capital (CET1)						
Consolidated	\$ 559,792	10.95%	\$ 357,912	7.00%	N/A	N/A
Bank	\$ 602,258	11.79%	\$ 357,619	7.00%	\$ 332,075	6.50%
Tier 1 capital (to average total assets)						
Consolidated	\$ 559,792	9.11%	\$ 245,896	4.00%	N/A	N/A
Bank	\$ 602,258	9.81%	\$ 245,546	4.00%	\$ 306,932	5.00%
<u>2020</u>						
Total capital (to risk w eighted assets)						
Consolidated	\$ 549,565	11.71%	\$ 492,697	10.50%	N/A	N/A
Bank	\$ 593,603	12.66%	\$ 492,281	10.50%	\$ 468,839	10.00%
Tier 1 capital (to risk w eighted assets)						
Consolidated	\$ 490,796	10.46%	\$ 398,850	8.50%	N/A	N/A
Bank	\$ 534,885	11.41%	\$ 398,513	8.50%	\$ 375,071	8.00%
Common tier 1 capital (CET1)						
Consolidated	\$ 490,796	10.46%	\$ 328,465	7.00%	N/A	N/A
Bank	\$ 534,885	11.41%	\$ 328,187	7.00%	\$ 304,745	6.50%
Tier 1 capital (to average total assets)						
Consolidated	\$ 490,796	8.78%	\$ 223,473	4.00%	N/A	N/A
Bank	\$ 534,885	9.59%	\$ 223,108	4.00%	\$ 278,885	5.00%

At year-end 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS**

The Corporation enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$2,539,329 and \$1,287,616 at December 31, 2021 and 2020, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps. Commonly, the Corporation will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

The following table reflects the fair value swaps included in the Consolidated Balance Sheets as of December 31:

	Fair Value	
	2021	2020
Included in other assets:		
Interest rate swaps	\$ 53,977	\$ 99,417
Included in other liabilities:		
Interest rate swaps	\$ 53,977	\$ 99,417

The effect of derivative instruments on the Consolidated Statement of Income for the twelve months ended December 31, 2021 and 2020 are as follows:

	Amount of Gain Recognized on Derivative	
	2021	2020
	Interest rate swaps:	
Gains on interest rate swaps	\$ 6,100	\$ 13,911

**Mortgage Banking Derivatives:**

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Corporation's practice to enter into forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated in hedge relationships. At year-end 2021, the Corporation had approximately \$25,404 of interest rate lock commitments and \$28,594 of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$781 and a derivative liability of \$7.

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

**NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

At year-end 2020, the Corporation had approximately \$52,482 of interest rate lock commitments and \$63,720 of forward commitments for the future delivery of residential mortgage loans. The fair value of these mortgage banking derivatives was reflected by a derivative asset of \$2,614 and a derivative liability of \$422. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in fair values of these mortgage banking derivatives are included in mortgage banking income.

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

	2021	2020
Forward contracts related to:		
mortgage loans held for sale	\$ 415	\$ (421)
Interest rate lock commitments	\$ (1,833)	\$ 2,084

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

	2021		2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Forward contracts related to				
mortgage loans held for sale	\$ 23,959	\$ 27	\$ -	\$ -
Interest rate lock commitments	25,404	754	52,482	2,614
Total included on other assets:		\$ 781		\$ 2,614
Included in other liabilities:				
Forward contracts related to				
mortgage loans held for sale	\$ 4,635	\$ 7	\$ 63,720	\$ 422
Interest rate lock commitments	-	-	-	-
Total included on other liabilities:		\$ 7		\$ 422

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 18 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS**

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

CONDENSED BALANCE SHEETS  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash	\$ 5,172	\$ 4,199
Investment in Centier Bank and CRM, LLC	611,225	553,690
Other assets	<u>4,772</u>	<u>3,574</u>
Total assets	<u>\$ 621,169</u>	<u>\$ 561,463</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Other borrowings	\$ 53,800	\$ 53,800
Accrued interest payable and other liabilities	<u>1,102</u>	<u>1,102</u>
Total Liabilities	54,902	54,902
Stockholders' equity		
Common stock	113	113
Capital surplus	26,202	26,202
Retained earnings	533,477	464,481
Accumulated other comprehensive income	<u>6,475</u>	<u>15,765</u>
Total stockholders' equity	<u>566,267</u>	<u>506,561</u>
Total liabilities and stockholders' equity	<u>\$ 621,169</u>	<u>\$ 561,463</u>

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 18 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS** (Continued)

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Dividend income	\$ 18,248	\$ 16,676
Interest expense on subordinated debentures and borrowings	(2,327)	(2,327)
Other operating expenses	<u>(232)</u>	<u>(239)</u>
Income before equity in undistributed net income of Centier Bank and CRM, LLC	15,689	14,110
Equity in undistributed net income of Centier Bank and CRM, LLC	66,825	57,171
Income tax benefits	<u>640</u>	<u>642</u>
Net income	<u>\$ 83,154</u>	<u>\$ 71,923</u>
Comprehensive income	<u>\$ 73,864</u>	<u>\$ 80,921</u>

---

(Continued)

FIRST BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2021 and 2020  
(Dollars in thousands)

---

**NOTE 18 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS** (Continued)

**CONDENSED STATEMENTS OF CASH FLOWS**  
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 83,154	\$ 71,923
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed net income of subsidiaries	(66,825)	(57,171)
(Increase) in other assets	(1,198)	(3,284)
Net cash from operating activities	<u>15,131</u>	<u>11,468</u>
<b>Cash flows from investing activities</b>		
Net cash from investing activities	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities</b>		
Cash dividends paid	(14,158)	(11,327)
Net cash from financing activities	<u>(14,158)</u>	<u>(11,327)</u>
 Net Change in cash and cash equivalents	 973	 141
Cash and cash equivalents at beginning of the year	<u>4,199</u>	<u>4,058</u>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>\$ 5,172</u></b>	<b><u>\$ 4,199</u></b>



# — OFFICE LOCATIONS —

## ALLEN COUNTY

### FORT WAYNE

803 S. Calhoun St. (Suite 100)

## BOONE COUNTY

### WHITESTOWN

\*6650 Whitestown Pkwy.  
(Inside Meijer)

### ZIONSVILLE

\*50 N. Ford Rd.

## ELKHART COUNTY

### ELKHART

\*100 S. Main St.  
\*303 County Rd. 17  
\*2809 Emerson Dr.

### GOSHEN

\*1716 Elkhart Rd.

## HAMILTON COUNTY

### CARMEL

\*568 E. Carmel Dr.

### FISHERS

\*11684 Allisonville Rd.

### WESTFIELD

\*3002 E. State Rd. 32

## LAKE COUNTY

### CEDAR LAKE

\*9704 Lincoln Plaza  
(Inside Strack & Van Til)

### CROWN POINT

\*117 E. Joliet St.  
\*1276 N. Main St.  
\*1501 S. Court St.

### DYER

\*1121 Sheffield Ave.

### EAST CHICAGO

\*720 W. 145th St.

### GARY

\*504 Broadway (Suite 102)  
\*650 S. Lake St.  
\*4883 Broadway

## LAKE COUNTY (cont.)

### GRIFFITH

\*500 N. Broad St.

### HAMMOND

\*5433 Hohman Ave.  
\*2635 169th St.  
(Inside Van Til's)

### HIGHLAND

\*9701 Indianapolis Blvd.  
\*9102 Indianapolis Blvd.

### HOBART

\*433 Main St.  
\*7760 E. 37th Ave.  
(Inside Strack & Van Til)

### LOWELL

\*1914 E. Commercial Ave.

### MERRILLVILLE

\*8310 Broadway  
\*3198 E. 81st Ave.  
(Corner of Colorado and U.S. 30)  
\*6001 Broadway  
(Inside Strack & Van Til)

### MUNSTER

\*9716 White Oak Ave.

### SCHERERVILLE

\*5191 W. Lincoln Hwy.

### ST. JOHN

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

### WHITING

\*1500 119th St.

### WINFIELD

\*8020 E. 109th Ave.

## LAPORTE COUNTY

### LA PORTE

\*73 Pine Lake Ave.

### MICHIGAN CITY

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

## MARION COUNTY

### INDIANAPOLIS

\*50 S. Meridian St.

## MARSHALL COUNTY

### PLYMOUTH

\*537 N. Oak Dr.

## PORTER COUNTY

### CHESTERTON

103 Broadway  
\*104 Grant St.  
\*1600 S. Calumet Rd.

### PORTAGE

\*3220 Willowcreek Rd.  
\*6046 Central Ave.  
(Inside Strack & Van Til)

### SOUTH HAVEN

\*390 West U.S. Hwy. 6

### VALPARAISO

\*150 Lincolnway  
\*1802 Calumet Ave.  
\*360 Morthland Dr.  
\*2707 La Porte Ave.

## ST. JOSEPH COUNTY

### GRANGER

\*7108 Gumwood Rd.

### MISHAWAKA

\*255 E. Day Rd.

### SOUTH BEND

\*108 N. Main St. (Suite 102)  
\*2850 W. Cleveland Rd.

## TIPPECANOE COUNTY

### LAFAYETTE

\*323 Columbia St. (Suite 1A)  
\*1921 Veterans Memorial Pkwy S.  
\*5 Executive Dr. (Suite A)

### WEST LAFAYETTE

\*1020A Sagamore Pkwy. West  
\*2636 U.S. 52  
(Inside Meijer)

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

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

\*ATM Locations

