

FIRST BANCSHARES INC /MS/
Form 10-Q
November 16, 2015

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 33-94288

THE FIRST BANCSHARES, INC.
(EXACT NAME OF ISSUER AS
SPECIFIED IN ITS CHARTER)

MISSISSIPPI 64-0862173
(STATE OF INCORPORATION) (I.R.S. EMPLOYER IDENTIFICATION NO.)

6480 U.S. HIGHWAY 98 WEST
HATTIESBURG, MISSISSIPPI 39402
(ADDRESS OF PRINCIPAL (ZIP CODE)
EXECUTIVE OFFICES)

(601) 268-8998
(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NONE

(FORMER NAME, ADDRESS AND FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

INDICATE BY CHECK MARK WHETHER THE ISSUER: (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (§232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES).

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER, OR A SMALLER REPORTING COMPANY. SEE THE DEFINITIONS OF "LARGE ACCELERATED FILER," "ACCELERATED FILER," "NON-ACCELERATED FILER" AND "SMALLER REPORTING COMPANY" IN RULE 12B-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER ACCELERATED FILER
NON-ACCELERATED FILER SMALLER REPORTING COMPANY

ON September 30, 2015, 5,403,159 SHARES OF THE ISSUER'S COMMON STOCK, PAR VALUE \$1.00 PER SHARE WERE ISSUED AND OUTSTANDING.

TRANSITIONAL DISCLOSURE FORMAT (CHECK ONE):

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT):

YES NO

PART I - FINANCIAL INFORMATION

ITEM NO. 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(\$ amounts in thousands)

	(Unaudited)	
	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 28,547	\$ 30,333
Interest-bearing deposits with banks	28,852	13,899
Federal funds sold	7,834	386
Total cash and cash equivalents	65,233	44,618
Securities held-to-maturity, at amortized cost	7,233	8,193
Securities available-for-sale, at fair value	239,631	254,746
Other securities	6,249	7,235
Total securities	253,113	270,174
Loans held for sale	1,058	2,103
Loans	746,588	704,531
Allowance for loan losses	(6,734)	(6,095)
Loans, net	740,912	700,539
Premises and equipment	33,610	34,810
Interest receivable	3,809	3,659
Cash surrender value of life insurance	14,771	14,463
Goodwill	12,276	12,276
Other real estate owned	4,104	4,655
Other assets	10,021	8,574

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

TOTAL ASSETS	\$ 1,137,849	\$ 1,093,768
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 187,542	\$ 201,362
Interest-bearing	776,298	691,413
TOTAL DEPOSITS	963,840	892,775
Interest payable	232	316
Borrowed funds	58,986	89,450
Subordinated debentures	10,310	10,310
Other liabilities	2,859	4,701
TOTAL LIABILITIES	1,036,227	997,552
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, \$1,000 per share liquidation, 10,000,000 shares authorized; 17,123 issued and outstanding at September 30, 2015 and December 31, 2014, respectively	17,123	17,123
Common stock, par value \$1 per share, 20,000,000 shares authorized and 5,403,159 shares issued at Sept 30, 2015; 10,000,000 shares authorized and 5,342,670 shares issued at December 31, 2014, respectively	5,403	5,343
Additional paid-in capital	44,469	44,421
Retained earnings	33,554	27,975
Accumulated other comprehensive income	1,537	1,818
Treasury stock, at cost, 26,494 shares at September 30, 2015 and at December 31, 2014	(464) (464)
TOTAL STOCKHOLDERS' EQUITY	101,622	96,216
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,137,849	\$ 1,093,768

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(\$ amounts in thousands, except earnings and dividends per share)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Interest and fees on loans	\$ 8,629	\$ 8,059	\$ 25,309	\$ 22,154
Interest and dividends on securities:				
Taxable interest and dividends	1,001	1,094	3,022	2,953
Tax exempt interest	437	529	1,402	1,555
Interest on federal funds sold	13	6	52	47
TOTAL INTEREST INCOME	10,080	9,688	29,785	26,709
INTEREST EXPENSE:				
Interest on deposits	646	689	1,936	1,739
Interest on borrowed funds	147	144	467	443
TOTAL INTEREST EXPENSE	793	833	2,403	2,182
NET INTEREST INCOME	9,287	8,855	27,382	24,527
PROVISION FOR LOAN LOSSES	250	631	400	1,266
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,037	8,224	26,982	23,261
OTHER INCOME:				
Service charges on deposit accounts	1,542	1,280	3,690	3,317
Other service charges and fees	440	741	1,996	2,431
TOTAL OTHER INCOME	1,982	2,021	5,686	5,748
OTHER EXPENSES:				
Salaries and employee benefits	4,628	4,554	13,867	12,911

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Occupancy and equipment	1,137	1,382	3,383	3,844
Other	2,212	2,135	6,637	5,927
TOTAL OTHER EXPENSES	7,977	8,071	23,887	22,682
INCOME BEFORE INCOME TAXES	3,042	2,174	8,781	6,327
INCOME TAXES	815	641	2,340	1,754
NET INCOME	2,227	1,533	6,441	4,573
PREFERRED STOCK ACCRETION AND DIVIDENDS	86	85	257	277
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	\$ 2,141	\$ 1,448	\$ 6,184	\$ 4,296
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS:				
BASIC	\$.40	\$ 0.27	\$ 1.15	\$ 0.83
DILUTED	.39	0.27	1.14	0.82
DIVIDENDS PER SHARE – COMMON	.0375	.0375	.1125	0.1125

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ amounts in thousands)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income per consolidated statements of income	\$ 2,227	\$ 1,533	\$ 6,441	\$ 4,573
Other Comprehensive Income(Loss):				
Unrealized holding gains (losses) arising during the period on available-for-sale securities	1,579	574	(431)	3,467
Unrealized holding gains on loans held for sale	45	18	6	119
Income tax benefit (expense)	(554)	(205)	144	(1,223)
Other Comprehensive Income (Loss)	1,070	387	(281)	2,363
Comprehensive Income	\$ 3,297	\$ 1,920	\$ 6,160	\$ 6,936

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

(\$ in thousands)

	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2014	\$ 5,123	\$ 17,103	\$ 284	\$ 41,802	\$ 22,509	\$ (1,249)	\$ (464)	\$ 85,108
Net income	-	-	-	-	4,573	-	-	4,573
Other comprehensive income	-	-	-	-	-	2,363	-	2,363
Accretion and dividends on preferred stock	-	20	-	-	(277)	-	-	(257)
Dividends on common stock, \$0.1125 per share	-	-	-	-	(586)	-	-	(586)
Repurchase of restricted stock for payment of taxes	(6)	-	-	(80)	-	-	-	(86)
Restricted stock grant	63	-	-	(63)	-	-	-	-
Compensation expense	-	-	-	455	-	-	-	455
Issuance of 158,083 common shares for BCB Holding	158	-	-	1,864	-	-	-	2,022
Balance, Sept. 30, 2014	\$ 5,338	\$ 17,123	\$ 284	\$ 43,978	\$ 26,219	\$ 1,114	\$ (464)	\$ 93,592
Balance, January 1, 2015	\$ 5,343	\$ 17,123	\$ 284	\$ 44,137	\$ 27,975	\$ 1,818	\$ (464)	\$ 96,216
Net income	-	-	-	-	6,441	-	-	6,441
Other comprehensive income	-	-	-	-	-	(281)	-	(281)
Dividends on preferred stock	-	-	-	-	(257)	-	-	(257)
Dividends on common stock, \$0.1125 per share	-	-	-	-	(605)	-	-	(605)
Repurchase of restricted stock for payment of taxes	(6)	-	-	(86)	-	-	-	(92)
Restricted stock grant	69	-	-	(69)	-	-	-	-
Compensation expense	-	-	-	539	-	-	-	539
Reversal of 2,514 common shares for BCB Holdings	(3)	-	-	(33)	-	-	-	(36)
Repurchase warrants	-	-	(284)	(19)	-	-	-	(303)
Balance, Sept. 30, 2015	\$ 5,403	\$ 17,123	\$ -	\$ 44,469	\$ 33,554	\$ 1,537	\$ (464)	\$ 101,622

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ Amounts in Thousands)

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	\$6,441	\$4,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	2,416	1,697
Provision for loan losses	400	1,266
Loss on sale/writedown of ORE	142	299
Gain on sale of securities	-	(241)
Gain on sale of bank premises	(119)	(111)
Restricted stock expense	539	455
Increase in cash value of life insurance	(308)	(266)
Federal Home Loan Bank stock dividends	(7)	(2)
Changes in:		
Interest receivable	(150)	(359)
Loans held for sale, net	1,051	30
Interest payable	(84)	(128)
Other, net	(2,884)	1,203
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,437	8,416
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Securities	-	10,942
Cash received in excess of cash paid for acquisition	-	4,270
Maturities, calls and paydowns of available- for-sale and held-to-maturity securities	35,135	30,485
Purchases of securities available-for-sale and held-to-maturity securities	(20,329)	(38,460)
Net redemptions of other securities	993	365
Net increase in loans	(42,179)	(49,102)
Purchase of bank owned life insurance	-	(7,500)
Proceeds from sale of bank premises	949	-
Net increase in premises and equipment	(860)	(391)
NET CASH USED IN INVESTING ACTIVITIES	(26,291)	(49,391)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	71,205	68,539
Net decrease in borrowed funds	(30,464)	(15,648)

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Dividends paid on common stock	(584)	(570)
Dividends paid on preferred stock	(257)	(237)
Repurchase of restricted stock for payment of taxes	(92)	86
Repurchase of shares issued in BCB acquisition	(36)	-
Repurchase of warrants	(303)	-

NET CASH PROVIDED BY FINANCING ACTIVITIES	39,469	52,170
---	--------	--------

NET INCREASE IN CASH	20,615	11,195
----------------------	--------	--------

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	44,618	39,252
--	--------	--------

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$65,233	\$50,447
--	----------	----------

SUPPLEMENTAL DISCLOSURES:

CASH PAYMENTS FOR INTEREST	2,627	2,601
----------------------------	-------	-------

CASH PAYMENTS FOR INCOME TAXES	3,675	275
--------------------------------	-------	-----

LOANS TRANSFERRED TO OTHER REAL ESTATE	506	1,972
--	-----	-------

ISSUANCE OF RESTRICTED STOCK GRANTS	2	63
-------------------------------------	---	----

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2014.

NOTE B — SUMMARY OF ORGANIZATION

The First Bancshares, Inc., Hattiesburg, Mississippi (the "Company"), was incorporated June 23, 1995, under the laws of the State of Mississippi for the purpose of operating as a bank holding company. The Company's primary asset is its interest in its wholly-owned subsidiary, The First, A National Banking Association (the "Bank").

At September 30, 2015, the Company had approximately \$1.1 billion in assets, \$740.9 million in net loans, \$963.8 million in deposits, and \$101.6 million in stockholders' equity. For the nine months ended September 30, 2015, the Company reported net income of \$6.4 million (\$6.2 million applicable to common stockholders).

In the first, second and third quarters of 2015, the Company declared and paid a dividend of \$.0375 per common share.

NOTE C – BUSINESS COMBINATION

BCB Holding Company, Inc.

On March 3, 2014, the Company entered into an Agreement and Plan of Merger (the “Agreement”) with BCB Holding Company, Inc., an Alabama corporation (“BCB”) and parent of Bay Bank, Mobile, Alabama. The Agreement provided that, upon the terms and subject to the conditions set forth in the Agreement, BCB will merge with and into the Company (the “Merger”) and Bay Bank will merge with and into The First, A National Banking Association (“Bank Merger”). Subject to the terms and conditions of the Agreement, which was approved by the Boards of Directors of the Company and BCB, each outstanding share of BCB common stock, other than shares held by the Company or BCB, or, shares with respect to which the holders thereof have perfected dissenters’ rights received (i) for the BCB common stock that was outstanding prior to August 1, 2013, \$3.60 per share and one non-transferable contingent value right (“CVR”) of the CVR Consideration, and (ii) for the BCB common stock that was issued on August 1, 2013, \$2.25 per share in cash. Each CVR is eligible to receive a cash payment equal to up to \$0.40, with the exact amount based on the resolution of certain identified BCB loans over a three-year period following the closing of the transaction. Payout of the CVR will be overseen by a special committee of the Company’s Board of Directors. The total consideration to be paid in connection with the acquisition will range between approximately \$6.2 million and \$6.6 million depending upon the payout of the CVR. An estimated liability of \$174,000 has been accrued for the CVR and a payment of \$8 thousand dollars was made during the second quarter of 2015, leaving an accrual of \$166,000.

As of the closing on July 1, 2014, the Company and BCB entered into an agreement and plan of merger pursuant to which BCB’s wholly-owned subsidiary, Bay Bank, was merged with and into the Company’s wholly-owned subsidiary, the Bank.

In connection with the acquisition, the Company recorded \$1.7 million of goodwill and \$.2 million of core deposit intangible. The core deposit intangible will be expensed over 10 years.

The Company acquired the \$40.1 million loan portfolio at a fair value discount of \$1.7 million. The discount represents expected credit losses, adjusted to market interest rates and liquidity adjustments.

The amounts of the acquired identifiable assets and liabilities as of the acquisition date were as follows(dollars in thousands):

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Purchase price:	
Cash and fair value of common stock	\$6,300
Total purchase price	6,300
Identifiable assets:	
Cash and due from banks	8,307
Investments	23,423
Loans and leases	38,393
Other Real Estate	571
Core deposit intangible	225
Personal and real property	3,670
Deferred tax asset	2,502
Other assets	305
Total assets	77,396
Liabilities and equity:	
Deposits	59,321
Borrowed funds	13,104
Other liabilities	326
Total liabilities	72,751
Net assets acquired	4,645
Goodwill resulting from acquisition	\$1,655

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheet at September 30, 2015, are as follows: (dollars in thousands):

Outstanding principal balance	\$28,841
Carrying amount	27,012

NOTE D – PREFERRED STOCK AND WARRANT

Pursuant to the terms of the letter agreement between the Company and the United States Department of the Treasury (“Treasury”), the Company issued 17,123 CDCI Preferred Shares.

The Letter Agreement contains limitations on the payment of dividends on the common stock to no more than 100% of the aggregate per share dividend and distributions for the immediate prior fiscal year (dividends of \$0.15 per share were declared and paid in 2011-2014) and on the Company’s ability to repurchase its common stock in the event of a non-payment of our dividend, and continues to subject the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA), as previously disclosed by the Company. The CDCI Preferred Shares entitle the holder to an annual dividend of 2% for 8 years of the liquidation value of the shares, payable quarterly in arrears.

Pursuant to the terms of the letter agreement between the Company and the United States Department of the Treasury, the Company redeemed the warrant to purchase up to 54,705 shares of the Company’s common stock. In connection with this redemption, on May 13, 2015, the Company paid Treasury an aggregate redemption price of \$302,410.

NOTE E — EARNINGS APPLICABLE TO COMMON STOCKHOLDERS

Basic per share data is calculated based on the weighted-average number of common shares outstanding during the reporting period. Diluted per share data includes any dilution from potential common stock outstanding, such as stock options.

	For the Three Months Ended September 30, 2015		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	\$2,141,000	5,374,790	\$ 0.40

Effect of dilutive shares:

Restricted stock grants 67,190

Diluted per share \$2,141,000 5,441,980 \$ 0.39

For the Nine Months Ended

September 30, 2015

Net Income (Numerator) Shares (Denominator) Per Share Data

Basic per share \$6,184,000 5,369,260 \$ 1.15

Effect of dilutive shares:

Restricted stock grants 67,190

Diluted per share \$6,184,000 5,436,450 \$ 1.14

	For the Three Months Ended September 30, 2014		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	\$ 1,448,000	5,311,876	\$.27
Effect of dilutive shares: Restricted stock grants		37,810	
Diluted per share	\$ 1,448,000	5,349,686	\$.27

	For the Nine Months Ended September 30, 2014		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	\$ 4,296,000	5,198,776	\$.83
Effect of dilutive shares: Restricted stock grants		37,810	
Diluted per share	\$ 4,296,000	5,236,586	\$.82

The Company granted 67,077 shares of restricted stock in the first quarter of 2015, -0- shares during the second and 2,250 shares during the third quarter of 2015.

NOTE F — FAIR VALUE OF ASSETS AND LIABILITIES

The Company groups its financial assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from
2: third party pricing services for identical or comparable assets or liabilities which use 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 for substantially the full term of the assets and liabilities.

Level Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of
3: the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets.

Available-for-Sale Securities

The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include U.S. Treasury securities, obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, mortgage-backed securities and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fell as of September 30, 2015 and December 31, 2014 (in thousands):

September 30, 2015

(Dollars in thousands)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	\$ 19,731	\$ -	\$ 19,731	\$ -
Municipal securities	94,350	-	94,350	-
Mortgage-backed securities	99,384	-	99,384	-
Corporate obligations	25,201	-	22,554	2,647
Other	965	965	-	-
Total	\$ 239,631	\$ 965	\$ 236,019	\$ 2,647

December 31, 2014

(Dollars in thousands)

	Fair Value Measurements Using
	Quoted Prices Significant Other Significant Unobservable

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

	Fair Value	in Active Markets For Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Obligations of U. S. Government Agencies	\$ 27,372	\$ -	\$ 27,372	\$ -
Municipal securities	104,582	-	104,582	-
Mortgage-backed securities	93,036	-	93,036	-
Corporate obligations	28,784	-	25,983	2,801
Other	972	972	-	-
Total	\$ 254,746	\$ 972	\$ 250,973	\$ 2,801

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information.

(Dollars in thousands)	Bank-Issued Trust Preferred Securities	
	2015	2014
Balance, January 1	\$2,801	\$2,798
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Other-than-temporary impairment loss included in earnings (loss)	-	-
Unrealized gain (loss) included in comprehensive income	(154)	3
Balance at September 30, 2015 and December 31, 2014	\$2,647	\$2,801

The following table presents quantitative information about recurring Level 3 fair value measurements (in thousands):

Trust Preferred Securities	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
September 30, 2015	2,647	Discounted cash flow	Probability of default	.88% - 2.58%
December 31, 2014	2,801	Discounted cash flow	Probability of default	.79% - 2.49%

Following is a description of the valuation methodologies used for assets measured at fair value on a non-recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, or premium or discount existing at origination or acquisition of the loan. Impaired loans are classified within Level 2 of the fair value hierarchy.

Other Real Estate Owned

Other real estate owned acquired through loan foreclosure is initially recorded at fair value less estimated costs to sell, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through non-interest expense. Operating costs associated with the assets are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other non-interest expense. Other real estate owned measured at fair value on a non-recurring basis at September 30, 2015, amounted to \$4.1 million. Other real estate owned is classified within Level 2 of the fair value hierarchy.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at September 30, 2015 and December 31, 2014.

(\$ in thousands)

September 30, 2015

		Fair Value Measurements Using		
		Quoted		
		Prices		
		in	Significant	Significant
		Active	Other	Unobservable
		Markets	Observable	Inputs
		For	Inputs	
		Identical		
		Assets		
	Fair Value	(Level	(Level 2)	(Level 3)
		1)		
Impaired loans	\$ 10,832	\$ -	\$ 10,832	\$ -
Other real estate owned	4,104	-	4,104	-

December 31, 2014

	Fair Value Measurements Using Quoted			
	Fair Value	Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 9,560	\$-	\$ 9,560	\$ -
Other real estate owned	4,655	-	4,655	-

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents – For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment in securities available-for-sale and held-to-maturity – The fair value measurement for securities available-for-sale was discussed earlier. The same measurement approach was used for securities held-to-maturity.

Loans – The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Bank-Owned Life Insurance– The fair value of bank-owned life insurance approximates the carrying amount, because upon liquidation of these investments, the Company would receive the cash surrender value which equals the carrying amount.

Deposits – The fair values of demand deposits are, as required by ASC Topic 825, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

Short-Term Borrowings – The carrying value of any federal funds purchased and other short-term borrowings approximates their fair values.

FHLB and Other Borrowings – The fair value of the fixed rate borrowings are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowing approximates its fair value.

Subordinated Debentures – The subordinated debentures bear interest at a variable rate and the carrying value approximates the fair value.

Off-Balance Sheet Instruments – Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed. Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

As of September 30, 2015
(\$ in thousands)

	Carrying Amount	Estimated Fair Value	Fair Value Measurements		
			Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$65,233	\$65,233	\$65,233	\$ -	\$ -
Securities available-for- sale	239,631	239,631	965	236,019	2,647
Securities held- to-maturity	7,233	8,651	-	8,651	-
Other securities	6,249	6,249	-	6,249	-
Loans, net	740,912	758,614	-	-	758,614
Bank-owned life insurance	14,771	14,771	-	14,771	-
Liabilities:					
Noninterest- bearing deposits	\$187,542	\$187,542	\$-	\$ 187,542	\$ -
Interest-bearing deposits	776,298	775,760	-	775,760	-
Subordinated debentures	10,310	10,310	-	-	10,310
FHLB and other borrowings	58,986	58,986	-	58,986	-

As of December 31, 2014
(\$ in thousands)

	Carrying Amount	Estimated Fair Value	Fair Value Measurements		
			Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$44,618	\$44,618	\$44,618	\$ -	\$ -
Securities available-for- sale	254,746	254,746	972	250,973	2,801
Securities held- to-maturity	8,193	9,994	-	9,994	-
Other securities	7,235	7,235	-	7,235	-
Loans, net	700,539	715,849	-	-	715,849
Bank-owned life insurance	14,463	14,463	-	14,463	-
Liabilities:					
Noninterest- bearing deposits	\$201,362	\$201,362	\$-	\$ 201,362	\$ -
Interest-bearing deposits	691,413	691,036	-	691,036	-
Subordinated debentures	10,310	10,310	-	-	10,310
FHLB and other borrowings	89,450	89,450	-	89,450	-

NOTE G — LOANS

Loans typically provide higher yields than the other types of earning assets, and, thus, one of the Company's goals is for loans to be the largest category of the Company's earning assets. For the quarter ending September 30, 2015 and December 31, 2014, average loans accounted for 72.8% and 69.9% of average earning assets, respectively. The Company controls and mitigates the inherent credit and liquidity risks through the composition of its loan portfolio.

The following table shows the composition of the loan portfolio by category:

Composition of Loan Portfolio

	September 30, 2015		December 31, 2014	
	Percent		Percent	
	Amount	of	Amount	of
	Total		Total	
	(Dollars in thousands)			
Mortgage loans held for sale	\$ 1,058	0.1 %	\$ 2,103	0.3 %
Commercial, financial and agricultural	123,872	16.6	106,109	15.0
Real Estate:				
Mortgage-commercial	251,631	33.7	238,602	33.8
Mortgage-residential	265,762	35.5	256,406	36.3
Construction	85,769	11.5	84,935	12.0
Lease financing receivable	2,303	.3	-	-
Consumer and other	17,251	2.3	18,479	2.6
Total loans	747,646	100 %	706,634	100 %
Allowance for loan losses	(6,734)		(6,095)	
Net loans	\$ 740,912		\$ 700,539	

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than a loan for construction purposes, secured by real estate, regardless of the purpose of the loan. The Company follows the common practice of financial institutions in the Company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes it will reduce the risk elements of its loan portfolio through strategies that diversify the lending mix.

Loans held for sale consist of mortgage loans originated by the Bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

Activity in the allowance for loan losses for the period was as follows:

(In thousands)

	Three Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2015
Balance at beginning of period	\$ 6,419	\$ 6,095
Loans charged-off:		
Real Estate	(58)	(407)
Installment and Other	(24)	(87)
Commercial, Financial and Agriculture	(183)	(183)
Total	(265)	(677)
Recoveries on loans previously charged-off:		
Real Estate	296	849
Installment and Other	32	56
Commercial, Financial and Agriculture	2	11
Total	330	916
Net recoveries	65	239
Provision for Loan Losses	250	400
Balance at end of period	\$ 6,734	\$ 6,734

The following tables represent how the allowance for loan losses is allocated to a particular loan type, as well as the percentage of the category to total loans at September 30, 2015 and December 31, 2014.

Allocation of the Allowance for Loan Losses

	September 30, 2015 (Dollars in thousands)		
	% of loans		
	Amount	in each category	
	to total loans		
Commercial Non Real Estate	\$ 765	17.1	%
Commercial Real Estate	2,607	57.7	
Consumer Real Estate	1,414	22.8	
Consumer	137	2.4	
Unallocated	1,811	-	
Total	\$ 6,734	100	%

	December 31, 2014 (Dollars in thousands)		
	% of loans		
	Amount	in each category	
	to total loans		
Commercial Non Real Estate	\$ 713	15.3	%
Commercial Real Estate	3,355	57.9	
Consumer Real Estate	1,852	24.2	
Consumer	175	2.6	
Unallocated	-	-	
Total	\$ 6,095	100	%

The following table represents the Company's impaired loans at September 30, 2015, and December 31, 2014.

	Sept. 30, 2015	December 31, 2014
	(In thousands)	

Impaired Loans:

Impaired loans without a valuation allowance	\$6,322	\$ 4,702
Impaired loans with a valuation allowance	4,510	4,858
Total impaired loans	\$10,832	\$ 9,560
Allowance for loan losses on impaired loans at period end	1,028	968
Total nonaccrual loans	7,949	6,056
Past due 90 days or more and still accruing	6	669
Average investment in impaired loans	9,534	7,077

The following table is a summary of interest recognized and cash-basis interest earned on impaired loans:

	Three Months Ended Sept. 30, 2015	Nine Months Ended Sept. 30, 2015
Interest income recognized during impairment	-	-
Cash-basis interest income recognized	43	166

The gross interest income that would have been recorded in the period that ended if the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the three months and nine months ended September 30, 2015 was \$123,000 and \$322,000, respectively, and \$1,000 and \$98,000 for the three months and nine months ended September 30, 2014. The Company had no loan commitments to borrowers in non-accrual status at September 30, 2015 and December 31, 2014.

The following tables provide the ending balances in the Company's loans (excluding mortgage loans held for sale) and allowance for loan losses, broken down by portfolio segment as of September 30, 2015 and December 31, 2014. The tables also provide additional detail as to the amount of our loans and allowance that correspond to individual versus collective impairment evaluation. The impairment evaluation corresponds to the Company's systematic methodology for estimating its Allowance for Loan Losses.

September 30, 2015

	Real Estate (In thousands)	Installment and Other	Commercial, Financial and Agriculture	Total
Loans				
Individually evaluated	\$10,522	\$ 42	\$ 268	\$10,832
Collectively evaluated	590,844	18,100	126,812	735,756
Total	\$601,366	\$ 18,142	\$ 127,080	\$746,588
Allowance for Loan Losses				
Individually evaluated	\$980	\$ 26	\$ 22	\$1,028
Collectively evaluated	3,292	1,672	742	5,706
Total	\$4,272	\$ 1,698	\$ 764	\$6,734

December 31, 2014

	Real Estate (In thousands)	Installment and Other	Commercial, Financial and Agriculture	Total
--	----------------------------------	-----------------------------	--	-------

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Loans

Individually evaluated	\$9,282	\$ 38	\$ 240	\$9,560
Collectively evaluated	568,952	18,610	107,409	694,971
Total	\$578,234	\$ 18,648	\$ 107,649	\$704,531

Allowance for Loan Losses

Individually evaluated	\$922	\$ 29	\$ 17	\$968
Collectively evaluated	4,285	146	696	5,127
Total	\$5,207	\$ 175	\$ 713	\$6,095

The following tables provide additional detail of impaired loans broken out according to class as of September 30, 2015 and December 31, 2014. The recorded investment included in the following tables represent customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs. As nearly all of our impaired loans at September 30, 2015, are on nonaccrual status, recorded investment excludes any insignificant amount of accrued interest receivable on loans 90-days or more past due and still accruing. The unpaid balance represents the recorded balance prior to any partial charge-offs.

September 30, 2015

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
	(In thousands)				
Impaired loans with no related allowance:					
Commercial installment	\$-	\$-	\$ -	\$ 3	\$ -
Commercial real estate	6,077	6,116	-	4,927	43
Consumer real estate	238	238	-	200	-
Consumer installment	7	7	-	8	-
Total	\$6,322	\$6,361	\$ -	\$ 5,138	\$ 43
Impaired loans with a related allowance:					
Commercial installment	\$268	\$268	\$ 22	\$ 254	\$ 10
Commercial real estate	3,232	3,232	479	2,882	102
Consumer real estate	975	975	501	1,230	11
Consumer installment	35	35	26	30	-
Total	\$4,510	\$4,510	\$ 1,028	\$ 4,396	\$ 123
Total Impaired Loans:					
Commercial installment	\$268	\$268	\$ 22	\$ 257	\$ 10
Commercial real estate	9,309	9,348	479	7,809	145
Consumer real estate	1,213	1,213	501	1,430	11
Consumer installment	42	42	26	38	-
Total Impaired Loans	\$10,832	\$10,871	\$ 1,028	\$ 9,534	\$ 166

On January 1, 2015, the Company adopted Accounting Standards Update (ASU) 2014-4, Receivables – Troubled Debt Restructuring by Creditors. As of September 30, 2015, the Company had \$1.5 million of foreclosed residential real estate property obtained by physical possession and \$0.1 million of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions.

December 31, 2014

	Recorded Investment (In thousands)	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial installment	\$-	\$-	\$ -	\$ 50	\$ -
Commercial real estate	4,665	4,665	-	2,654	142
Consumer real estate	27	27	-	179	-
Consumer installment	10	10	-	11	-
Total	\$4,702	\$4,702	\$ -	\$ 2,894	\$ 142
Impaired loans with a related allowance:					
Commercial installment	\$240	\$240	\$ 18	\$ 189	\$ 20
Commercial real estate	2,558	2,558	315	2,415	59
Consumer real estate	2,032	2,032	607	1,546	33
Consumer installment	28	28	28	33	2
Total	\$4,858	\$4,858	\$ 968	\$ 4,183	\$ 114
Total Impaired Loans:					
Commercial installment	\$240	\$240	\$ 18	\$ 239	\$ 20
Commercial real estate	7,223	7,223	315	5,069	201
Consumer real estate	2,059	2,059	607	1,725	33
Consumer installment	38	38	28	44	2
Total Impaired Loans	\$9,560	\$9,560	\$ 968	\$ 7,077	\$ 256

Loans acquired with deteriorated credit quality are those purchased in the BCB Holding Company, Inc. acquisition (See Note C -Business Combination for further information). These loans were recorded at estimated fair value at the acquisition date with no carryover of the related allowance for loan losses. The acquired loans were segregated as of the acquisition date between those considered to be performing (acquired non-impaired loans) and those with evidence of credit deterioration (acquired impaired loans). Acquired loans are considered impaired if there is evidence of credit deterioration and if it is probable, at acquisition, all contractually required payments will not be collected.

The following table presents information regarding the contractually required payments receivable, cash flows expected to be collected and the estimated fair value of loans acquired in the BCB acquisition as of July 1, 2014, the closing date of the transaction:

	December 31, 2014 (In thousands)				
	Commercial, financial and agricultural	Mortgage- Commercial	Mortgage- Residential	Commercial and other	Total
Contractually required payments	\$ 1,519	\$ 29,648	\$ 7,933	\$ 976	\$ 40,076
Cash flows expected to be collected	1,570	37,869	9,697	1,032	50,168
Fair value of loans acquired	1,513	28,875	7,048	957	38,393

Total outstanding acquired impaired loans were \$3,133,976 as of September 30, 2015 and \$3,480,190 as of December 31, 2014. The outstanding balance of these loans is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loans, owed at the reporting date, whether or not currently due and whether or not any such amounts have been charged off.

Changes in the carrying amount and accretable yield for acquired impaired loans were as follows at September 30, 2015 and December 31, 2014: (in thousands)

	September 30, 2015		December 31, 2014	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period	\$ 1,417	\$ 2,063	\$ -	\$ -
Additions due to BCB acquisition on July 1, 2014	-	-	1,603	2,325
Accretion	(141)	141	(186)	186
Payments received, net	-	(346)	-	(448)
Balance at end of period	\$ 1,276	\$ 1,858	\$ 1,417	\$ 2,063

The following tables provide detail of troubled debt restructurings (TDRs) at September 30, 2015.

For the Three Months Ending September 30, 2015

Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post- Modification	Number of Loans	Interest Income Recognized
---	--	--------------------	----------------------------------

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Commercial installment	\$ -	\$ -	-	\$ -
Commercial real estate	269	268	1	3
Consumer real estate	-	-	-	-
Consumer installment	-	-	-	-
Total	\$ 269	\$ 268	1	\$ 3

For the Nine Months Ending September 30, 2015

	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post- Modification	Number of Loans	Interest Income Recognized
Commercial installment	\$ -	\$ -	-	\$ -
Commercial real estate	269	267	1	3
Consumer real estate	-	-	-	-
Consumer installment	-	-	-	-
Total	\$ 269	\$ 267	1	\$ 3

There were no TDRs that were modified during the three month period ending September 30, 2015, that had subsequently violated the terms of the modification.

The balance of troubled debt restructurings (TDRs) was \$6.8 million at September 30, 2015 and December 31, 2014, respectively, calculated for regulatory reporting purposes. As of September 30, 2015, the company had no additional amount committed on any loan classified as troubled debt restructuring.

The following tables set forth the amounts and past due status for the Bank TDRs at September 30, 2015 and December 31, 2014:

(in thousands)

	September 30, 2015				Total
	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Non- accrual	
Commercial installment	\$214	\$ -	\$ -	\$ 52	\$266
Commercial real estate	1,931	-	-	2,641	4,572
Consumer real estate	728	-	-	1,241	1,969
Consumer installment	9	-	-	31	40
Total	\$2,882	\$ -	\$ -	\$ 3,965	\$6,847

Allowance for loan losses	\$112	\$	-	\$	-	\$177	\$289
---------------------------	-------	----	---	----	---	-------	-------

(in thousands)

December 31, 2014					
	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Non- accrual	Total
Commercial installment	\$233	\$ -	\$ -	\$ -	\$233
Commercial real estate	1,685	-	-	2,729	4,414
Consumer real estate	952	622	-	449	2,023
Consumer installment	10	-	-	103	113
Total	\$2,880	\$ 622	\$ -	\$ 3,281	\$6,783
Allowance for loan losses	\$120	\$ 11	\$ 103	\$ -	\$234

The following tables summarize by class our loans classified as past due in excess of 30 days or more in addition to those loans classified as non-accrual:

September 30, 2015 (In thousands)					
	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Non- Accrual	Total Past Due and Non- Accrual	Total Loans
Real Estate-construction	\$424	\$ -	\$ 3,244	\$ 3,668	\$85,769
Real Estate-mortgage	1,009	6	2,141	3,156	265,762
Real Estate-non farm non residential Commercial	674	-	2,425	3,099	251,631
Lease Financing Rec.	305	-	106	411	123,872
Consumer	-	-	-	-	2,303
Total	93	-	33	126	17,251
Total	\$2,505	\$ 6	\$ 7,949	\$ 10,460	\$746,588

December 31, 2014 (In thousands)					
	Past Due 30 to 89	Past Due 90 Days or More and Still	Non- Accrual	Total Past Due and Non-	Total Loans

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

	Days	Accruing	Accrual		
Real Estate-construction	\$428	\$ -	\$ 2,747	\$ 3,175	\$84,935
Real Estate-mortgage	3,208	208	2,164	5,580	256,406
Real Estate-non farm non residential	3,408	461	1,102	4,971	238,601
Commercial	29	-	5	34	106,109
Consumer	90	-	38	128	18,480
Total	\$7,163	\$ 669	\$ 6,056	\$ 13,888	\$704,531

The Company 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. The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

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 Company's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution 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.

As of September 30, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk categories of loans by class of loans (excluding mortgage loans held for sale) were as follows:

(\$ in thousands)

September 30, 2015

Real Estate Commercial	Real Estate Mortgage	Installment and Other	Commercial, Financial and Agriculture	Total
---------------------------	----------------------------	-----------------------------	--	-------

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Pass	\$ 409,569	\$ 168,836	\$ 18,060	\$ 126,741	\$723,206
Special Mention	4,313	156	-	171	4,640
Substandard	17,260	1,395	82	193	18,930
Doubtful	-	330	-	-	330
Subtotal	431,142	170,717	18,142	127,105	747,106
Less:					
Unearned discount	419	74	-	25	518
Loans, net of unearned discount	\$ 430,723	\$ 170,643	\$ 18,142	\$ 127,080	\$746,588

December 31, 2014

	Real Estate Commercial	Real Estate Mortgage	Installment and Other	Commercial, Financial and Agriculture	Total
Pass	\$ 388,568	\$ 167,827	\$ 18,558	\$ 107,126	\$682,079
Special Mention	4,756	191	-	498	5,445
Substandard	14,727	2,567	90	63	17,447
Doubtful	-	-	-	-	-
Subtotal	408,051	170,585	18,648	107,687	704,971
Less:					
Unearned discount	320	82	-	38	440
Loans, net of unearned discount	\$ 407,731	\$ 170,503	\$ 18,648	\$ 107,649	\$704,531

NOTE H — SECURITIES

The following disclosure of the estimated fair value of financial instruments is made in accordance with authoritative guidance. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

A summary of the amortized cost and estimated fair value of available-for-sale securities and held-to-maturity securities at September 30, 2015, follows:

(\$ in thousands)

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government Agencies	\$19,518	\$ 213	\$ -	\$ 19,731
Tax-exempt and taxable obligations of states and municipal subdivisions	92,465	2,103	218	94,350

Edgar Filing: FIRST BANCSHARES INC /MS/ - Form 10-Q

Mortgage-backed securities	97,771	1,672	59	99,384
Corporate obligations	26,311	136	1,246	25,201
Other	1,255	-	290	965
Total	\$237,320	\$ 4,124	\$ 1,813	\$ 239,631
Held-to-maturity securities:				
Mortgage-backed securities	\$1,233	\$ 33	\$ -	\$ 1,266
Taxable obligations of states and municipal subdivisions	6,000	1,385	-	7,385
Total	\$7,233	\$ 1,418	\$ -	\$ 8,651

NOTE I — ALLOWANCE FOR LOAN LOSSES

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions which it believes to be reasonable, but which may not prove to be accurate, particularly given the Company's growth and the economy. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

The Company's allowance consists of two parts. The first part is determined in accordance with authoritative guidance regarding contingencies. The Company's determination of this part of the allowance is based upon quantitative and qualitative factors. A loan loss history based upon the most recent 72 months loss history is utilized in determining the appropriate allowance. Historical loss factors are determined by risk rated loans by loan type. These historical loss factors are applied to the loans by loan type to determine an indicated allowance. The loss factors of peer groups are considered in the determination of the allowance and are used to assist in the establishment of a long-term loss history for areas in which this data is unavailable and incorporated into the qualitative factors to be considered. The historical loss factors may also be modified based upon other qualitative factors including but not limited to local and national economic conditions, trends of delinquent loans, changes in lending policies and underwriting standards, concentrations, and management's knowledge of the loan portfolio. These factors require judgment upon the part of management and are based upon state and national economic reports received from various institutions and agencies including the Federal Reserve Bank, United States Bureau of Economic Analysis, Bureau of Labor Statistics, meetings with the Company's loan officers and loan committee, and data and guidance received or obtained from the Company's regulatory authorities.

The second part of the allowance is determined in accordance with authoritative guidance regarding loan impairment. Impaired loans are determined based upon a review by internal loan review and senior management.

The sum of the two parts constitutes management's best estimate of an appropriate allowance for loan losses. When the estimated allowance is determined, it is presented to the Company's audit committee for review and approval on a quarterly basis.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including 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.

Impairment is measured on a loan by loan basis, and a specific allowance is assigned to each loan determined to be impaired. Impaired loans not deemed collateral dependent are analyzed according to the ultimate repayment source, whether that is cash flow from the borrower, guarantor or some other source of repayment. Impaired loans are deemed collateral dependent if, in the Company's opinion, the ultimate source of repayment will be generated from the liquidation of collateral.

The Company discontinues accrual of interest on loans when management believes, after considering economic and business conditions and collection efforts, that a borrower's financial condition is such that the collection of interest is doubtful. Generally, the Company will place a delinquent loan in nonaccrual status when the loan becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

NOTE J – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through the date the financial statements were issued. The Company has been notified that it is more likely than not that the Company should expect a recovery on a previously charged-off loan of \$941,000 during 2015. During the second quarter, the first installment payment of \$481,000 was received. During the third quarter, the second installment payment of \$241,000 was received.

NOTE K – RECLASSIFICATION

Certain amounts in the 2014 financial statements have been reclassified for comparative purposes to conform to the current period financial statement presentation.

ITEM NO. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2 OF OPERATIONS

FINANCIAL CONDITION

The following discussion contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. The words "expect," "estimate," "anticipate," and "believe," as well as similar expressions, are intended to identify forward-looking statements. The Company's actual results may differ materially from the results discussed in the forward-looking statements, and the Company's operating performance each quarter is subject to various risks and uncertainties that are discussed in detail in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" section in the Company's most recently filed Form 10-K.

The First represents the primary asset of the Company. The First reported total assets of \$1.1 billion at September 30, 2015, compared to \$1.1 billion at December 31, 2014, an increase of \$44.4 million. Loans increased \$41 million, or 5.8%, during the first nine months of 2015. Deposits at September 30, 2015, totaled \$964 million compared to \$893 million at December 31, 2014. For the nine month period ended September 30, 2015, The First reported net income of \$7.1 million compared to \$5.1 million for the nine months ended September 30, 2014.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At September 30, 2015, The First had no concentrations of ten percent or more of total loans in any single industry or any geographical area outside its immediate market areas.

At September 30, 2015, The First had loans past due as follows:

	(\$ In Thousands)
Past due 30 through 89 days	\$ 2,505
Past due 90 days or more and still accruing	6

The accrual of interest is discontinued on loans which become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled \$7.9 million at September 30, 2015, an increase of \$1.9 million from December 31, 2014. Any other real estate owned is carried at fair value, determined by an appraisal, less estimated costs to sell. Other real estate owned totaled \$4.1 million at September 30, 2015. A loan is classified as a restructured loan when the following two conditions are present: First, the borrower is experiencing financial difficulty and second, the creditor grants a concession it would not otherwise consider but for the borrower's financial difficulties. At September 30, 2015, the Bank had \$6.8 million in loans that were modified as troubled debt restructurings, of which \$2.9 million were performing as agreed with modified terms.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is adequate with cash and cash equivalents of \$65.2 million as of September 30, 2015. In addition, loans and investment securities repricing or maturing within one year or less exceeded \$192 million at September 30, 2015. Approximately \$155 million in loan commitments could fund within the next three months and other commitments, primarily standby letters of credit, totaled \$1.0 million at September 30, 2015.

There are no known trends or any known commitments or uncertainties that will result in The First's liquidity increasing or decreasing in a significant way.

Total consolidated equity capital at September 30, 2015, was \$101.6 million, or approximately 8.9% of total assets. The Company currently has adequate capital positions to meet the minimum capital requirements for all regulatory agencies. The Company's capital ratios as of September 30, 2015, were as follows:

Tier 1 leverage	8.73 %
Tier 1 risk-based	11.35 %
Total risk-based	12.15 %
Common equity Tier 1	8.27 %

On June 30, 2006, The Company issued \$4,124,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 2 in which the Company owns all of the common equity. The debentures are the sole asset of the Trust. The Trust issued \$4,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2036. Interest on the preferred securities is the three month London Interbank Offer Rate (LIBOR) plus 1.65% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. On July 27, 2007, The Company issued \$6,186,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 3 in which the Company owns all of the common equity. The debentures are the sole asset of Trust 3. The Trust issued \$6,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2037. Interest on the preferred securities is the three month LIBOR plus 1.40% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. In accordance with the authoritative guidance, the trusts are not included in the consolidated financial statements.

RESULTS OF OPERATIONS

The Company had a consolidated net income of \$2,227,000 for the three months ended September 30, 2015, compared with consolidated net income of \$1,533,000 for the same period last year.

Net interest income increased to \$9.3 million from \$8.9 million for the three months ended September 30, 2015, or an increase of 4.9% as compared to the same period in 2014. Quarterly average earning assets at September 30, 2015, increased \$43.1 million, or 4.5% and quarterly average interest-bearing liabilities also increased \$46.0 million or 6.0% when compared to September 30, 2014.

Noninterest income for the three months ended September 30, 2015, was \$1,982,000 compared to \$2,021,000 for the same period in 2014, reflecting a decrease of \$39,000 or 1.9%. During the second quarter of 2014, a gain of \$0.3 million was realized on the sale of securities which attributed to the decrease in quarterly comparison.

The provision for loan losses was \$250,000 for the three months ended September 30, 2015, compared with \$631,000 for the same period in 2014. The allowance for loan losses of \$6.7 million at September 30, 2015 (approximately .90% of total loans and 1.16% of loans including valuation accounting adjustments on acquired loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management's assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary.

Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. Management evaluates the adequacy of the allowance for loan losses quarterly and makes provisions for loan losses based on this evaluation.

Noninterest expense decreased by \$.1 million or 1.2% for the three months ended September 30, 2015, when compared with the same period in 2014 which included acquisition charges of \$241,000. Exclusive of the acquisition charges, the third quarter 2015 noninterest expenses increased \$147,000 or 1.9% as compared to the same quarter in 2014.

RESULTS OF OPERATIONS – YEAR TO DATE

The Company had a consolidated net income of \$6,441,000 for the nine months ended September 30, 2015, compared with consolidated net income of \$4,573,000 for the same period last year.

Net interest income increased to \$27.4 million from \$24.5 million for the nine months ended September 30, 2015, or an increase of 11.6% as compared to the same period in 2014. Quarterly average earning assets at September 30, 2015, increased \$43.1 million, or 4.5% and quarterly average interest-bearing liabilities also increased \$46.0 million or 6.0% when compared to September 30, 2014.

Noninterest income for the nine months ended September 30, 2015, was \$5,686,000 compared to \$5,748,000 for the same period in 2014, reflecting a slight decrease of \$62,000 or 1.1%. During the second quarter of 2014, a gain of \$0.3 million was realized on the sale of securities which attributed to the decrease in the comparison with 2015.

The provision for loan losses was \$400,000 for the nine months ended September 30, 2015, compared with \$1,266,000 for the same period in 2014. The allowance for loan losses of \$6.7 million at September 30, 2015 (approximately .90% of total loans and 1.16% of loans including valuation accounting adjustments on acquired loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management's assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary.

Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. Management evaluates the adequacy of the allowance for loan losses quarterly and makes provisions for loan losses based on this evaluation.

Noninterest expense increased by \$1.2 million or 5.3% for the nine months ended September 30, 2015, when compared with the same period in 2014. A majority of this increase can be attributed to the acquisition of Bay Bank that occurred at the beginning of the third quarter of 2014.

ITEM NO. 3. CONTROLS AND PROCEDURES

As of September 30, 2015, (the "Evaluation Date"), we carried out an evaluation, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

There have been no changes, significant or otherwise, in our internal controls over financial reporting that occurred during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM NO. 4. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-02 "*Consolidation (Topic 810) - Amendments to the Consolidation Analysis.*" ASU 2015-02 includes amendments that are intended to improve targeted areas of consolidation for legal entities including reducing the number of consolidation models from four to two and simplifying the FASB Accounting Standards Codification. ASU 2015-02 is effective for annual and interim periods within those annual periods, beginning after December 15, 2015. The amendments may be applied retrospectively in previously issued financial statements for one or more years with a cumulative effect adjustment to retained earnings as of the beginning of the first year restated. Early adoption is permitted, including adoption in an interim period. The Company is assessing the impact of ASU 2015-02 on its accounting and disclosures.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

There are no material changes in the Company's risk factors since December 31, 2014. Please refer to the Annual Report on Form 10-K of The First Bancshares, Inc., filed with the Securities and Exchange Commission on March 31, 2015.

ITEM 2. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 3. REMOVED AND RESERVED

ITEM 4. OTHER INFORMATION

Not Applicable

ITEM 5. EXHIBITS

(a) Exhibits

Exhibit No.

2.1 Agreement and Plan of merger, dated as of March 2, 2014, between The First Bancshares, Inc. and BCB Holding Company, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on 3-7-2014)

2.1 Acquisition Agreement, dated as of January 31, 2013, between The First Bancshares, Inc. and First Baldwin Bancshares, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on 2-1-13) and First Amendment to Acquisition Agreement, dated as of March 15, 2013, between First Bancshares, Inc. and First Baldwin Bancshares, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on 3-20-13)

3.1 Articles of Amendment and Certificate of Designation, Preferences and Rights of Series D Nonvoting Convertible Preferred Stock dated as of March 18, 2013 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on 3-21-13).

3.2 Restated Articles of Incorporation dated as of March 21, 2013 (incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed on 3-21-13).

Certificate of Designation of Series D Nonvoting Convertible Preferred Stock, as filed with the Mississippi Secretary of State on March 20, 2013 (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on March 25, 2013).

10.1 Form of Securities Purchase Agreement between the Company and each of the Purchasers, dated as of March 20, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 25, 2013)

10.2 Form of Registration Rights Agreement between the Company and each of the Purchasers, dated as of March 20, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 25, 2013)

31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of principal executive officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of principal financial officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema

101.CALXBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LABXBRL Taxonomy Extension Label Linkbase

101.PREXBRL Taxonomy Extension Presentation Linkbase

(b) The Company filed one report on Form 8-K during the quarter ended September 30, 2015

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE FIRST BANCSHARES, INC.
(Registrant)

November 16, 2015 /s/ M. RAY (HOPPY) COLE, JR.
(Date) M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer

November 16, 2015 /s/ DEEDEE LOWERY
(Date) DeeDee Lowery, Executive
Vice President and Chief
Financial Officer