



First Bancshares, Inc.

Bellevue, Ohio

First Bancshares, Inc. is a one-bank holding company. Its principal subsidiary, First National Bank, is a full-service bank with offices in Bellevue, Catawba, Clyde, Fremont, Perkins, Port Clinton, Put-in-Bay and Sandusky, Ohio.

Message to Shareholders

February 24, 2022

Dear Shareholder;

As this letter is being written in late February, we are in the midst of an invasion in Ukraine by Russia. Our hearts go out to the Ukrainian people as they deal with this war on their turf. This has the whole world on alert and is creating even more uncertainty to an economy that is still feeling the impact of the COVID pandemic. Supply chain issues are still in play as well as employers facing continual challenges of being able to hire enough staff to operate their businesses as needed. Fuel prices are increasing at a rapid pace along with many other commodities and consumer items.

By the time you read this, we expect there has been the first increase in interest rates by the Federal Reserve since they started lowering rates in August of 2019. As they start tightening monetary policy to ward off the high inflation affecting all Americans, it will be interesting to see how they balance the rate increases during this Ukraine crises while trying to keep the economy from a recession. All of these factors will impact our industry and challenge us as we manage through this for the remainder of the year and beyond

As we approach the two-year mark of COVID basically shutting down our country and most parts of the world, the outbreak does seem to be settling down as we have less people testing positive while hospitalizations and deaths are reducing substantially. We know we are not out of the woods, but the trends are encouraging.

Last year, we reported on the PPP loan program that was created to help small businesses deal with the financial impact of the pandemic. We were part way through the second round at this time in 2021. In total, we're happy to report that First National Bank staff was able to process and close 497 loans for just under \$50,000,000. This activity was extremely helpful to the business owners in such a way that they were able to stay open and the funds allowed them to keep staff on payroll. We provided PPP loans to many business clients that either did not have a bank relationship that could process a loan for them, or they were disillusioned by the lack of service they received from the lender they worked with the first time. It's also worth noting at this point in time, all but four of our loans have been processed and forgiven leaving roughly \$750,000 on our books. We expect these to be finalized by the annual meeting date.

In the annual report you will find the results of our external audit with the financial details of another very good year for the company. While we fell just shy of the 2020 record earnings, we are quite pleased with the end result. Those strong profits did allow the board of directors that ability to grant an additional five cent dividend payment on top on the planned 32 cent payment.

The annual meeting on April 27th will be held right around the time we expect to open our new branch office in Norwalk, Ohio. We have been in the process of remodeling the office and updating the equipment to meet the standards for effective business operation. We have hired an experienced Banker from Norwalk that is already on board and is training at our other offices while developing a prospect list so she can hit the ground running to generate new business for that office.

The first part of this letter was not the positive information that we like to share with our annual report but felt that it was worth noting as this has been our reality the last couple of years. With that said, we are actually quite positive about the current state of First Bancshares, Inc. and feel that we are well positioned to continue with solid financial results that will provide a good return on investment to our shareholders. Thank you for your continued support.

Sincerely,


James V. Stouffer, Jr.
Chairman of the Board


Dean J. Miller
President and CEO



DIXON, DAVIS, BAGENT & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Audit Committee of the Board of Directors
First Bancshares, Inc.
Bellevue, Ohio

We have audited the accompanying consolidated financial statements of First Bancshares, Inc., which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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. as of December 31, 2021 and 2020, 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.

Dixon, Davis, Bagent & Co.

Dixon, Davis, Bagent & Company
Granville, Ohio
February 24, 2022

First Bancshares, Inc.
Bellevue, Ohio

Consolidated Balance Sheet

	December 31, 2021	December 31, 2020
Assets		
Cash and due from banks (Note 2)	\$ 5,549,809	\$ 5,408,236
Federal funds sold	175,000	56,000
Interest-bearing deposits in banks	9,733,937	27,266,694
Total cash and cash equivalents	15,458,746	32,730,930
Investment securities – Available for sale (Note 3)	106,095,750	48,548,855
Other securities (Note 3)	1,301,067	1,301,067
Loans – Net of allowance for loan losses of \$2,627,885 and \$2,873,050 in 2021 and 2020, respectively (Note 4)	167,453,118	188,815,953
Foreclosed assets	1,292,298	-
Premises and equipment (Note 5)	7,473,066	7,085,718
Accrued interest receivable	831,246	1,003,870
Cash surrender value of life insurance	4,849,701	4,742,955
Other assets (Note 12)	1,578,774	1,408,427
Total assets	<u>\$ 306,333,766</u>	<u>\$ 285,637,775</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 6)		
Noninterest-bearing	\$ 71,029,368	\$ 60,214,971
Interest-bearing	200,778,916	195,736,788
Total deposits	271,808,284	255,951,759
Federal Home Loan Bank advances (Note 7)	-	97,733
Bank line of credit (Note 8)	-	3,929,073
Subordinated debt	8,000,000	-
Accrued interest payable	19,347	48,262
Accrued and other liabilities	1,819,147	1,977,377
Total liabilities	281,646,778	262,004,204
Stockholders' Equity		
Preferred stock – no par value; authorized 750,000 shares; 0 shares issued and outstanding	-	-
Common stock - \$5.00 par value; authorized 750,000 shares; issued and outstanding 660,600 shares	1,101,000	1,101,000
Treasury stock – At cost; 122,981 and 122,981 shares at December 31, 2021 and 2020, respectively	(2,611,654)	(2,611,654)
Additional paid-in capital	1,118,026	1,118,026
Retained earnings	25,263,368	23,059,342
Accumulated other comprehensive income	(183,752)	966,857
Total stockholders' equity	24,686,988	23,633,571
Total liabilities and stockholders' equity	<u>\$ 306,333,766</u>	<u>\$ 285,637,775</u>

First Bancshares, Inc.
Bellevue, Ohio

Consolidated Statement of Operations

	Year Ended	
	December 31, 2021	December 31, 2020
Interest Income		
Loans – including fees	\$ 10,186,642	\$ 10,079,712
Debt securities:		
Taxable	608,234	513,219
Tax-exempt	289,511	217,895
Other	65,058	80,129
Total interest income	11,149,445	10,890,955
Interest Expense		
Deposits	572,297	1,378,096
Borrowings	373,346	241,643
Total interest expense	945,643	1,619,739
Net Interest Income	10,203,802	9,271,216
Provision for Loan Losses (Note 4)	45,000	772,131
Net Interest Income After Provision for Loan Losses	10,158,802	8,499,085
Noninterest Income		
Service charges – Deposits	362,971	336,871
Net gain on sale of loans	438,413	828,092
Writedown of other real estate owned	(394,378)	-
Rental fees and commissions	21,000	21,000
Gain (loss) on sale of investment securities	(586)	68,642
Gain (loss) on sale of other assets	-	(610)
Visa interchange fees	281,131	211,233
Other	474,213	622,195
Total noninterest income	1,182,764	2,087,423
Noninterest Expenses		
Salaries and employee benefits (Note 11)	4,369,011	3,980,643
Occupancy and equipment	1,154,377	982,725
Data processing	819,132	677,100
State tax	175,196	182,368
Professional fees	162,746	168,407
FDIC insurance	83,295	96,402
Advertising	54,472	60,865
Director fees	117,800	113,400
Other	814,638	789,144
Total noninterest expenses	7,750,667	7,051,054
Income – Before income taxes	3,590,899	3,535,454
Income Tax Expense (Note 12)	671,840	611,739
Net Income	\$ 2,919,059	\$ 2,923,715

First Bancshares, Inc.
Bellevue, Ohio

Consolidated Statement of Comprehensive Income

	<u>2021</u>	<u>2020</u>
Net income	\$ 2,919,059	\$ 2,923,715
Other comprehensive income (loss), net of tax:		
Unrealized net holding gain (loss) on securities available-for-sale, net of income taxes of \$(305,858) and \$77,682 for the years ended December 31, 2021 and 2020, respectively	(1,150,023)	292,232
Reclassification adjustment for gains (losses) realized, net of income taxes of \$(123) and \$14,415 for the years ended December 31, 2021 and 2020, respectively	<u>(586)</u>	<u>68,642</u>
Other comprehensive income (loss)	<u>(1,150,609)</u>	<u>360,874</u>
Comprehensive income (loss)	<u>\$ 1,768,450</u>	<u>\$ 3,284,589</u>

Consolidated Statement of Changes in Stockholders' Equity

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance – December 31, 2019	-	\$ 1,101,000	\$(2,611,654)	\$ 1,118,026	\$ 20,484,588	\$ 605,983	\$ 20,697,943
Comprehensive income:							
Net income	-	-	-	-	2,923,715	-	2,923,715
Change in net unrealized gain on securities – Net of tax of \$77,682	-	-	-	-	-	360,874	<u>360,874</u>
Total comprehensive Income	-	-	-	-	-	-	3,284,589
ASC 2016-01 equity security adjustment	-	-	-	-	263,925	-	263,925
Dividends declared \$1.17 per share	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(612,886)</u>	<u>-</u>	<u>(612,886)</u>
Balance – December 31, 2020	-	\$ 1,101,000	\$(2,611,654)	\$ 1,118,026	\$ 23,059,342	\$ 966,857	\$ 23,633,571
Comprehensive income:							
Net income	-	-	-	-	2,919,059	-	2,919,059
Change in net unrealized gain on securities – Net of tax of \$(305,858)	-	-	-	-	-	(1,150,609)	<u>(1,150,609)</u>
Total comprehensive Income	-	-	-	-	-	-	1,768,450
Dividends declared \$1.33 per share	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(715,033)</u>	<u>-</u>	<u>(715,033)</u>
Balance – December 31, 2021	<u>\$ -</u>	<u>\$ 1,101,000</u>	<u>\$(2,611,654)</u>	<u>\$ 1,118,026</u>	<u>\$ 25,263,368</u>	<u>\$ (183,752)</u>	<u>\$ 24,686,988</u>

First Bancshares, Inc.
Bellevue, Ohio

Consolidated Statement of Cash Flows

	Year Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Net Income	\$ 2,919,059	\$ 2,923,715
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation expense	446,931	448,146
Provision for loan losses	45,000	772,131
Accretion and amortization of securities	1,114,171	377,429
(Gain) loss on sale of investments	586	(68,642)
Deferred income taxes	149,132	199,790
Change in cash surrender value of life insurance	(106,746)	(105,347)
Net change in:		
Accrued interest receivable and other assets	159,000	(273,571)
Accrued interest payable and other liabilities	(187,141)	21,377
Net cash provided by operating activities	<u>4,539,992</u>	<u>4,295,028</u>
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Proceeds from sale	1,122,010	2,940,055
Maturities, prepayments, and calls	14,282,797	4,367,407
Purchases	(75,522,925)	(29,354,394)
Net change in loans	20,025,538	(7,820,820)
Additions to premises and equipment	(834,280)	(695,300)
Net cash used in investing activities	<u>(40,926,860)</u>	<u>(30,563,052)</u>
Cash Flows from Financing Activities		
Net change in deposits	15,856,523	59,402,597
Payments on Federal Home Loan Bank advances	(97,733)	(3,088,604)
Proceeds from subordinated debt	8,000,000	-
Change in short-term borrowed funds	(3,929,073)	(734,386)
Adoption of ASC 2016-01	-	263,919
Dividends paid	(715,033)	(612,886)
Net cash provided by financing activities	<u>19,114,684</u>	<u>55,230,640</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(17,272,184)	28,962,616
Cash and Cash Equivalents – Beginning of year	32,730,930	3,768,314
Cash and Cash Equivalents – End of year	<u>\$ 15,458,746</u>	<u>\$ 32,730,930</u>
Supplemental Cash Flow Information		
Cash paid for:		
Interest	\$ 974,558	\$ 1,639,150
Income taxes	780,516	855,000
Loans transferred to other real estate	1,686,675	-

Note 1 – Nature of Business and Significant Accounting Policies

Basis of Presentation and Consolidation – The consolidated financial statements include the accounts of First Bancshares, Inc. (the “Corporation”) and its wholly owned subsidiaries, First National Bank (the “Bank”) and First Bellevue Properties, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations – The Bank provides a full range of financial services to individuals and corporate customers in the Ohio counties of Huron, Sandusky, Erie, Ottawa, and Seneca. First Bellevue Properties, Inc. is used for property management.

Use of Estimates – In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities, and deferred tax assets.

Cash and Cash Equivalents – For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold, and interest-bearing deposits in banks which mature within 90 days.

Securities – Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as “available for sale” and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans and Allowance for Loan Losses

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred, and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the bank evaluates the loan for nonaccrual status. Also, any loan that is considered uncollectible, regardless of past due status, will be evaluated for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses 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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan’s value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the bank has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by manage-

Note 1 – Nature of Business and Significant Accounting Policies
(Continued)

ment 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 borrower, including the 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.

The bank's allowance for loan losses has two basic components: the specific allowance, and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses.

The pooled formula component is used to estimate the losses inherent in the pools of non-impaired loans.

These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor, in addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more.

Loans classified as substandard or worse, 90 days past due, nonaccrual status or troubled debt restructurings are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put in a nonaccruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the bank's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the bank is an

Note 1 – Nature of Business and Significant Accounting Policies
(Continued)

unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Troubled Debt Restructuring (TDRs) – Management classified loans as TDRs when a borrower is experiencing financial difficulties and the Corporation has granted a concession. 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 internal underwriting policy. TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral.

Off-balance-sheet Instruments – In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Servicing – Servicing assets are recognized as separate assets when rights are acquired through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of mortgage loans serviced for others were \$91.5 million and \$92.6 million at December 31, 2021 and 2020, respectively. The related mortgage servicing rights, included in other assets, were \$839,501 and \$785,472 at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the book value of the servicing rights approximated fair value and no valuation allowances were required.

Foreclosed Assets – Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment – Land is 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.

Bank-owned Life Insurance – The Bank 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.

Postretirement Benefits – The Corporation has endorsement split-dollar life insurance policies and agreements with individuals to provide a benefit extending to postretirement periods. The liability in connection with these agreements was recorded effective January 1, 2008 as a decrease in retained earnings of \$161,060 when the accounting treatment for such agreements changed. At December 31, 2021 and 2020, the Corporation had a liability of \$203,219 and \$193,013, respectively, in connection with these benefits.

Stock Based Compensation – Compensation cost is recognized for stock options and stock awards issued to employees based on the fair value of these awards at the date of the grant. Fair value of the stock options is determined by the mean between the lowest bid and highest bid asked prices on the grant date. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Treasury Stock – Treasury stock is stated at cost. Cost is determined by the average cost method.

Note 1 – Nature of Business and Significant Accounting Policies
(Continued)

Income Taxes - Income taxes are provided for the tax effects reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of available-for-sale securities, allowance for loan losses, accumulated depreciation, and accrued employee benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. First Bancshares, Inc. files consolidated income tax returns with its subsidiaries on a calendar year basis.

Fair Value Measurements – First Bancshares, Inc. follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Comprehensive Income – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet; such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows:

	<u>2021</u>	<u>2020</u>
Net income	\$2,919,059	\$2,923,715
Other comprehensive income		
Unrealized holding gains (losses) on available-for-sale securities	(1,150,146)	306,647
Reclassification adjustment for gains (losses) on sale recognized in income	<u>(586)</u>	<u>68,642</u>
Net unrealized gains (losses)	1,685,508	3,299,004
Tax effect	<u>(123)</u>	<u>14,415</u>
Other comprehensive income	<u>\$1,768,450</u>	<u>\$3,284,589</u>

Reclassification – Certain amounts appearing in the prior year’s financial statements have been classified to conform to the current year’s financial statements.

Subsequent Events – The consolidated financial statements and related disclosures include evaluation of events up through and including February 24, 2022, which is the date the consolidated financial statements were available to be issued.

Note 2 – Restriction on Cash and Amounts Due from Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2021 and 2020, these reserve balances amounted to \$250,000 and \$250,000, respectively.

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 3 – Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows:

	2021			Estimated Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale securities:				
U.S. government and federal agency	\$ 2,864,604	\$ 24,905	\$ (18,370)	\$ 2,871,139
Mortgage backed	76,905,856	187,639	(1,211,706)	75,881,789
State and municipal	24,957,887	814,550	(53,975)	25,718,462
Subordinated debt	1,600,000	24,360	-	1,624,360
Total available-for-sale securities	<u>\$106,328,347</u>	<u>\$ 1,051,454</u>	<u>\$(1,284,051)</u>	<u>\$106,095,750</u>

	2020			Estimated Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available-for-sale securities:				
U.S. government and federal agency	\$ 1,121,863	\$ 32,506	\$ -	\$ 1,154,369
Mortgage backed	33,637,531	427,800	(143,665)	33,921,666
State and municipal	12,565,591	915,555	(8,326)	13,472,820
Preferred stock	-	-	-	-
Total available-for-sale securities	<u>\$47,324,985</u>	<u>\$1,375,861</u>	<u>\$(151,991)</u>	<u>\$48,548,855</u>

At December 31, 2021 and 2020, securities with a carrying value of \$55,232,478 and \$19,392,003, respectively, were pledged to secure borrowings, public deposits, and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2021 are as follows:

	Securities Available for Sale	
	Amortized Cost	Market Value
Due in one year or less	\$ 580,351	\$ 581,274
Due in one through five years	1,641,212	1,710,099
Due in five years through ten years	6,350,352	6,508,702
Due after ten years	19,250,576	19,789,526
	<u>27,822,491</u>	<u>28,589,601</u>
Mortgage-backed securities	76,905,856	75,881,789
Subordinated debt	1,600,000	1,624,360
Total	<u>\$106,328,347</u>	<u>\$106,095,750</u>

Note 3 – Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2021			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and federal agency	\$ (18,370)	\$ 2,040,946	\$ -	\$ -
State and municipal	(46,316)	3,922,196	(7,659)	493,274
Mortgage backed	(982,222)	52,748,892	(229,484)	11,195,167
Total available-for-sale securities	<u>\$ (1,046,908)</u>	<u>\$58,712,034</u>	<u>\$ (237,143)</u>	<u>\$ 11,688,441</u>
	2020			
	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and federal agency	\$ -	\$ -	\$ -	\$ -
State and municipal	(5,164)	824,200	(3,162)	170,000
Mortgage backed	(139,574)	15,173,608	(4,091)	1,302,624
Total available-for-sale securities	<u>\$ (144,738)</u>	<u>\$15,997,808</u>	<u>\$ (7,253)</u>	<u>\$ 1,472,624</u>

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Bank has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Other securities consist of restricted Federal Home Loan Bank stock, Federal Reserve Bank stock and United Bankers' Bank stock. These stocks are carried at cost, which approximates market value.

Note 4 – Loans

A summary of the balances of loans is as follows:

	2021	2020
Mortgage loans on real estate:		
Residential 1-4 family	\$ 37,848,569	\$ 36,152,232
Commercial	93,467,634	102,033,040
Total mortgage loans on real estate	131,316,203	138,185,272
Commercial and agricultural loans	36,246,602	51,430,197
Consumer loans	2,518,198	2,073,534
Total loans	170,081,003	191,689,003
Less allowances for loan losses	2,627,885	2,873,050
Net loans	<u>\$167,453,118</u>	<u>\$188,815,953</u>

Note 4 – Loans (Continued)

An analysis of the allowance for loan losses is as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 2,873,050	\$ 2,111,283
Provision for loan losses	45,000	772,131
Loans charged off	(308,077)	(15,791)
Recoveries of loans previously charged off	17,912	5,427
Balance at end of year	<u>\$ 2,627,885</u>	<u>\$ 2,873,050</u>

The following is a summary of information pertaining to impaired loans:

	<u>2021</u>	<u>2020</u>
Impaired loans without a valuation allowance	\$ 385,600	\$ 2,553,853
Impaired loans with a valuation allowance	-	-
Total impaired	<u>\$ 385,600</u>	<u>\$ 2,553,853</u>
Valuation allowance related to impaired loans	\$ -	\$ -
Total nonaccrual loans	385,600	2,553,853
Average investment in impaired loans during the year	1,469,727	2,354,858

No interest income has been recognized on impaired loans during the years ended December 31, 2021 and 2020. No additional funds are committed to be advanced in connection with impaired loans.

In the ordinary course of business, the Bank has granted loans to principal officers, directors, and their affiliates amounting to \$565,552 and \$749,445 as of December 31, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 4 – Loans (Continued)

December 31, 2021

	Residential Mortgages	Consumer Loans	Commercial Loans	Agricultural Loans	Commercial Real Estate Mortgages	Agricultural Real Estate Mortgages	Total
Allowance for Loan Loss:							
Beginning Balance	\$ 508,748	\$ 32,838	\$ 410,428	\$ 38,239	\$ 1,808,881	\$ 73,916	\$ 2,873,050
Provision	(48,664)	28,406	82,386	(12,057)	(18,675)	13,604	45,000
Charge-offs	-	(20,737)	(23,000)	-	(264,340)	-	(308,077)
Recoveries	14,216	300	3,396	-	-	-	17,912
Total	<u>\$ 474,300</u>	<u>\$ 40,807</u>	<u>\$ 473,210</u>	<u>\$ 26,182</u>	<u>\$ 1,525,866</u>	<u>\$ 87,520</u>	<u>\$ 2,627,885</u>
Specific Reserves-Impaired Loans							
General Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,525	\$ 6,525
Total	<u>\$ 474,300</u>	<u>\$ 40,807</u>	<u>\$ 473,210</u>	<u>\$ 26,182</u>	<u>\$ 1,525,866</u>	<u>\$ 80,995</u>	<u>\$ 2,621,360</u>
Loans individually evaluated for impairment	\$ 179,407	\$ 29,954	\$ 332,531	\$ -	\$ 435,921	\$ 279,105	\$ 1,256,918
Loans collectively evaluated for impairment	37,669,162	2,488,244	33,367,687	2,546,384	87,573,936	5,178,672	168,824,085
Total	<u>\$37,848,569</u>	<u>\$ 2,518,198</u>	<u>\$33,700,218</u>	<u>\$ 2,546,384</u>	<u>\$88,009,857</u>	<u>\$ 5,457,777</u>	<u>\$170,081,003</u>

Impaired Loans
With No Allowance

Principal Balance	Recorded Investment	Allocated Allowance for Loan Loss
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Impaired Loans and Related Allowance:

Residential Mortgages	\$ -	\$ -	\$ -	\$ 154,457
Consumer Loans	-	-	-	29,954
Commercial Loans	-	-	-	15,060
Agricultural Loans	-	-	-	-
Commercial Real Estate Mortgages	-	-	172,017	125,448
Agricultural Real Estate Mortgages	-	-	168,038	60,681
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,600</u>

First Bancshares, Inc.
Bellevue, Ohio

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 4 – Loans (Continued)

December 31, 2020

	Residential Mortgages	Consumer Loans	Commercial Loans	Agricultural Loans	Commercial Real Estate Mortgages	Agricultural Real Estate Mortgages	Total
Allowance for Loan Loss:							
Beginning Balance	\$ 404,497	\$ 31,144	\$ 380,559	\$ 68,623	\$ 1,139,868	\$ 86,592	\$ 2,111,283
Provision	104,242	5,560	28,128	(30,384)	677,261	(12,676)	772,131
Charge-offs	-	(4,041)	(3,502)	-	(8,248)	-	(15,791)
Recoveries	9	175	5,243	-	-	-	5,427
Total	<u>\$ 508,748</u>	<u>\$ 32,838</u>	<u>\$ 410,428</u>	<u>\$ 38,239</u>	<u>\$ 1,808,881</u>	<u>\$ 73,916</u>	<u>\$ 2,873,050</u>
Specific Reserves-Impaired Loans							
General Reserves	\$ -	\$ -	\$ -	\$ -	\$ 265,340	\$ 7,520	\$ 272,860
Total	<u>\$ 508,748</u>	<u>\$ 32,838</u>	<u>\$ 410,428</u>	<u>\$ 38,239</u>	<u>\$ 1,543,541</u>	<u>\$ 66,396</u>	<u>\$ 2,600,190</u>
Loans individually evaluated for impairment	\$ 1,298,527	\$ 2,495	\$ 298,609	\$ -	\$ 2,070,150	\$ 774,376	\$ 4,444,157
Loans collectively evaluated for impairment	34,853,705	2,071,039	47,583,112	3,548,476	94,735,778	4,452,736	187,244,846
Total	<u>\$36,152,232</u>	<u>\$ 2,073,534</u>	<u>\$47,881,721</u>	<u>\$ 3,548,476</u>	<u>\$96,805,928</u>	<u>\$ 5,227,112</u>	<u>\$191,689,003</u>

Impaired Loans
With No Allowance

Impaired Loans With Allowance
Allocated

	Principal Balance	Recorded Investment	Allocated Allowance for Loan Loss	Principal Balance	Recorded Investment
Residential Mortgages	\$ -	\$ -	\$ -	\$ 118,317	\$ 84,605
Consumer Loans	-	-	-	2,546	2,494
Commercial Loans	-	-	-	149,915	133,926
Agricultural Loans	-	-	-	-	-
Commercial Real Estate Mortgages	-	-	-	2,055,063	1,845,200
Agricultural Real Estate Mortgages	-	-	-	582,540	487,628
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,908,381</u>	<u>\$ 2,553,853</u>

Impaired Loans and Related Allowance:

Residential Mortgages	\$ -	\$ -
Consumer Loans	-	-
Commercial Loans	-	-
Agricultural Loans	-	-
Commercial Real Estate Mortgages	-	-
Agricultural Real Estate Mortgages	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

First Bancshares, Inc.
Bellevue, Ohio

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 4 – Loans (Continued)

December 31, 2021

Credit Quality Indicators by Type of Loan:	Residential Mortgages	Consumer Loans	Commercial Loans	Agricultural Loans	Commercial Real Estate Mortgages	Agricultural Real Estate Mortgages	Total	Grade
Grade								
Pass	\$37,694,112	\$ 2,488,244	\$33,685,158	\$ 2,360,654	\$83,532,860	\$ 5,136,856	\$164,897,884	1-4
Special Mention	-	-	-	10,250	604,368	74,163	688,781	5
Substandard	154,457	29,954	15,060	175,480	3,872,630	246,758	4,494,339	6
Doubtful	-	-	-	-	-	-	-	7
Loss	-	-	-	-	-	-	-	8
Total	<u>\$37,848,569</u>	<u>\$ 2,518,198</u>	<u>\$33,700,218</u>	<u>\$ 2,546,384</u>	<u>\$88,009,858</u>	<u>\$ 5,457,777</u>	<u>\$170,081,004</u>	

Aging analysis of Past Due Loans and Nonaccrual Loans:	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days or Nonaccrual	Total Past Due Loans	Total Current Loans	Total Loans	Recorded Investment Past Due >90 Days and Still Accruing
Residential Mortgages	\$ 5,668	\$ -	\$ 138,606	\$ 144,274	\$ 37,704,295	\$ 37,848,569	\$ -
Consumer Loans	2,359	-	968	3,327	2,514,871	2,518,198	-
Commercial Loans	-	-	-	-	33,700,218	33,700,218	-
Agricultural Loans	-	-	-	-	2,546,384	2,546,384	-
Commercial Real Estate Mortgages	-	-	-	-	88,009,858	88,009,858	-
Agricultural Real Estate Mortgages	-	-	-	-	5,457,777	5,457,777	-
Total	<u>\$ 8,027</u>	<u>\$ -</u>	<u>\$ 139,574</u>	<u>\$ 147,601</u>	<u>\$169,933,403</u>	<u>\$170,081,004</u>	<u>\$ -</u>

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 4 – Loans (Continued)

December 31, 2020

Credit Quality Indicators by Type of Loan:	Residential Mortgages	Consumer Loans	Commercial Loans	Agricultural Loans	Commercial Real Estate Mortgages	Agricultural Real Estate Mortgages	Total	Grade
Pass	\$36,035,863	\$ 2,073,534	\$47,285,023	\$ 3,102,471	\$90,462,214	\$ 4,911,124	\$183,870,229	1-4
Special Mention	-	-	184,187	285,446	4,253,005	-	4,722,638	5
Substandard	116,369	-	412,511	160,559	2,090,709	315,988	3,096,136	6
Doubtful	-	-	-	-	-	-	-	7
Loss	-	-	-	-	-	-	-	8
Total	<u>\$36,152,232</u>	<u>\$ 2,073,534</u>	<u>\$47,881,721</u>	<u>\$ 3,548,476</u>	<u>\$96,805,928</u>	<u>\$ 5,227,112</u>	<u>\$191,689,003</u>	

Aging analysis of Past Due Loans and Nonaccrual Loans:	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days or Nonaccrual	Total Past Due Loans	Total Current Loans	Total Loans	Recorded Investment Past Due >90 Days and Still Accruing
Residential Mortgages	\$ 157,160	\$ -	\$ 253,695	\$ 410,855	\$ 35,741,377	\$ 36,152,232	\$ 207,678
Consumer Loans	19,626	-	34,843	54,469	2,019,065	2,073,534	32,348
Commercial Loans	95,000	-	-	95,000	47,786,721	47,881,721	-
Agricultural Loans	-	-	-	-	3,548,476	3,548,476	-
Commercial Real Estate Mortgages	192,980	-	1,727,542	1,920,522	94,885,406	96,805,928	-
Agricultural Real Estate Mortgages	-	-	410,459	410,459	4,816,653	5,227,112	-
Total	<u>\$ 464,766</u>	<u>\$ -</u>	<u>\$ 2,426,539</u>	<u>\$ 2,891,305</u>	<u>\$188,797,698</u>	<u>\$191,689,003</u>	<u>\$ 240,026</u>

First Bancshares, Inc.
Bellevue, Ohio

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 4 – Loans (Continued)

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

	<u>Number of Loans</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Post- Modification Balance at December 31, 2021</u>
2021			
Troubled Debt Restructurings:			
Commercial:			
Construction	-	\$ -	\$ -
Commercial residential	6	585,145	585,145
Non-farm non-residential	-	-	-
Other	-	-	-
Agriculture:			
Agriculture 1-4 family	-	-	-
Other agriculture real estate	-	-	-
Other agriculture	-	-	-
Real Estate Mortgage:			
Construction	-	-	-
1-4 owner occupied	-	-	-
Installment:			
Auto	-	-	-
Other	-	-	-
Total	<u>6</u>	<u>\$ 585,145</u>	<u>\$ 585,145</u>
	<u>Number of Loans</u>	<u>Premodification Outstanding Recorded Investment</u>	<u>Post- Modification Balance at December 31, 2020</u>
2020			
Troubled Debt Restructurings:			
Commercial:			
Construction	-	\$ -	\$ -
Commercial residential	8	1,831,368	1,726,525
Non-farm non-residential	-	-	-
Other	-	-	-
Agriculture:			
Agriculture 1-4 family	-	-	-
Other agriculture real estate	-	-	-
Other agriculture	-	-	-
Real Estate Mortgage:			
Construction	-	-	-
1-4 owner occupied	-	-	-
Installment:			
Auto	-	-	-
Other	-	-	-
Total	<u>8</u>	<u>\$ 1,831,368</u>	<u>\$ 1,726,525</u>

Troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2021 consists of loans totaling \$0 at December 31, 2021.

Troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2020 consists of loans totaling \$286,747 at December 31, 2020.

First Bancshares, Inc.
Bellevue, Ohio

Notes to Consolidated Financial Statements
December 31, 2021 and 2020

Note 5 – Bank Premises and Equipment

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

	2021	2020
Land	\$ 1,642,302	\$ 1,642,302
Buildings and building improvements	7,751,225	7,700,925
Furniture, fixtures, and equipment	3,068,271	3,022,256
Vehicles	47,073	47,073
Construction in progress	373,964	-
Total	13,246,835	12,412,556
Accumulated depreciation	(5,773,769)	(5,326,838)
Net premises and equipment	\$ 7,473,066	\$ 7,085,718

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to \$446,931 and \$448,146, respectively.

Note 6 – Deposits

The following is a summary of the distribution of deposits at December 31:

	2021	2020
Demand deposits	\$ 71,029,368	\$ 60,214,971
NOW accounts	64,932,741	53,042,435
Savings and money market accounts	95,190,994	90,747,295
Time:		
Under \$100,000	21,271,763	33,084,717
\$100,000 and over	19,383,418	18,862,341
Total	\$271,808,284	\$255,951,759

At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	\$ 25,001,220
2023	13,619,624
2024	1,065,025
2025	404,354
2026	564,958
Total	\$ 40,655,181

Note 7 – Federal Home Loan Bank Advances

The Bank has a borrowing arrangement with the Federal Home Loan Bank of Cincinnati. Advances under the borrowing arrangement are supported by individual agreements. At December 31, 2021, the Bank has no advances outstanding.

The advances are collateralized by loans outstanding with a carrying value of \$105,041,000 at December 31, 2021.

At December 31, 2021, the advances mature as follows:

2022	\$ -
2023	-
2024	-
2025	-
2026	-
2027 and thereafter	-
Total	\$ -

Note 8 – Bank Line of Credit

During 2008, the Corporation entered into a \$5,000,000 line of credit arrangement with a bank. The line of credit is collateralized by First National Bank stock owned by the Corporation. The Corporation makes quarterly interest-only payments and the principal balance is due on demand and subject to an annual review. The balance outstanding as of December 31, 2021 and 2020 was \$0 and \$3,929,073, respectively. The interest rate was 4.80 percent and 4.75 percent as of December 31, 2021 and 2020, respectively.

Note 9 – Minimum Regulatory Capital Requirements

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021 the bank meets all capital adequacy requirements to which they are subject.

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

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the bank as of March 31, 2020.

In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to sections 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to sections 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5 % for calendar year 2022 and beyond.

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

Note 9 – Minimum Regulatory Capital Requirements
(Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year-end.

(000's omitted)	<u>Amount</u>	<u>Ratio</u>	To be Well Capitalized Under Prompt Corrective <u>Action Regulations (CBLR Framework)</u>	
			<u>Amount</u>	<u>Ratio</u>
As of December 31, 2021				
Tier 1 (CORE) capital to average Total assets	\$29,819	9.5%	\$26,686	8.5%

(000's omitted)	<u>Amount</u>	<u>Ratio</u>	To be Well Capitalized Under Prompt Corrective <u>Action Regulations (CBLR Framework)</u>	
			<u>Amount</u>	<u>Ratio</u>
As of December 31, 2020				
Tier 1 (CORE) capital to average Total assets	\$26,524	9.3%	\$19,934	7.0%

Note 10 – Restrictions on Dividends

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation. Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank exceed the sum of the net profits of the Bank for the current year-to-date and the net profits of the Bank for the preceding two years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards. At December 31, 2021, retained earnings of approximately \$9,023,000 was available for the payment of dividends without regulatory approval.

Note 11 – Employee Benefit Plan

The Bank sponsors a defined contribution benefit plan for substantially all employees. Bank contributions are based on matching one-half of participant contributions up to 6 percent of the participant's salary. Additional contributions may be made at the discretion of the board of directors. Discretionary contributions of \$129,371 and \$109,764 were made for the years ended December 31, 2021 and 2020, respectively. Bank contributions to the plan totaled \$201,991 and \$182,105 for the years ended December 31, 2021 and 2020, respectively.

Note 12 – Income Taxes

The components of the net deferred tax assets, included in other assets are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Other real estate owned writedowns	\$ 82,819	\$ -
Allowance for loan losses	405,421	456,906
Net deferred loan fees	53,608	100,297
Accrued employee benefits	143,432	135,690
Impairment on investment securities	229,031	273,420
Net unrealized loss on securities available for sale	48,845	-
Other	-	65,571
Total deferred tax assets	<u>\$ 963,156</u>	<u>\$ 1,031,884</u>

Note 12 – Income Taxes (Continued)

	2021	2020
Deferred tax liabilities:		
Depreciation	\$ 219,415	\$ 261,671
Mortgage servicing rights	176,295	164,949
Federal Home Loan Bank stock dividends	58,065	58,065
Net unrealized gain on securities available for sale	-	257,013
Other	90,250	27,782
Total deferred tax liabilities	<u>544,025</u>	<u>769,480</u>
Net deferred tax assets (liabilities)	<u>\$ 419,131</u>	<u>\$ 262,404</u>

The components of deferred taxes are valued using the 21% federal income tax rate.

Allocation of income tax recovery between current and deferred portions is as follows:

	2021	2020
Current	\$ 679,085	\$ 546,240
Deferred	(7,245)	65,499
Total	<u>\$ 671,840</u>	<u>\$ 611,739</u>

The reasons for the difference between the income tax (recovery) expense at the federal statutory income tax rate and the recorded income tax (recovery) expense are summarized as follows:

	2021	2020
Income tax expense at federal statutory rate of 21%	\$ 754,089	\$ 742,445
Increases resulting from nondeductible expenses	3,580	5,091
Decreases resulting from nontaxable investment income	(58,512)	(49,433)
Decreases resulting from life insurance contract income	(22,416)	(22,123)
Other	(4,901)	(64,241)
Total	<u>\$ 671,840</u>	<u>\$ 611,739</u>

Note 13 – Commitments and Credit Risk

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

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2021	2020
Commitments to grant loans and unused lines of credit	\$49,825,000	\$37,803,000
Commercial and standby letters of credit	159,000	111,000

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

Note 13 – Commitments and Credit Risk (Continued)

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 generally collateralized and may not be drawn upon to the total extent to which the Corporation is committed.

Commercial and standby letters of credit are conditional commitments issued by the Corporation 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. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

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

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its balance sheet at fair value with a corresponding obligation to return it.

Legal Contingencies – Various legal claims arise from time to time in the normal course of business. In the opinion of management, any outstanding claims will not have a material effect on the Corporation’s consolidated financial statements.

Note 14 – Condensed Financial Statements of Parent Company

Presented below is condensed financial information as to financial position, results of operations, and cash flows of the Corporation as of and for the years ended December 31:

Balance Sheet

	2021	2020
Cash	\$ 1,449,991	\$ 145,143
Investment in common stock of subsidiaries	31,257,399	27,493,910
Other assets	110,369	81,981
Total assets	<u>\$ 32,817,759</u>	<u>\$ 27,721,034</u>
Liabilities – Borrowings	\$ 8,000,000	\$ 3,924,432
Other liabilities	130,771	163,031
Stockholders’ equity	24,686,988	23,633,571
Total liabilities and stockholders’ equity	<u>\$ 32,817,759</u>	<u>\$ 27,721,034</u>

Statement of Operations

	2021	2020
Total income – Dividends from subsidiaries	\$ -	\$ -
Operating expenses	(398,783)	244,522
Income (loss) before equity in undistributed net income of subsidiaries and income tax benefit	(398,783)	(244,522)
Equity in undistributed net income of subsidiaries	3,234,098	3,116,910
Income tax benefit	83,744	51,327
Net income	<u>\$ 2,919,059</u>	<u>\$ 2,923,715</u>

Note 14 – Condensed Financial Statements of Parent Company
(Continued)

Statement of Cash Flows		
	2021	2020
Cash flows from operating activities:		
Net income	\$ 2,919,059	\$ 2,923,715
Adjustments to reconcile net income to net cash from operating activities:		
Distributions from subsidiaries in excess of net income equity in undistributed net income of subsidiaries	(783,612)	(2,322,427)
Net change in other assets	54,431	38,412
Net change in other liabilities	32,260	47,814
Net cash provided by (used by) operating activities	2,222,138	687,514
Cash flows from financing activities:		
Cash dividends paid on common stock	(715,033)	(612,886)
Debt issuance costs	(202,257)	(4,641)
Net cash provided by (used by) in financing activities	(917,290)	(617,527)
Net increase (decrease) in cash	1,304,848	69,987
Cash – Beginning of year	145,143	75,156
Cash – End of year	\$ 1,449,991	\$ 145,143

Note 15 – 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 Corporation'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 instruments. FAS ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents – The carrying amounts of cash and cash equivalents approximate fair value.

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

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

Deposit Liabilities – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-

Note 15 – Fair Value of Financial Instruments
(Continued)

rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank Advances and Bank Line of Credit – The fair values of the Corporation’s borrowings are estimated using discounted cash flow analyses based on the Corporation’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest – The carrying amounts of accrued interest approximate fair value.

Other Financial Instruments – The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

The estimated fair values and related carrying or notional amounts of the Corporation’s financial instruments are as follows (000s omitted):

	Carrying Amount	Fair Value	(Dollars in thousands) Fair Value Measurements		
			Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021					
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 15,459	\$ 15,459	\$ 15,459	\$ -	\$ -
Investment securities available-for-sale	106,096	106,096	-	103,049	2,657
Net loans	167,453	168,247	-	-	168,247
FINANCIAL LIABILITIES					
Deposits	\$271,808	\$264,633	\$ -	\$ -	\$264,633
Subordinated debt	8,000	8,000	-	-	8,000
December 31, 2020					
FINANCIAL ASSETS					
Cash and cash equivalents	\$ 32,731	\$ 32,731	\$ 32,731	\$ -	\$ -
Investment securities available-for-sale	48,849	48,849	-	47,082	1,767
Net loans	188,816	189,328	-	-	189,328
FINANCIAL LIABILITIES					
Deposits	\$255,952	\$253,235	\$ -	\$ -	\$253,235
FHLB borrowings	98	98	-	-	98
Federal funds purchased	3,929	3,929	-	-	3,929
Bank line of credit	3,929	3,929	-	-	3,929

Note 16 – Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in on the financial statements and provides a framework for establishing other 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.

The following table presents information about the Corporation’s assets and liabilities measured at fair value on a recurring basis at December 31, 2021, and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Corporation 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 and liabilities 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, 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 Corporation’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2021 and 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
2021 – Investment securities available for sale	\$ -	\$ 103,438,636	\$ 2,657,114	\$ 106,095,750
2020 – Investment securities available for sale	\$ -	\$ 46,854,409	\$ 1,694,446	\$ 48,548,855

The Corporation also has certain assets that are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Held-to-maturity investment securities categorized as Level 3 assets consist of tax-exempt bonds issued by local municipalities and trust preferred securities. The balance of these Level 3 securities was \$0 and \$0 at December 31, 2021 and 2020, respectively. The Corporation estimates the fair value of these investments based on the present value of expected future cash flows using management’s best estimate of key assumptions, including forecasted interest yield and payment rates, credit quality, and a discount rate commensurate with the current market and other risks involved. Both observable and unobservable inputs may be used to determine the fair value of Level 3 assets

The fair value of impaired loans is estimated using either discounted cash flows or collateral value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2021, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans are categorized as Level 3 assets because the values are based on available collateral (typically based on outside appraisals) and customized discounting criteria, if deemed necessary. At December 31, 2021 and 2020 impaired loans total \$385,600 and \$2,553,853, respectively. The change in fair value of impaired loans is accounted for in the allowance for loan losses (see Note 4).

First Bancshares, Inc.

First National Bank and First Bellevue Properties, Inc.

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Duffield E. Milkie
Attorney/Chief Legal Officer
Waste Dynamics

Melvin H. Miller
Retired: President/Chairman
Janotta & Herner, Inc.

Kula Hoty-Lynch
Attorney/Corporate Counsel
Hoty Enterprises, Inc.

Jerri A. Miller
CPA/County Recorder
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James V. Stouffer, Jr.
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Steven L. Mays, DVM
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Doctor of Veterinary Medicine

Dean J. Miller
President/CEO
First Bancshares, Inc.

Michael K. Winthrop
Retired: President/CEO
The Bellevue Hospital

Gordon A. Gibbs, Director Emeritus

First National Bank

OFFICERS

Senior Management Team

Dean Miller, President & CEO
Edmund Schafer, Senior Vice President/CFO
Deborah Hawkins, Senior Vice President
David Jarvis, Senior Vice President/CTO
Justin Rodemich, Senior Vice President/COO
Melanie Mischler, Vice President/Retail Manager

Lending Team

Frederick Bouyack, Vice President
Jeffrey Geary, Vice President
Anthony Luedy, Vice President
Gary Macko, Vice President
Vickie Smith, Assistant Vice President
Melinda Stacy, Assistant Vice President
Christina Rufer, Mortgage Services Officer

Customer Service/Branch Support Team

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Brenda Clark, AVP/Branch Manager
Kyann Hay, Branch Manager
Sarah Birkholz, Branch Manager
Traci Powell, Branch Manager
Elizabeth Hayes, Branch Manager
Douglas Brisendine, Assistant Branch Manager

Lending Support Team

Sheryl Diehr, Assistant Vice President
Brandon Barr, Assistant Vice President
Adam Clark, Assistant Vice President
Darlene Fullen, Loan Operations Officer
Karalee Siesel, Loan Operations Officer
Logan Foes, Loan Operations Officer

Human Resources Management

Administration Support
FNB Wealth Management Services

Stacy Root, Assistant Vice President

Andrea Taylor, Administrative Services Officer

James Deer, Vice President/Investment Executive

STAFF

Diane Ackerman
Rebecca Andrews
Marcy Baker
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Kelly Bullerwell
Morgan Collins
Cassandra Cooper
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Elizabeth Davis
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