FIRST BANCSHARES INC /MS/
Form 424B3
February 12, 2018
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Proxy Statement/Prospectus

MERGER PROPOSED — YOUR VOTE IS VERY IMPORTANT

To the Stockholders of Sunshine Financial, Inc.:

The boards of directors of The First Bancshares, Inc., or First Bancshares, and Sunshine Financial, Inc., or Sunshine, have each unanimously approved the acquisition of Sunshine by First Bancshares. The acquisition will be accomplished pursuant to the terms of an Agreement and Plan of Merger, dated as of December 6, 2017, which we refer to as the merger agreement, by and between First Bancshares and Sunshine, whereby Sunshine will be merged with and into First Bancshares, which we refer to as the merger. Immediately following the merger of Sunshine with and into First Bancshares, Sunshine Community Bank, or Sunshine Community, a wholly owned bank subsidiary of Sunshine, will merge with and into First Bancshares' wholly owned bank subsidiary, The First, A National Banking Association, or The First, with The First as the surviving bank, which we refer to as the bank merger.

If the merger is completed, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, or (ii) 0.93 of a share of First Bancshares common stock. The election of stock consideration or cash consideration will be subject to proration such that 75% of the issued and outstanding shares of Sunshine common stock will be exchanged for First Bancshares common stock and 25% will be exchanged for cash. As a result, if the aggregate number of shares with respect to which a valid stock or cash election has been made exceeds these limits, stockholders who have elected the form of merger consideration that has been over-subscribed will receive a mixture of both stock consideration and cash consideration in accordance with the proration procedures set forth in the merger agreement. Each outstanding share of Sunshine common stock subject to vesting restrictions shall become vested immediately prior to the effective time of the merger and will be converted into the right to receive the same merger consideration that other Sunshine stockholders are entitled to receive. Each option to purchase shares of Sunshine common stock shall be cancelled as of the effective time of the merger and converted into the right to receive a cash payment equal to the product of (i) the total number of shares of Sunshine common stock subject to such option times (ii) the excess, if any, of $27.00 over the exercise price per share of Sunshine common stock subject to such option.

Although the number of shares of First Bancshares common stock that Sunshine stockholders may choose to receive is fixed, the market value of the merger consideration will fluctuate with the market price of First Bancshares common stock and will not be known at the time Sunshine stockholders vote on the merger. First Bancshares common stock is currently quoted on the NASDAQ Global Market under the symbol "FBMS." On December 6, 2017, the last full trading day before the public announcement of the merger agreement, based on the last reported sale price of First Bancshares common stock ($33.35), the 0.93 exchange ratio represented approximately $31.02 in value for each share of Sunshine common stock to be converted to First Bancshares common stock. The most recent reported closing sale price of First Bancshares common stock on February 8, 2018 was $30.95. The most recent reported closing sale price of Sunshine common stock on February 8, 2018 was $28.55. Based on the exchange ratio and the number of shares of Sunshine common stock outstanding and reserved for issuance under various stock incentive plans and agreements, the maximum number of shares of First Bancshares common stock offered by First Bancshares and issuable in the merger is 772,551. We urge you to obtain current market quotations for the price of First Bancshares common stock (trading symbol "FBMS") and Sunshine common stock (trading symbol "SSNF").

On October 24, 2017, First Bancshares entered into an agreement to acquire Southwest Banc Shares, Inc., or Southwest, the holding company of, First Community Bank, or First Community. Southwest is based in Chatom, Alabama. Certain information relating to this transaction is set forth in the accompanying proxy statement/prospectus.

Sunshine will hold a special meeting of its stockholders, referred to as the Sunshine special meeting, where Sunshine stockholders will be asked to consider and vote upon (1) a proposal to approve the merger, (2) a proposal to approve, on a non-binding advisory basis, certain compensation that may become payable to Sunshine's named executive officers in connection with the merger, and (3) a proposal to adjourn the Sunshine special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the merger.

The Sunshine special meeting will be held at Sunshine's executive offices located at 1400 East Park Avenue, Tallahassee, Florida, on Tuesday, March 27, 2018, at 10:00 a.m., Eastern Time, subject to any adjournment or postponement thereof.

Each of First Bancshares and Sunshine expects that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, with the result that the Sunshine common stock exchanged for First Bancshares common stock will generally be tax-free and the Sunshine common stock exchanged for cash will generally be taxable as capital gain.

Your vote is important. Completion of the merger is subject to the approval of the merger by the stockholders of Sunshine. Regardless of whether or not you plan to attend the Sunshine special meeting, please take the time to authorize a proxy to vote your shares in accordance with the instructions contained in this proxy statement/prospectus. Submitting a proxy now will not prevent you from being able to vote in person at the Sunshine special meeting.

The board of directors of Sunshine has determined that the merger agreement and the transactions contemplated thereby, including the merger, are advisable and in the best interests of the stockholders of Sunshine, has unanimously approved the merger agreement and the merger and unanimously recommends that the stockholders of Sunshine vote "FOR" the proposal to approve the merger, "FOR" the compensation proposal and "FOR" the proposal to adjourn the Sunshine special meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the merger.

This proxy statement/prospectus describes the Sunshine special meeting, the merger, the documents related to the merger and other related matters. Please carefully read this entire proxy statement/prospectus, including "Risk Factors," beginning on page 37, for a discussion of the risks relating to the proposed merger. You also can obtain information about First Bancshares and Sunshine from documents that each has filed with the Securities and Exchange Commission.

If you have any questions concerning the merger, please contact Brian P. Baggett, Corporate Secretary, at (850) 219-7200. We look forward to seeing you at the meeting.

/s/ Louis O. Davis, Jr.

Louis O. Davis, Jr.
President and Chief Executive Officer
Sunshine Financial, Inc.

Neither the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, nor any state securities commission or any other bank regulatory agency has approved or disapproved the securities to be issued in the merger or determined if this proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either First Bancshares or Sunshine, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this proxy statement/prospectus is February 12, 2018, and it is first being mailed or otherwise delivered to the Sunshine stockholders on or about February 16, 2018.

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SUNSHINE FINANCIAL, INC.
1400 East Park Avenue Tallahassee, Florida 32301
(850) 219-7200

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held on March 27, 2018

To the Stockholders of Sunshine Financial, Inc.:

A special meeting of the stockholders of Sunshine Financial, Inc., or Sunshine, will be held at Sunshine's executive offices located at 1400 East Park Avenue, Tallahassee, Florida, on Tuesday, March 27, 2018, at 10:00 a.m., Eastern Time, subject to any adjournment or postponement thereof, for the following purposes:

1.
To consider and vote upon a proposal to approve the merger of Sunshine with and into The First Bancshares, Inc., or First Bancshares, with First Bancshares as the surviving company, referred to herein as the merger, all on and subject to the terms and conditions contained in the Agreement and Plan of Merger, which we refer to as the merger agreement, dated as of December 6, 2017, by and between First Bancshares and Sunshine, which we refer to as the merger proposal;

2.
To consider and vote upon a proposal to approve, in a non-binding advisory vote, certain compensation that may become payable to Sunshine's named executive officers in connection with the merger, which we refer to as the compensation proposal; and

3.
To consider and vote upon any proposal to adjourn the special meeting, referred to herein as the Sunshine special meeting, to a later date or dates if the board of directors of Sunshine determines such an adjournment is necessary to permit solicitation of additional proxies if there are not sufficient votes at the time of the Sunshine special meeting to constitute a quorum or to approve the merger, which we refer to as the adjournment proposal.

No other business may be conducted at the Sunshine special meeting. All holders of shares of common stock of Sunshine of record as of 5:00 p.m. on February 5, 2018, will be entitled to notice of and to vote at the Sunshine special meeting and any adjournments thereof. The Sunshine special meeting may be adjourned from time to time upon approval of holders of Sunshine common stock without any notice other than by announcement at the meeting of the adjournment thereof, and any and all business for which notice is hereby given may be transacted at such adjourned meeting.

Holders of Sunshine common stock have the right to dissent from the merger proposal and obtain payment in cash of the appraised fair value of their shares of Sunshine common stock under applicable provisions of the Maryland General Corporation Law, or MGCL. In order for a holder of Sunshine common stock to perfect his, her or its right to dissent, such holder must carefully follow the procedure set forth in the MGCL. A copy of the applicable statutory provisions of the MGCL is included as Annex C to the accompanying proxy statement/prospectus and a summary of these provisions can be found under the caption "The Merger — Dissenters' Rights," beginning on page 76 of the proxy statement/prospectus. The merger may not be completed if the holders of more than 12.5% of the outstanding shares of Sunshine common stock exercise dissenters' rights.

If you have any questions concerning the merger agreement, the merger, the Sunshine special meeting or the proxy statement/prospectus, would like additional copies of the proxy statement/prospectus, need a proxy card or need help voting your shares of Sunshine common stock, please contact Brian P. Baggett, Corporate Secretary, at (850) 219-7200.

By Order of the Board of Directors,
/s/ Brian P. Baggett

Brian P. Baggett
Corporate Secretary
Tallahassee, Florida
February 12, 2018

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The Sunshine board of directors unanimously recommends that holders of Sunshine common stock entitled to vote at the Sunshine special meeting vote “FOR” the merger proposal, “FOR” the compensation proposal and “FOR” the adjournment proposal.

Your Vote is Very Important

A proxy card is enclosed. Whether or not you plan to attend the Sunshine special meeting, if you are a holder of shares of Sunshine common stock, please vote by completing, signing and dating the proxy card and promptly mailing it in the enclosed envelope. You may also vote via the Internet or telephone by following the instructions on the proxy card. You may revoke your proxy in the manner described in the proxy statement/prospectus at any time before it is exercised. If you are a holder of shares of Sunshine common stock and attend the Sunshine special meeting, you may vote in person if you desire, even if you have previously returned your proxy card.

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ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates important business and financial information about First Bancshares and Sunshine from documents filed with the Securities and Exchange Commission, or SEC, that are not included in or delivered with this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by First Bancshares and Sunshine at no cost from the SEC's website at http://www.sec.gov. You may also request copies of these documents, including documents incorporated by reference in this proxy statement/prospectus, at no cost by contacting First Bancshares or Sunshine at the contact information set forth below:

The First Bancshares, Inc.	Sunshine Financial, Inc.
6480 U.S. Hwy, 98 West	1400 East Park Avenue
Hattiesburg, Mississippi 39402	Tallahassee, Florida 32301
Attention: Secretary	Attention: Corporate Secretary
Telephone: (601) 268-8998	Telephone: (850) 219-7200

You will not be charged for any of these documents that you request. To obtain timely delivery of these documents, you must request them no later than five business days before the date of the special meeting, or March 20, 2018.

If you are a Sunshine stockholder and have any questions about the merger agreement, the merger, the Sunshine special meeting or the proxy statement/prospectus, would like additional copies of the proxy statement/prospectus, need a proxy card or need help voting your shares of Sunshine common stock, please contact Brian P. Baggett, Corporate Secretary, at (850) 219-7200.

You should rely only on the information contained in or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated February 12, 2018, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this proxy statement/prospectus from another document is accurate as of the date of such other document. Neither the mailing of this document to Sunshine stockholders nor the issuance by First Bancshares of shares of First Bancshares common stock in connection with the merger will create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to buy any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Sunshine has been provided by Sunshine and information contained in this document regarding First Bancshares has been provided by First Bancshares. See "Where You Can Find More Information" for more details.

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QUESTIONS AND ANSWERS

The following are answers to some questions that Sunshine stockholders may have regarding the proposed transaction between First Bancshares and Sunshine and the proposals being considered at the Sunshine special meeting. First Bancshares and Sunshine urge you to read carefully this entire proxy statement/prospectus, including the Annexes, and the documents incorporated by reference into this proxy statement/prospectus, because the information in this section does not provide all the information that might be important to you.

Unless the context otherwise requires, references in this proxy statement/prospectus to: (1) "First Bancshares" refer to The First Bancshares, Inc., a Mississippi corporation, and its affiliates; (2) "The First" refer to The First, A National Banking Association, a national banking association and the wholly owned bank subsidiary of First Bancshares; (3) "Sunshine" refer to Sunshine Financial, Inc., a Maryland corporation, and its affiliates; and (4) "Sunshine Community" refer to Sunshine Community Bank, a Florida state-chartered bank and the wholly owned bank subsidiary of Sunshine.

Q:

Why am I receiving this proxy statement/prospectus?

A:

First Bancshares and Sunshine have entered into an Agreement and Plan of Merger, dated as of December 6, 2017, which we refer to as the merger agreement. Pursuant to the merger agreement, Sunshine will merge with and into First Bancshares, with First Bancshares as the surviving company, which we refer to as the merger. Immediately after the merger, Sunshine Community, a wholly owned bank subsidiary of Sunshine, will merge with and into First Bancshares' wholly owned bank subsidiary, The First, with The First as the surviving bank, which we refer to as the bank merger. A copy of the merger agreement is included in this proxy statement/prospectus as Annex A.

The merger cannot be completed unless, among other things, the majority of the outstanding shares of Sunshine common stock entitled to vote on the merger vote in favor of the proposal to approve the merger, which we refer to as the merger proposal.

In addition, Sunshine is soliciting proxies from its stockholders with respect to proposals to approve (1) in a non-binding advisory vote, certain compensation that may become payable to Sunshine's named executive officers in connection with the merger, which we refer to as the compensation proposal, and (2) one or more adjournments of the Sunshine special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of such adjournment to approve the merger proposal, which we refer to as the adjournment proposal.

This proxy statement/prospectus contains important information about the merger and the proposals being voted on at the Sunshine special meeting, and you should read it carefully. This is a proxy statement/prospectus because (1) Sunshine is soliciting proxies from the Sunshine stockholders and the proxy statement provides important information about the Sunshine special meeting to vote on the merger proposal, the compensation proposal and the adjournment proposal, and (2) First Bancshares will issue shares of First Bancshares common stock to holders of Sunshine common stock in connection with the merger, and the prospectus provides important information about such shares. The enclosed materials allow Sunshine stockholders to authorize a proxy to vote their shares without attending the Sunshine special meeting.

Your vote is important. We encourage you to authorize your proxy as soon as possible.

Q:

What will I receive in the merger?

A:

If the merger is completed, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger (other than shares of dissenting stockholders) will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, which we refer to as the cash consideration, or (ii) 0.93 of a share of First Bancshares common stock, which we refer to as to the stock consideration. The election of stock consideration or cash consideration will be subject to proration such that 75% of the issued and outstanding shares of Sunshine common stock will be exchanged for First Bancshares common stock

and 25% will be exchanged for cash. As a result, if the aggregate number of shares with respect to which a valid stock or cash election has been made exceeds these limits, stockholders who have elected the form of merger

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consideration that has been over-subscribed will receive a mixture of both stock consideration and cash consideration in accordance with the proration procedures set forth in the merger agreement. The stock consideration and the cash consideration are collectively referred to as the merger consideration. Each outstanding share of Sunshine common stock subject to vesting restrictions shall become vested immediately prior to the effective time of the merger and will be converted into the right to receive the same merger consideration that other Sunshine stockholders are entitled to receive. Each option to purchase shares of Sunshine common stock shall be cancelled as of the effective time of the merger and converted into the right to receive a cash payment equal to the product of (i) the total number of shares of Sunshine common stock subject to such option times (ii) the excess, if any, of $27.00 over the exercise price per share of Sunshine common stock subject to such option.

Sunshine may terminate the merger if (i) the average closing price of First Bancshares common stock over the 20 trading days preceding the date that is five days prior to the closing date is less than $25.52, and (ii) the decline in the price of First Bancshares common stock (as measured by the average closing price divided by $31.90) is more than 20% greater than the decline KBW Regional Banking Index (KRX) (as measured by dividing the average closing price of the KBW Regional Banking Index over the 20 trading days preceding the date that is five days prior to the closing date by $111.38); provided, however, First Bancshares has the option, but not the obligation, to adjust the exchange ratio to prevent the termination of merger agreement.

First Bancshares will not issue any fractional shares of First Bancshares common stock in the merger. Sunshine stockholders who would otherwise be entitled to a fractional share of First Bancshares common stock upon the completion of the merger will instead receive an amount in cash (without interest and rounded to the nearest whole cent) determined by multiplying the fractional share interest in First Bancshares common stock (rounded to the nearest one hundredth of a share) by $27.00.

Q:

How do I make an election to receive First Bancshares common stock or cash for my Sunshine common stock?

A:

Each holder of record of Sunshine common stock will be mailed a form of election/letter of transmittal and other appropriate and customary transmittal materials not less than 20 business days prior to the election deadline. The deadline for holders of Sunshine common stock to elect the form of the merger consideration they want to receive is the later of (i) the date of the special meeting of Sunshine stockholders and (ii) the date which First Bancshares and Sunshine agree is five business days prior to the anticipated effective time of the merger, which we refer to as the election deadline. The election form will specify the election deadline. Each holder of Sunshine common stock should specify in the election form (1) the number of shares of Sunshine common stock which such stockholder elects to have exchanged for the stock consideration, and (2) the number of shares of Sunshine common stock such stockholder elects to have exchanged for the cash consideration. All such elections are subject to adjustment on a pro rata basis as described elsewhere in this proxy statement/prospectus. Holders of Sunshine common stock will receive their merger consideration as promptly as practicable following the effective time of the merger, subject to the holders submitting their properly completed letter of transmittal and other transmittal materials. Because of the way the election and proration procedures work, even if you submit a properly completed and signed election form, it is possible that you may not receive exactly the type of merger consideration you have elected. If you do not submit a properly completed and signed election form to the exchange agent by the election deadline, you will have no control over the type of merger consideration you will receive and, as a result, you may receive only the cash consideration, only the stock consideration or a combination of the cash and stock consideration in the merger.

If you hold shares in “street name” through a bank, broker, nominee or other holder of record you must follow the instructions provided by the bank, broker, nominee or other holder of record to make an election.

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Q:
Am I guaranteed to receive the type of merger consideration that I elect?

A:
No. If more Sunshine stockholders make valid elections to receive either shares of First Bancshares common stock or cash than is available as either stock or cash consideration pursuant to the terms of the merger agreement, Sunshine stockholders electing the over-subscribed form of merger consideration will have the over-subscribed consideration proportionately reduced and substituted with consideration in the other form. Please see "The Merger Agreement — Merger Consideration" and "— Procedures for Converting Shares of Sunshine Common Stock into Merger Consideration," both beginning on page 80, for additional information about the allocation and proration procedures that will be followed in the event of over-subscriptions.

Q:
What happens if I fail to make a valid election as to whether to receive stock or cash?

A:
If a Sunshine stock holder does not return a properly completed form of election by the election deadline, such holder's shares of Sunshine common stock will be considered "non-election shares" and will be converted into the right to receive the stock consideration or the cash consideration according to the proration procedures set forth in the merger agreement. Any shareholder who has not submitted their physical stock certificate(s) with a form of election will be sent materials after the merger closes to effect the exchange of their Sunshine common stock into the merger consideration.

Q:
Will the value of the stock consideration change between the date of this proxy statement/prospectus and the time the merger is completed?

A:
Yes. The value of the stock consideration may fluctuate based upon the market value for First Bancshares common stock between the date of this proxy statement/prospectus and the completion of the merger. In the merger, Sunshine stockholders may choose to receive 0.93 of a share of First Bancshares common stock for each share of Sunshine common stock they hold. Any fluctuation in the market price of First Bancshares common stock after the date of this proxy statement/prospectus will change the value of the shares of First Bancshares common stock that Sunshine stockholders may receive.

Q:
How does Sunshine's board of directors recommend that I vote at the special meeting?

A:
Sunshine's board of directors unanimously recommends that you vote "FOR" the merger proposal, "FOR" the compensation proposal and "FOR" the adjournment proposal.

Q:
When and where is the Sunshine special meeting?

A:
The Sunshine special meeting will be held at Sunshine's executive offices located at 1400 East Park Avenue, Tallahassee, Florida, on Tuesday, March 27, 2018, at 10:00 a.m. Eastern Time.

Q:

What do I need to do now?

A:
After you have carefully read this proxy statement/prospectus and have decided how you wish to vote your shares, please authorize a proxy to vote your shares by promptly completing and returning the enclosed proxy card so that your shares are represented and voted at the Sunshine special meeting. When complete, sign, date and mail your proxy card in the enclosed postage-paid return envelope as soon as possible. If you are a registered stockholder, you may also vote via the Internet or telephone by following the instructions on the proxy card. Submitting your proxy by mail, voting via the Internet or telephone or directing your bank or broker to vote your shares will ensure that your shares are represented and voted at the Sunshine special meeting. Your proxy card must be received prior to the special meeting on March 27, 2018, in order to be counted.

Q:
What constitutes a quorum for the Sunshine special meeting?

A:
Holders representing at least a majority of the shares of Sunshine common stock entitled to vote at the Sunshine special meeting must be present, in person or represented by proxy, to constitute a quorum. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum. If a quorum is not present,

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the Sunshine special meeting will be postponed until the holders of the number of shares of Sunshine common stock required to constitute a quorum attend. If you submit a properly executed proxy card, even if you abstain from voting, your shares of Sunshine common stock will be counted for purposes of determining whether a quorum is present at the Sunshine special meeting. If additional votes must be solicited to approve the merger proposal, it is expected that the Sunshine special meeting will be adjourned to solicit additional proxies.

Q:
What is the vote required to approve each proposal?

A:
The merger proposal requires the affirmative vote of a majority of the outstanding shares of Sunshine common stock entitled to vote on such proposal.

The compensation proposal and the adjournment proposal each requires the affirmative vote of a majority of the votes cast on each matter.

Q:
What would happen if the compensation proposal or the adjournment proposal does not get approved by Sunshine stockholders?

A:
The completion of the merger is not conditioned upon stockholder approval of the compensation proposal or the adjournment proposal. The vote on the compensation proposal is an advisory vote and will not be binding on Sunshine regardless of whether the merger proposal is approved. Accordingly, if the merger is approved and completed, certain of Sunshine's named executive officers will be eligible to receive the various merger-related compensation that may become payable in connection with the completion of the merger, subject only to the conditions applicable thereto, regardless of the outcome of the non-binding advisory vote of the Sunshine stockholders.

Q:
Why is my vote important?

A:
If you do not submit a proxy or vote in person, it may be more difficult for Sunshine to obtain the necessary quorum to hold the special meeting. In addition, your failure to submit a proxy or vote in person, or failure to instruct your bank or broker how to vote, or abstention will have the same effect as a vote against approval of the merger proposal. The merger proposal must be approved by the affirmative vote of the holders of at least a majority of the outstanding shares of Sunshine common stock. Sunshine's board of directors unanimously recommends that you vote "FOR" the proposal to approve the merger proposal.

Q:
How many votes do I have?

A:
Sunshine stockholders are entitled to one vote on each proposal to be considered at the special meeting for each share of Sunshine common stock owned as of the close of business on February 5, 2018, which is the record date for the Sunshine special meeting.

Q:
How do I vote?

A:

If you are a stockholder of record, you may have your shares of Sunshine common stock voted on the matters to be presented at the Sunshine special meeting in any of the following ways:

- You may vote by mail. You may vote by mail by completing, signing, dating and returning the enclosed proxy card in the accompanying prepaid reply envelope.

- You may vote by telephone. If you are a registered stockholder, that is, if you hold your stock in your own name, you may vote by telephone by following the instructions included with the proxy card. If you vote by telephone, you do not have to mail in your proxy card.

- You may vote on the Internet. If you are a registered stockholder, that is, if you hold your stock in your own name, you may vote on the Internet by following the instructions included with the proxy card. If you vote on the Internet, you do not have to mail in your proxy card.

- You may vote in person at the meeting. You may vote by attending the special meeting and casting your vote in person.

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If you are a beneficial owner, please refer to the instructions provided by your bank, brokerage firm or other nominee to see which of the above choices are available to you. Your bank, brokerage firm or other nominee cannot vote your shares without instructions from you. Please note that if you are a beneficial owner and wish to vote in person at the special meeting, you must obtain a legal proxy from your bank, brokerage firm or other nominee.

Q:
Do Sunshine directors and executive officers have interests in the merger that are different from, or in addition to, my interests?

A:
Yes. In considering the recommendation of the Sunshine board of directors with respect to the merger agreement, you should be aware that Sunshine's directors and executive officers have interests in the merger that are different from, or in addition to, the interests of Sunshine's stockholders generally. Interests of officers and directors that may be different from or in addition to the interests of Sunshine's stockholders include but are not limited to, the receipt of continued indemnification and directors' and officers' insurance coverage under the merger agreement, accelerated vesting of restricted stock issued to executive officers and directors and the payment of change in control payments, retention payments and employment agreement payments to certain executives.

Q:
What if I abstain from voting, fail to authorize a proxy or vote in person or fail to instruct my bank or broker how to vote?

A:
If you mark "ABSTAIN" on your proxy with respect to the merger proposal, fail to authorize a proxy or vote in person at the Sunshine special meeting, or fail to instruct your bank or broker how to vote, it will have the same effect as a vote "AGAINST" the merger proposal and no effect on the compensation proposal or the adjournment proposal. If you sign your proxy but do not indicate your vote, your proxy will be voted FOR each proposal.

Q:
Can I attend the special meeting and vote my shares in person?

A:
Yes. All Sunshine stockholders as of the record date, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the Sunshine special meeting. Holders of record of Sunshine common stock can vote in person at the Sunshine special meeting. If you are not a stockholder of record, you must obtain a proxy, executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the Sunshine special meeting. If you plan to attend the Sunshine special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. Sunshine reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. The use of cameras, sound recording equipment, communications devices or any similar equipment during the Sunshine special meeting is prohibited without express written consent. Even if you plan to attend the special meeting, Sunshine encourages you to vote by proxy through the mail, telephone or Internet so your vote will be counted if you later decide not to attend the special meeting.

Q:
Can I change my vote?

A:
Yes. If you are a holder of record of Sunshine common stock, you may revoke your proxy at any time prior to the Sunshine special meeting by: (1) delivering a written notice of revocation to Brian P. Baggett, Corporate Secretary,

Sunshine Financial, Inc., 1400 East Park Avenue, Tallahassee, Florida 32301, (2) by returning a duly executed proxy card bearing a later date than the date with which your original proxy card was dated, (3) by voting by telephone or on the Internet (your latest telephone or Internet vote will be counted), or (4) by attending the Sunshine special meeting and voting in person. Your attendance at the Sunshine special meeting will not constitute automatic revocation of the proxy unless you deliver your ballot in person at the special meeting or deliver a written revocation to the Sunshine Corporate Secretary prior to the voting of such proxy.

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Q:
Will Sunshine be required to submit the merger proposal to its stockholders even if Sunshine's board of directors has withdrawn, modified or qualified its recommendation?

A:
Yes. Unless the merger agreement is terminated before the Sunshine special meeting, Sunshine is required to submit the merger proposal to its stockholders even if Sunshine's board of directors has withdrawn, modified or qualified its recommendation.

Q:
What are the material U.S. federal income tax consequences of the merger to U.S. holders of shares of Sunshine common stock?

A:
Each of First Bancshares and Sunshine expects that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. A U.S. holder of Sunshine common stock will not recognize gain or loss with respect to the receipt of the stock consideration, except with respect to cash received in lieu of a fractional share. If a U.S. holder exchanges its shares of Sunshine common stock solely for cash, the U.S. holder will recognize gain or loss on the exchange measured by the difference between the amount of cash received in the exchange and the U.S. holder's basis in the shares of Sunshine common stock surrendered in exchange for such cash. If a U.S. holder exchanges its shares of Sunshine common stock for a combination of First Bancshares common stock and cash, the U.S. holder should recognize gain, but not loss, on the exchange to the extent of the lesser of cash received or gain realized in the exchange. The amount of gain realized will equal the amount by which the cash plus the fair market value, at the effective time of the merger, of the First Bancshares common stock exceeds the stockholder's adjusted tax basis in its Sunshine common stock surrendered in exchange therefor.

For further information, see "The Merger — Material U.S. Federal Income Tax Considerations."
The U.S. federal income tax consequences described above may not apply to all holders of Sunshine common stock. Your particular tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.
Q:
Are Sunshine stockholders entitled to exercise dissenters' rights?

A:
Yes. Holders of Sunshine common stock are entitled, with respect to the merger, to exercise rights of dissenting stockholders provided for under Title 3, Subtitle 2 of the Maryland General Corporation Law, as amended, or the MGCL, any successor statute, or any similar appraisal or dissenters' rights. This means that you are legally entitled to receive payment in cash of the fair value of your shares of Sunshine common stock, excluding any appreciation in value that results from the merger. To preserve your rights as an objecting stockholder, you must (i) deliver to Sunshine a written objection to the merger at or before the special meeting of Sunshine stockholders, (ii) not vote in favor of the merger, and (iii) within 20 days of the date that articles of merger are accepted for filing by the Maryland State Department of Assessments and Taxation, make a written demand on First Bancshares for payment of the fair value of your stock, stating the number and class of shares for which you demand payment. Your failure to follow exactly the procedures specified under the MGCL will result in the loss of your rights as an objecting stockholder. A copy of the sections of the MGCL pertaining to objecting stockholder's rights of appraisal is provided as Annex C to this proxy statement/prospectus. For further information, see "The Merger — Dissenters' Rights." You should read the statute carefully and consult with your legal counsel if you intend to exercise these rights.

Pursuant to the merger agreement, First Bancshares' board of directors may terminate the merger agreement and abandon the merger transaction if dissenters' rights of appraisal are properly asserted with respect to more than 12.5%

of the outstanding shares of Sunshine common stock.

Q:

Should I send my Sunshine stock certificates with my proxy card for the Sunshine special meeting?

A:

No. You should NOT send your Sunshine stock certificates with your proxy card. First Bancshares, through its appointed exchange agent, will send Sunshine stockholders separate instructions for exchanging Sunshine stock certificates and Sunshine common stock held in book-entry form for the merger consideration.

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Q:
What happens if I sell or transfer ownership of shares of Sunshine common stock after the record date for the Sunshine special meeting ?

A:
The record date for the Sunshine special meeting is earlier than the expected date of completion of the merger. Therefore, if you sell or transfer ownership of your shares of Sunshine common stock after the record date for the Sunshine special meeting, but prior to completion of the merger, you will retain the right to vote at the Sunshine special meeting, but the right to receive the merger consideration will transfer with the shares of Sunshine common stock.

Q:
Whom may I contact if I cannot locate my Sunshine stock certificate(s)?

A:
If you are unable to locate your original Sunshine stock certificate(s), you should contact Computershare Trust Company, N.A., Sunshine's transfer agent, at (800) 368-5948. Generally, merger consideration for lost certificates cannot be delivered except upon the making of an affidavit claiming such certificate to be lost, stolen or destroyed and the posting of a bond in such amount as First Bancshares or the exchange agent may determine is reasonably necessary as indemnity against any claim that may be made with respect to such lost certificate.

Q:
When do you expect to complete the merger?

A:
First Bancshares and Sunshine expect to complete the merger in the second quarter of 2018. However, neither First Bancshares nor Sunshine can assure you when or if the merger will occur. First Bancshares and Sunshine must first obtain the approval of Sunshine stockholders for the merger proposal, as well as the necessary regulatory approvals.

Q:
What happens if the merger is not completed?

A:
If the merger is not completed, holders of Sunshine common stock will not receive any consideration for their shares of Sunshine common stock that otherwise would have been received in connection with the merger. Instead, Sunshine will remain an independent public company. If the merger is completed but, for any reason, the bank merger is not completed, it will have no impact on the consideration to be received by holders of Sunshine common stock.

Q:
Whom should I call with questions?

A:
If you have any questions concerning the merger or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus or need help voting your shares of Sunshine common stock, please contact: Brian P. Baggett, Corporate Secretary, at (850) 219-7200.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. We urge you to read carefully the entire proxy statement/prospectus, including the annexes, and the other documents to which we refer in order to fully understand the merger. See "Where You Can Find More Information." Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.

The Companies (page 100)

The First Bancshares, Inc.
6480 U.S. Hwy, 98 West
Hattiesburg, Mississippi 39402
(601) 268-8998

First Bancshares was incorporated in Mississippi on June 23, 1995 and serves as the bank holding company for The First, headquartered in Hattiesburg, Mississippi. First Bancshares is a registered financial holding company. As of September 30, 2017, First Bancshares had consolidated assets of $1.79 billion, loans of $1.19 billion, deposits of $1.51 billion, and shareholders' equity of $166.98 million. First Bancshares operates 43 full service branches, one motor branch and four loan production offices in Mississippi, Alabama, Louisiana and Florida. The First's deposits are insured by the FDIC.

Additional information about First Bancshares and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. See "Where You Can Find More Information."

Sunshine Financial, Inc.
1400 East Park Avenue
Tallahassee, Florida 32301
(850) 219-7200

Sunshine was incorporated in Maryland in 2010 and owns all of the outstanding shares of common stock of Sunshine Community headquartered in Tallahassee, Florida. As of September 30, 2017, Sunshine had consolidated assets of $194.1 million, loans of $160.0 million, deposits of $141.7 million, and stockholders' equity of $22.2 million. Sunshine operates five full service branches in Florida. Sunshine Community's deposits are insured by the FDIC.

Additional information about Sunshine and its subsidiaries is included below under "The Companies."

The Merger

The Merger Agreement (page 79)

First Bancshares and Sunshine entered into an Agreement and Plan of Merger, dated as of December 6, 2017, which we refer to as the merger agreement. The merger agreement governs the merger. The merger agreement is included in this proxy statement/prospectus as Annex A. All descriptions in this summary and elsewhere in this proxy statement/prospectus of the terms and conditions of the merger are qualified by reference to the merger agreement. Please read the merger agreement carefully for a more complete understanding of the merger.

The Merger (page 51)

Pursuant to the merger agreement, Sunshine will merge with and into First Bancshares, with First Bancshares as the surviving company, which we refer to as the merger. Immediately after the merger, Sunshine Community, a wholly owned bank subsidiary of Sunshine, will merge with and into First Bancshares' wholly owned bank subsidiary, The First, with The First as the surviving bank, which we refer to as the bank merger.

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The Merger Consideration (page 80)

If the merger is completed, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger (other than shares of dissenting stockholders) will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, which we refer to as the cash consideration, or (ii) 0.93 of a share of First Bancshares common stock, which we refer to as to the stock consideration. The election of stock consideration or cash consideration will be subject to proration such that 75% of the issued and outstanding shares of Sunshine common stock will be exchanged for First Bancshares common stock and 25% will be exchanged for cash. As a result, if the aggregate number of shares with respect to which a valid stock or cash election has been made exceeds these limits, stockholders who have elected the form of merger consideration that has been over-subscribed will receive a mixture of both stock consideration and cash consideration in accordance with the proration procedures set forth in the merger agreement. The stock consideration and the cash consideration are collectively referred to as the merger consideration. On December 6, 2017, the last full trading day before the public announcement of the merger agreement, based on the last reported sale price of First Bancshares common stock ($33.35), the 0.93 exchange ratio represented approximately $31.02 in value for each share of Sunshine common stock to be converted to First Bancshares common stock. Based on the most recent reported closing sale price of First Bancshares common stock on February 8, 2018 of $30.95, the exchange ratio represented approximately $28.78 in value for each share of Sunshine common stock to be converted to First Bancshares common stock. The most recent reported closing sale price of Sunshine common stock on February 8, 2018 was $28.55. Based on the exchange ratio and the number of shares of Sunshine common stock outstanding and reserved for issuance under various stock incentive plans and agreements, the maximum number of shares of First Bancshares common stock offered by First Bancshares and issuable in the merger is 772,551.

Sunshine may terminate the merger if (i) the average closing price of First Bancshares common stock over the 20 trading days preceding the date that is five days prior to the closing date is less than $25.52, and (ii) the decline in the price of First Bancshares common stock (as measured by the average closing price divided by $31.90) is more than 20% greater than the decline in the KBW Regional Banking Index (KRX) (as measured by dividing the average closing price of the KBW Regional Banking Index over the 20 trading days preceding the date that is five days prior to the closing date by $111.38); provided, however, First Bancshares has the option, but not the obligation, to adjust the exchange ratio to prevent the termination of merger agreement.

Each outstanding share of Sunshine common stock subject to vesting restrictions shall become vested immediately prior to the effective time of the merger and will be converted into the right to receive the same merger consideration that other Sunshine stockholders are entitled to receive. Each option to purchase shares of Sunshine common stock shall be cancelled as of the effective time of the merger and converted into the right to receive a cash payment equal to the product of (i) the total number of shares of Sunshine common stock subject to such option times (ii) the excess, if any, of $27.00 over the exercise price per share of Sunshine common stock subject to such option.

First Bancshares will not issue any fractional shares of First Bancshares common stock in the merger. Sunshine stockholders who would otherwise be entitled to a fractional share of First Bancshares common stock upon the completion of the merger will instead receive an amount in cash (without interest and rounded to the nearest whole cent) determined by multiplying the fractional share interest in First Bancshares common stock (rounded to the nearest one hundredth of a share) by $27.00.

Election and Exchange Procedures (page 81)

At least 20 business days prior to the later of (1) the date of the Sunshine stockholders' meeting or (2) a date agreed upon by Sunshine and First Bancshares that is as near as practicable to five business days prior to the expected closing date, which date we refer to as the election deadline, First Bancshares will cause the exchange agent to send the Sunshine stockholders election forms, which will include the appropriate form of letter of transmittal. Sunshine stockholders can specify on such election form the number of their shares of Sunshine common stock for which they desire to receive the cash consideration, the number of shares for which they desire to receive the stock consideration or to indicate that such

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stockholder has no preference as to the receipt of the cash consideration or stock consideration. The election forms must be returned to the exchange agent, along with certificates representing the shares subject to such election form, or a customary affidavit of loss and indemnity agreement, by the election deadline. Any shares of Sunshine common stock for which an election has not been properly made by the election deadline will be considered non-election shares. No later than five business days after the effective time of the merger, the exchange agent will allocate the merger consideration, as discussed in further detail below under "The Merger Agreement — Procedures for Converting Shares of Sunshine Common Stock into Merger Consideration." However, pursuant to the merger agreement, the total mix of cash consideration and stock consideration to be issued by First Bancshares to holders of Sunshine common stock will be fixed at 75% stock and 25% cash.

Exchange Procedures (page 80)

The conversion of Sunshine common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. After completion of the merger, the exchange agent will exchange certificates representing shares of Sunshine common stock for the merger consideration to be received pursuant to the terms of the merger agreement.

Ancillary Agreements

Voting Agreements (page 97)

As a condition to First Bancshares entering into the merger agreement, all directors of Sunshine and Sunshine Community and certain stockholders of Sunshine entered into voting agreements in the form attached as Exhibit A to the merger agreement attached as Annex A to this document, pursuant to which each such person agreed, among other things, to vote the shares of Sunshine common stock held of record by such person (1) to approve the merger agreement and the merger (or any adjournment or postponement necessary to solicit additional proxies to approve the merger agreement and the merger) and (2) against any acquisition proposals or any actions that would result in a breach of any covenant, representation or warranty of Sunshine in the merger agreement.

Non-Competition and Non-Disclosure Agreements (page 98)

In addition, as a condition to First Bancshares entering into the merger agreement, each director of Sunshine and Sunshine Community entered into non-competition and non-disclosure agreements with First Bancshares in the form attached as Exhibit C or D to the merger agreement attached as Annex A to this document, pursuant to which each such person agreed to, among other things, (1) not disclose or use any confidential information or trade secrets of Sunshine for any purpose for so long as such information remains confidential information or a trade secret, (2) for a period of two years following the closing of the merger, not engage in certain competitive activities with First Bancshares, including not soliciting employees and customers of Sunshine, and (3) for a period of six months or two years following the closing of the merger (depending on the director), not serve as a director or management official of another financial institution in the counties in Florida in which Sunshine Community operates a banking office as of the closing of the merger and each county contiguous to each of such counties.

Claims Letters (page 98)

At the time of the execution of the merger agreement, each director of Sunshine and Sunshine Community executed a letter agreement with First Bancshares in the form attached as Exhibit E to the merger agreement attached as Annex A to this document, pursuant to which each such director released and discharged, effective upon the consummation of the merger, Sunshine and its subsidiaries, their respective directors and officers (in their capacities as such), and their respective successors and assigns (including First Bancshares and The First), from any and all liabilities or claims that the director has or claims to have as of the effective time of the merger, with certain exceptions.

Risk Factors Related to the Merger (page 37)

Before voting at the Sunshine special meeting, you should carefully consider all the information contained in or incorporated by reference into this proxy statement/prospectus in deciding how to vote for the proposals presented in the proxy statement/prospectus.

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The Sunshine Special Meeting (page 44)

The special meeting of Sunshine stockholders will be held on Tuesday, March 27, 2018, at 10:00 a.m. Eastern Time, at 1400 East Park Avenue, Tallahassee, Florida. At the special meeting, Sunshine stockholders will be asked to:

- approve the merger proposal;
- approve the compensation proposal; and
- approve the adjournment proposal.

Only holders of record at the close of business on February 5, 2018, the Sunshine record date, will be entitled to vote at the Sunshine special meeting. Each outstanding share of Sunshine common stock is entitled to one vote on each proposal to be considered at the Sunshine special meeting; provided, however, that pursuant to Sunshine's articles of incorporation, no stockholder who beneficially owns more than 10.0% of the shares of Sunshine common stock outstanding as of that date may vote shares in excess of this limit. As of the Sunshine record date, there were 1,039,599 shares of Sunshine common stock entitled to vote at the Sunshine special meeting. All directors of Sunshine and Sunshine Community and certain stockholders of Sunshine have entered into voting agreements with First Bancshares, pursuant to which they have agreed, solely in their capacity as Sunshine stockholders, to vote all of their shares of Sunshine common stock in favor of the proposals to be presented at the Sunshine special meeting. As of the Sunshine record date, the directors and stockholders who are parties to the voting agreements owned and were entitled to vote an aggregate of approximately 155,727 shares of Sunshine common stock, which represented approximately 15.0% of the shares of Sunshine common stock outstanding on that date. As of the Sunshine record date, the directors and executive officers of Sunshine and their affiliates beneficially owned and were entitled to vote 57,427 shares of Sunshine common stock, which represented approximately 5.5% of the shares of Sunshine common stock outstanding on that date. As of the Sunshine record date, First Bancshares and its subsidiaries did not hold any shares of Sunshine common stock (other than shares held as fiduciary, custodian or agent), and its directors and executive officers or their affiliates did not hold any shares of Sunshine common stock.

To approve the merger proposal, the holders of at least a majority of the outstanding shares of Sunshine common stock entitled to vote on the proposal must vote in favor of the proposal. Your failure to submit a proxy or vote in person at the Sunshine special meeting, failure to instruct your bank or broker how to vote, or abstention with respect to the merger proposal will have the same effect as a vote against the proposal.

The compensation proposal and the adjournment proposal each requires the affirmative vote of a majority of the votes cast on each matter.

If you mark "ABSTAIN" on your proxy with respect to the merger proposal, fail to authorize a proxy or vote in person at the Sunshine special meeting, or fail to instruct your bank or broker how to vote, it will have the same effect as a vote "AGAINST" the merger proposal and no effect on the compensation proposal or the adjournment proposal. If you sign your proxy but do not indicate your vote, your proxy will be voted FOR each proposal.

Recommendation of the Sunshine Board (page 46)

Sunshine's board of directors has determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Sunshine and its stockholders and has unanimously approved the merger, the merger agreement and the transactions contemplated by the merger agreement. Sunshine's board of directors unanimously recommends that Sunshine stockholders vote "FOR" the merger proposal, "FOR" the compensation proposal and "FOR" the adjournment proposal. For the factors considered by Sunshine's board of directors in reaching its decision to approve the merger, see "The Merger — Sunshine's Reasons for the Merger; Recommendation of Sunshine's Board of Directors."

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Board Composition and Management of First Bancshares after the Merger (page 64)

Each of the officers and directors of First Bancshares immediately prior to the effective time of the merger will be the officers and directors of the surviving company from and after the effective time of the merger, until their respective successors have been duly elected, appointed or qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of First Bancshares.

Interests of Sunshine Directors and Executive Officers in the Merger (page 64)

Sunshine stockholders should be aware that Sunshine's directors and executive officers have interests in the merger and have arrangements that are different from, or in addition to, those of Sunshine stockholders generally. These interests and arrangements may create potential conflicts of interest. Sunshine's board of directors was aware of these interests and considered these interests, among other matters, in adopting and approving the merger agreement and the transactions contemplated by the merger agreement, including the merger, and in recommending that Sunshine stockholders vote in favor of the merger proposal.

These interests include:

- accelerated vesting of restricted stock issued to executive officers and directors;
- certain executive officers of Sunshine have change in control agreements and employment agreements with Sunshine that provide for cash payments in connection with a change in control;
- certain executive officers of Sunshine have retention agreements with First Bancshares that provide for cash payment if such executives remain employed by First Bancshares for a period of time after the effective time of the merger; and
- the right to continued indemnification and directors' and officers' liability insurance coverage.

For a more complete description of these interests, see "The Merger — Interests of Sunshine's Directors and Executive Officers in the Merger" and "The Merger Agreement — Indemnification and Directors' and Officers' Insurance."

Dissenters' Rights in the Merger (page 76)

Holders of Sunshine common stock are entitled, with respect to the merger, to exercise rights of dissenting stockholders provided for under Title 3, Subtitle 2 of the Maryland General Corporation Law, as amended, or the MGCL, any successor statute, or any similar appraisal or dissenters' rights. This means that you are legally entitled to receive payment in cash of the fair value of your shares of Sunshine common stock, excluding any appreciation in value that results from the merger. To preserve your rights as an objecting stockholder, you must (i) deliver to Sunshine a written objection to the merger at or before the special meeting of Sunshine stockholders, (ii) not vote in favor of the merger, and (iii) within 20 days of the date that articles of merger are accepted for filing by the Maryland State Department of Assessments and Taxation, make a written demand on First Bancshares for payment of the fair value of your stock, stating the number and class of shares for which you demand payment. Your failure to follow exactly the procedures specified under the MGCL will result in the loss of your rights as an objecting stockholder. A copy of the sections of the MGCL pertaining to objecting stockholder's rights of appraisal is provided as Annex C to this proxy statement/prospectus. You should read the statute carefully and consult with your legal counsel if you intend to exercise these rights.

For further information, see "The Merger — Dissenters' Rights."

Pursuant to the merger agreement, First Bancshares' board of directors may terminate the merger agreement and abandon the merger transaction if dissenters' rights of appraisal are properly asserted with respect to more than 12.5% of the outstanding shares of Sunshine common stock.

Conditions to Completion of the Merger (page 93)

Currently, First Bancshares and Sunshine expect to complete the merger in the second quarter of 2018. As more fully described in this proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a

number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others:
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- approval of the merger by the holders of at least a majority of the outstanding shares of Sunshine common stock entitled to vote;

- the receipt of all required regulatory approvals for the merger, without the imposition of any material on-going conditions or restrictions, and the expiration of all regulatory waiting periods;

- the absence of any legal restraint (such as an injunction or restraining order) that would prevent the consummation of the merger;

- the effectiveness of the registration statement of which this proxy statement/prospectus forms a part;

- each party's receipt of a tax opinion from its respective outside legal counsel, dated the closing date of the merger, confirming the tax-free treatment of the merger for U.S. federal income tax purposes;

- the absence of more than 12.5% of the outstanding shares of Sunshine's common stock exercising (or being entitled to exercise) their dissenters' rights;

- the Plan of Bank Merger in the form attached as Exhibit B to the merger agreement attached as Annex A to this document being executed and delivered; and

- the absence of the occurrence of a material adverse effect on Sunshine or First Bancshares.

Neither First Bancshares nor Sunshine can be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Regulatory Approvals Required for the Merger (page 70)

Both First Bancshares and Sunshine have agreed to use their reasonable best efforts to obtain all regulatory approvals (or waivers) required or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, approval from the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, the Office of the Comptroller of the Currency, or the OCC, and various securities and other regulatory authorities. The U.S. Department of Justice may also review the impact of the merger on competition. First Bancshares and Sunshine have submitted all applications, waiver requests and notifications to obtain the required regulatory approvals, and received the waiver from the Federal Reserve Board on January 19, 2018. Although neither First Bancshares nor Sunshine knows of any reason why these regulatory approvals cannot be obtained, First Bancshares and Sunshine cannot be certain when or if they will be obtained, as the length of the review process may vary based on, among other things, requests by regulators for additional information or materials.

No Solicitation (page 91)

Under the merger agreement, Sunshine has agreed that it will not, and will cause its representatives not to, directly or indirectly, (1) initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an acquisition proposal, (2) participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access, to any person (other than First Bancshares) any information or data with respect to Sunshine or any of its subsidiaries or otherwise relating to an acquisition proposal, (3) release any person from, waive any provisions of, or

fail to enforce any confidentiality agreement or standstill agreement to which Sunshine is a party, or (4) enter into any agreement, confidentiality agreement, agreement in principle or letter of intent with respect to any acquisition proposal or approve or resolve to approve any acquisition proposal or any agreement, agreement in principle or letter of intent relating to an acquisition proposal.

However, prior to obtaining Sunshine's required stockholder approval, Sunshine may, under certain specified circumstances, participate in negotiations or discussions with any third party making an acquisition proposal and provide confidential information to such third party (subject to a confidentiality agreement). Sunshine must notify First Bancshares promptly (but in no event later than 24 hours) after the receipt of such acquisition proposal.

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Additionally, prior to obtaining Sunshine's required stockholder approval, Sunshine may, under certain specified circumstances, withdraw its recommendation to its stockholders with respect to the merger and/or terminate the merger agreement in order to enter into an acquisition agreement with respect to a superior acquisition proposal if it determines in good faith, after consultation with and having considered the advice of outside legal counsel and financial advisors, that such acquisition proposal is a superior proposal and that it is reasonably necessary to take such actions to comply with the directors' fiduciary duties under applicable law. However, Sunshine cannot take any of those actions in response to a superior proposal unless it provides First Bancshares with a five business day period to negotiate in good faith to enable First Bancshares to adjust the terms and conditions of the merger agreement such that it would cause the superior proposal to no longer constitute a superior proposal.

Termination of the Merger Agreement (page 94)

The merger agreement can be terminated at any time prior to completion of the merger by mutual consent, or by either party in the following circumstances:

- if the merger is not consummated on or before May 31, 2018, subject to automatic extension to August 31, 2018 if the only outstanding condition to closing is the receipt of regulatory approvals;

- if any regulatory approval required for consummation of the transactions contemplated by the merger agreement has been denied by final non-appealable action by the relevant governmental authority or any application for such regulatory approval shall have been permanently withdrawn at the request of a governmental authority;

- in the event that approval by the stockholders of Sunshine is not obtained at a meeting at which a vote was taken; or

- in the event of a material breach by the other party of any representation, warranty or covenant contained in the merger agreement and such breach is not cured within 30 days.

In addition, First Bancshares may terminate the merger agreement in the following circumstances:

- if Sunshine withdraws, qualifies, amends, modifies or withholds its recommendation to its stockholders to approve the merger and the merger agreement, or makes any statement, filing or release, in connection with the stockholder meeting or otherwise, inconsistent with its recommendation (it being understood that taking a neutral position or no position with respect to an acquisition proposal shall be considered an adverse modification of its recommendation);

- if Sunshine fails to properly call, give notice of, and commence a meeting of stockholders to vote on the merger;

- if Sunshine approves or recommends an acquisition proposal (other than the merger agreement proposal);

- if Sunshine fails to publicly recommend against a publicly announced acquisition proposal within three (3) business days of being requested to do so by First Bancshares or fails to publicly reconfirm its recommendation to its stockholders within (3) business days of being requested to do so by First Bancshares; or

- if Sunshine fails to comply in all material respects with its obligations pursuant to the no-solicitation covenants.

In addition, Sunshine may terminate the merger agreement if:

•

(i) the average closing price of First Bancshares common stock over the 20 trading days preceding the date that is five days prior to the closing date is less than $25.52, and (ii) the decline in the price of First Bancshares common stock (as measured by the average closing price divided by $31.90) is more than 20% greater than the decline in the KBW Regional Banking Index (KRX) (as

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measured by dividing the average closing price of the KBW Regional Banking Index over the 20 trading days preceding the date that is five days prior to the closing date by $111.38); provided, however, First Bancshares has the option, but not the obligation, to adjust the exchange ratio to prevent the termination of merger agreement; or

- Sunshine's board of directors determines to enter into a definitive agreement with respect to a superior proposal in accordance with the terms of the merger agreement but only if Sunshine pays to First Bancshares a $1,200,000 termination fee.

Termination Fee (page 95)

If the merger agreement is terminated under certain circumstances, including circumstances involving a change in recommendation by Sunshine's board of directors, Sunshine may be required to pay First Bancshares a termination fee of $1,200,000. The termination fee could discourage other companies from seeking to acquire or merge with Sunshine.

Expenses (page 96)

Each party will bear all expenses incurred in connection with the merger and the transactions contemplated by the merger agreement.

Material U.S. Federal Income Tax Considerations (page 71)

The merger is expected to qualify as a "reorganization" within the meaning of Section 368(a) of the Code. It is a condition to the respective obligations of First Bancshares and Sunshine to complete the merger that each of First Bancshares and Sunshine receives a tax opinion from its respective outside legal counsel, dated the closing date of the merger, to that effect. Based upon the treatment of the merger as a "reorganization" within the meaning of Section 368(a) of the Code, the U.S. federal income tax consequences of the merger to a U.S. holder of Sunshine common stock will be as follows. A U.S. holder of Sunshine common stock will not recognize gain or loss with respect to the receipt of the stock consideration, except with respect to cash received in lieu of a fractional share. If a U.S. holder exchanges its shares of Sunshine common stock solely for cash, the U.S. holder will recognize gain or loss on the exchange measured by the difference between the amount of cash received in the exchange and the U.S. holder's basis in the shares of Sunshine common stock surrendered in exchange for such cash. If a U.S. holder exchanges its shares of Sunshine common stock for a combination of First Bancshares common stock and cash, the U.S. holder should recognize gain, but not loss, on the exchange to the extent of the lesser of cash received or gain realized in the exchange. The amount of gain realized will equal the amount by which the cash plus the fair market value, at the effective time of the merger, of the First Bancshares common stock exceeds the stockholder's adjusted tax basis in its Sunshine common stock surrendered in exchange therefor. For further information, see "The Merger — Material U.S. Federal Income Tax Considerations."

The U.S. federal income tax consequences described above may not apply to all holders of Sunshine common stock. Your particular tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.

Accounting Treatment of the Merger (page 76)

First Bancshares will account for the merger under the acquisition method of accounting for business combinations under U.S. generally accepted accounting principles, or GAAP.

The Rights of Holders of Sunshine Common Stock Will Change as a Result of the Merger (see page 104)

The rights of holders of Sunshine common stock are governed by Maryland law, as well as Sunshine's Articles of Incorporation (which we refer to as the Sunshine Articles), and Sunshine's Bylaws, as amended (which we refer to as the Sunshine Bylaws). After completion of the merger, the rights of former Sunshine stockholders will be governed by Mississippi law and by First Bancshares' Amended and Restated Articles of Incorporation (which we refer to as the First Bancshares Articles), and First Bancshares' Amended and Restated Bylaws (or, the First Bancshares Bylaws).

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Material differences between the rights of stockholders of Sunshine and shareholders of First Bancshares include the process for determining the size of the board of directors, the process for removing directors, limitations of director liability, indemnification of officers, directors and employees, the ability of shareholders to act by written consent, and shareholder proposals and advance notice requirements. The material differences between the organizational documents and the rights of stockholders of Sunshine and shareholders of First Bancshares are explained in more detail under the section "Comparison of Rights of First Bancshares Shareholders and Sunshine Stockholders" beginning on page 104.

Opinion of Sunshine's Financial Advisor (page 55 and Annex B)

On December 6, 2017, BSP Securities LLC, referred to as BSP, a wholly owned subsidiary of Banks Street Partners, LLC, rendered an opinion to the Sunshine board of directors to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by BSP as set forth in such opinion, the merger consideration to be received in the proposed transaction was fair, from a financial point of view, to Sunshine's stockholders. The full text of the written opinion of BSP is attached as Annex B to this document. Sunshine stockholders should read the entire opinion for a discussion of, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by BSP in rendering its opinion.

The opinion of BSP is addressed to the Sunshine board of directors, is directed only to the fairness, from a financial point of view, of the merger consideration to be received by the holders of Sunshine stock and does not constitute a recommendation to any Sunshine stockholder as to how such stockholder should vote with respect to the merger or any other matter at the Sunshine special meeting.

For further information, please see the section entitled "The Merger — Opinion of Sunshine's Financial Advisor" beginning on page 55.

Closing and Effective Time of the Merger (see page 79)

The closing date is currently expected to occur in the second quarter of 2018. Simultaneously with the closing of the merger, First Bancshares will file the articles of merger with the Secretary of State of the State of Mississippi and the Maryland State Department of Assessments and Taxation. The merger will become effective at the later of the time the articles of merger are filed or such other time as may be specified in the articles of merger. Neither First Bancshares nor Sunshine can predict, however, the actual date on which the merger will be completed because it is subject to factors beyond each company's control, including whether or when the required regulatory approvals and Sunshine's stockholder approvals will be received.

Market Prices and Share Information (see page 35)

First Bancshares common stock is listed on the NASDAQ Global Market under the symbol "FBMS." Sunshine common stock is traded on the Over-the-Counter Electronic Bulletin Board, or OTCBB, under the symbol "SSNF." The following table sets forth the closing sale prices of First Bancshares common stock as reported on the NASDAQ Global Market and of Sunshine common stock on the OTCBB on December 6, 2017, the last full trading day before the public announcement of the merger agreement, and on February 8, 2018, the latest practicable trading date before the date of this proxy statement/prospectus.

	First Bancshares Common Stock	Sunshine Common Stock	Implied Value of One Share of Sunshine Common Stock to be Converted to First Bancshares Common Stock
December 6, 2017	$ 33.35	$ 22.25	$ 31.02

February 8, 2018	$ 30.95	$ 28.55	$ 28.78

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Pending Acquisition of Southwest Banc Shares, Inc.

On October 24, 2017, First Bancshares entered into an agreement and plan of merger to acquire Southwest Banc Shares, Inc., or Southwest, the holding company of First Community Bank. Pursuant to the merger agreement, Southwest will merge with and into First Bancshares, with First Bancshares as the surviving company, a transaction we refer to as the "Southwest merger." Immediately after the Southwest merger, First Community Bank, an Alabama-state chartered bank and wholly owned subsidiary of Southwest, will merge with and into The First, with The First as the surviving bank. The transaction was unanimously approved by the boards of directors of each of First Bancshares and Southwest and is expected to close in the first or second quarter of 2018. Completion of the transaction is subject to customary closing conditions, including receipt of required regulatory approvals and approval of Southwest's shareholders. Under the terms of the agreement, holders of Southwest common stock will receive in the aggregate $60 million, with 60% payable in First Bancshares common stock and 40% payable in cash, subject to adjustments. At September 30, 2017, Southwest had consolidated assets of $391.6 million, loans of $281.6 million, deposits of $345.1 million, and shareholders' equity of $36.8 million.

Impact of Tax Cuts and Jobs Act of 2017

On December 22, 2017, "H.R.1.", formerly known as the "Tax Cuts and Jobs Act of 2017", or the Tax Act, was signed into law. The Tax Act, among other things, reduced the maximum statutory federal corporate income tax rate from 35% to 21% effective January 1, 2018.

As a result of enactment of the Tax Act, First Bancshares has concluded that this will cause its net deferred tax asset to be revalued at the new lower tax rate. First Bancshares has performed a preliminary analysis to determine the impact of the revaluation of the net deferred tax asset and, using the information available at this time, has estimated that the value of its net deferred tax asset would be reduced by approximately $2.1 million (unaudited), which will be recorded as additional income tax expense in the fourth quarter of 2017. First Bancshares' management estimated that as a result of the additional income tax expense for the year ended December 31, 2017 that earnings before income taxes would be approximately $17.6 million (unaudited), income tax expense would be approximately $7.0 million (unaudited) and net income would be approximately $10.6 million (unaudited).

Additionally, Sunshine has concluded that the enactment of the Tax Act will cause its net deferred tax asset to be revalued at the new lower tax rate. Sunshine has performed a preliminary analysis to determine the impact of the revaluation of the net deferred tax asset and, using the information available at this time, has estimated that the value of its net deferred tax asset would be reduced by approximately $724,000 (unaudited), which will be recorded as additional income tax expense in the fourth quarter of 2017. Sunshine's management estimated that as a result of the additional income tax expense for the year ended December 31, 2017 that earnings before income taxes would be approximately $781,000 (unaudited), income tax expense would be approximately $1,031,000 (unaudited) and net losses would be approximately $249,000 (unaudited).

First Bancshares' and Sunshine's revaluation of their respective net deferred tax assets are subject to further clarifications of the new law that cannot be estimated at this time and the determination of certain accounting valuation adjustments, such as the unrealized gain or loss on investment securities and the allowance for loan losses that are in the process of being finalized at this time. As such, First Bancshares and Sunshine are unable to make a final determination of the impact on the quarterly and year to date earnings for the period ended December 31, 2017 at this time.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this proxy statement/prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements about the financial condition, results of operations, earnings outlook and business plans, goals, expectations and prospects of First Bancshares, Sunshine and the combined company following the proposed merger and statements for the period after the merger. Words such as “anticipate,” “believe,” “feel,” “expect,” “estimate,” “indicate,” “seek,” “strive,” “plan,” “intend,” “outlook,” “forecast,” “project,” “position,” “target,” “mission,” “contemplate,” “achievable,” “potential,” “strategy,” “goal,” “aspiration,” “outcome,” “continue,” “remain,” “maintain,” “trend,” “objective” and such words and similar expressions, or future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” or similar expressions, as they relate to First Bancshares, Sunshine, the proposed merger or the combined company following the merger often identify forward-looking statements, although not all forward-looking statements contain such words.

These forward-looking statements are predicated on the beliefs and assumptions of management based on information known to management as of the date of this proxy statement/prospectus and do not purport to speak as of any other date. Forward-looking statements may include descriptions of the expected benefits and costs of the transaction; forecasts of revenue, earnings or other measures of economic performance, including statements of profitability, business segments and subsidiaries; management plans relating to the merger; the expected timing of the completion of the merger; the ability to complete the merger; the ability to obtain any required regulatory, stockholder or other approvals; any statements of the plans and objectives of management for future or past operations, including the execution of integration plans; any statements of expectation or belief and any statements of assumptions underlying any of the foregoing.

The forward-looking statements contained or incorporated by reference in this proxy statement/ prospectus reflect the view of management as of this date with respect to future events and are subject to risks and uncertainties. Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, actual results could differ materially from those anticipated by the forward-looking statements or historical results. Such risks and uncertainties include, among others, the following possibilities:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement, including a termination of the merger agreement under circumstances that could require Sunshine to pay a termination fee to First Bancshares;

- the inability to complete the merger contemplated by the merger agreement due to the failure to satisfy conditions necessary to close the merger, including the receipt of the requisite approvals of Sunshine stockholders;

- the risk that a regulatory approval that may be required for the merger is not obtained or is obtained subject to conditions that are not anticipated;

- risks associated with the timing of the completion of the merger;

- management time and effort may be diverted to the resolution of merger-related issues, including, with respect to First Bancshares, the time and effort management is directing to its pending merger with Southwest Banc Shares, Inc., or Southwest, at the same time as the pending merger of First Bancshares and Sunshine;

- the risk that the businesses of First Bancshares, Sunshine and Southwest will not be integrated successfully, or such integration may be more difficult, time-consuming or costly than expected;

- First Bancshares' ability to achieve the synergies and value creation contemplated by the proposed mergers with Sunshine and Southwest;

- the expected growth opportunities or costs savings from the mergers with Sunshine and Southwest may not be fully realized or may take longer to realize than expected;

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- revenues following the transaction may be lower than expected as a result of losses of customers or other reasons;

- First Bancshares' ability to complete the Southwest merger during the same time period as the Sunshine transaction;

- potential deposit attrition, higher than expected costs, customer loss and business disruption associated with First Bancshares' integration of Sunshine, including, without limitation, potential difficulties in maintaining relationships with key personnel;

- the outcome of any legal proceedings that may be instituted against First Bancshares or Sunshine or their respective boards of directors;

- general economic conditions, either globally, nationally, in the States of Mississippi or Florida, or in the specific markets in which First Bancshares or Sunshine operate;

- limitations placed on the ability of First Bancshares and Sunshine to operate their respective businesses by the merger agreement;

- the effect of the announcement of the merger on First Bancshares' and Sunshine's business relationships, employees, customers, suppliers, vendors, other partners, standing with regulators, operating results and businesses generally;

- customer acceptance of the combined company's products and services;

- the amount of any costs, fees, expenses, impairments and charges related to the merger;

- fluctuations in the market price of First Bancshares common stock and the related effect on the market value of the merger consideration that Sunshine stockholders will receive upon completion of the merger;

- the introduction, withdrawal, success and timing of business initiatives;

- significant increases in competition in the banking and financial services industry;

- legislation, regulatory changes or changes in monetary or fiscal policy that adversely affect the businesses in which First Bancshares or Sunshine are engaged, including potential changes resulting from currently proposed legislation, including the Financial CHOICE Act of 2017;

- credit risk of borrowers, including any increase in those risks due to changing economic conditions;

- changes in consumer spending, borrowing, and savings habits;
- competition among depository and other financial institutions;
- liquidity risk affecting First Bancshares' or Sunshine's banks' ability to meet their obligations when they become due;
- interest rate risk involving the effect of a change in interest rates;
- compliance risk resulting from violations of, or nonconformance with, laws, rules, regulations, prescribed practices or ethical standards;
- strategic risk resulting from adverse business decisions or improper implementation of business decisions;
- reputational risk that adversely affects earnings or capital arising from negative public opinion;
- terrorist activities risk that results in loss of consumer confidence and economic disruptions; and
- other risks and uncertainties detailed from time to time in First Bancshares' SEC filings.

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Any forward-looking statements made in this proxy statement/prospectus or in any documents incorporated by reference into this proxy statement/prospectus, are subject to the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of any document incorporated by reference in this proxy statement/ prospectus. First Bancshares and Sunshine do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made, unless and only to the extent otherwise required by law. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement/ prospectus and attributable to First Bancshares, Sunshine or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this proxy statement/ prospectus.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF FIRST BANCSHARES

The following selected consolidated financial information for the fiscal years ended December 31, 2012 through December 31, 2016 is derived from audited consolidated financial statements of First Bancshares. The consolidated financial information as of and for the nine months ended September 30, 2017 and 2016 is derived from unaudited consolidated financial statements and, in the opinion of First Bancshares' management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of these data for those dates. The selected consolidated income data for the nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2017. You should not assume the results of operations for any past periods indicate results for any future period. You should read this information in conjunction with First Bancshares' consolidated financial statements and related notes thereto included in First Bancshares' Annual Report on Form 10-K for the year ended December 31, 2016, and in First Bancshares' Quarterly Report on Form 10-Q for the nine months ended September 30, 2017, each of which are incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."

	As of and for the Nine Months Ended September 30,		As of and for the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(unaudited)						
	(in thousands, except ratios, share and per share data)						
Selected Consolidated Operating Data:							
Interest income	$ 48,926	$ 32,736	$ 44,604	$ 40,202	$ 36,371	$ 31,318	$ 26,331
Interest expense	4,987	3,139	4,315	3,208	2,973	2,917	4,137
Net interest income	43,939	29,597	40,289	36,994	33,398	28,401	22,194
Provision for loan losses	384	538	625	410	1,418	1,076	1,228
Net interest income after provision for loan losses	43,555	29,059	39,664	36,584	31,980	27,325	20,966
Noninterest income	10,807	8,542	11,247	7,588	7,803	7,083	6,324
Noninterest expense	43,056	26,730	36,862	32,160	30,734	28,165	22,164
Income before income tax expense	11,306	10,871	14,049	12,012	9,049	6,243	5,126
Income tax expense	3,104	3,060	3,930	3,213	2,435	1,604	1,077

(benefit)							
Net income	8,202	7,811	10,119	8,799	6,614	4,639	4,049
Preferred dividends and stock accretion	—	257	453	343	363	424	425
Net income available to common shareholders	$ 8,202	$ 7,554	$ 9,666	$ 8,456	$ 6,251	$ 4,215	$ 3,624
Selected Financial Condition Data:							
Securities available for sale	$ 353,035	$ 236,168	$ 243,206	$ 239,732	$ 254,746	$ 244,051	$ 214,39
Securities held to maturity	6,000	6,000	6,000	7,092	8,193	8,438	8,470
Loans, net of allowance for loan losses	1,194,606	856,322	865,424	769,742	700,540	577,574	408,97
Total assets	1,787,976	1,266,638	1,277,367	1,145,131	1,093,768	940,890	721,38
Deposits	1,507,991	1,071,789	1,039,191	916,695	892,775	779,971	596,62
Shareholders' equity	166,980	112,658	154,527	103,436	96,216	85,108	65,885
Selected Consolidated Financial Ratios and Other Data:							
Per Share Data:							
Earnings per common share, basic	$ 0.90	$ 1.39	$ 1.78	$ 1.57	$ 1.20	$ 0.98	$ 1.17
Earnings per common share, diluted	$ 0.89	$ 1.38	$ 1.57	$ 1.55	$ 1.19	$ 0.96	$ 1.16
Cash dividends paid per common share	$ 0.1125	$ 0.1125	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15
Weighted average	9,140,375	5,425,567	5,435,088	5,371,111	5,227,768	4,319,485	3,101,

common shares outstanding, basic							
Weighted average common shares outstanding, diluted	9,212,182	5,475,785	6,259,333	5,442,050	5,270,669	4,372,930	3,125,
Book value per common share	$ 18.24	$ 17.60	$ 17.19	$ 16.05	$ 14.88	$ 13.34	$ 15.73
Performance Ratios:							
Return on average assets	0.63%	0.83%	0.79%	0.75%	0.61%	0.45%	0.51%
Return on average equity	6.87	9.41	8.00	8.60	7.10	5.00	5.70
Net interest margin	3.74	3.61	3.63	3.63	3.58	3.31	3.42
Net interest margin, fully tax equivalent basis(1)	3.84	3.69	3.71	3.72	3.70	3.44	3.59

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	As of and for the Nine Months Ended September 30,		As of and for the Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
	(unaudited)						
	(in thousands, except ratios, share and per share data)						
Asset Quality Ratios:							
Nonaccrual loans to total loans and other real estate	0.40%	0.67%	0.37%	0.95%	0.85%	0.54%	0.81%
Allowance for loan losses to total loans	0.68	0.87	0.86	0.87	0.86	0.98	1.14
Allowance for loan losses to nonaccrual loans	168.49	129.01	230.1	91.6	100.6	180.1	139.0
Net charge-offs to average total loans	(0.03)	(0.03)	(0.02)	(0.03)	0.17	0.01	0.26
Consolidated Capital Ratios:							
Tier 1 leverage ratio	8.6%	8.5%	11.9%	8.7%	8.4%	9.0%	8.6%
Common equity Tier 1 capital ratio	10.3	7.8	13.8	8.1	—	—	—
Tier 1 risk-based capital ratio	11.0	10.5	14.7	11.1	11.5	12.5	12.8
Total risk-based capital ratio	11.6	11.2	15.5	11.9	12.3	13.4	13.8
Total shareholders’ equity to total assets	9.3	8.9	12.1	9.0	8.8	9.0	9.1

(1)
We report net interest margin on a fully tax equivalent basis, which calculation is not in accordance with GAAP. The tax equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 34% tax rate. Management believes that it is a standard practice in the banking industry to present net interest margin on a fully tax equivalent basis, and believes it enhances the comparability of income and expenses arising from taxable and nontaxable sources. Net interest margin on a fully tax equivalent basis should not be viewed as a substitute for net interest margin provided in accordance with GAAP.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF SUNSHINE

The following selected historical consolidated financial data as of and for the year ended December 31, 2016, 2015 and 2014 is derived from the audited consolidated financial statements of Sunshine. The following selected historical consolidated financial data as of and for the nine months ended September 30, 2017 and 2016, is derived from the unaudited consolidated financial statements of Sunshine and has been prepared on the same basis as the selected historical consolidated financial data derived from the audited consolidated financial statements and, in the opinion of Sunshine's management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data for those dates.

The results of operations as of and for the nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any future period. You should read the following selected historical consolidated financial data in conjunction with Sunshine Management's Discussion and Analysis of Financial Condition and Results of Operations and Sunshine's audited consolidated financial statements and accompanying notes for the year ended December 31, 2016 and 2015, which are included in Sunshine's Form 10-K for the year ended December 31, 2016, a copy of which is included in Annex D to this proxy statement/prospectus, and Sunshine Management's Discussion and Analysis of Financial Condition and Results of Operations and Sunshine's unaudited consolidated financial statements and accompanying notes for the nine months ended September 30, 2017, which is included in Sunshine's Form 10-Q for the nine months ended September 30, 2017, a copy of which is included in Annex E to this proxy statement/prospectus.

	At September 30,		At December 31,		
	2017	2016	2016	2015	2014
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 194,090	$ 167,325	$ 173,209	$ 157,828	$ 151,006
Cash and cash equivalents	9,141	13,797	11,313	10,862	13,032
Loans net	159,541	123,439	134,077	113,422	102,786
Securities held to maturity, at amortized cost:					
U.S. government and federal agency	13,873	17,698	16,512	21,063	26,035
Federal Home Loan Bank stock	1,346	376	684	348	130
Deposits	141,668	138,619	137,902	130,470	127,905
Federal Home Loan Bank advances	28,000	5,500	12,750	5,000	—
Equity	22,229	21,476	21,656	21,358	22,388

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	For the Nine Months Ended September 30,		For the Year Ended December 31,		
	2017	2016	2016	2015	2014
	(In Thousands, except per share data)				
Selected Operations Data:					
Total interest income	$ 5,471	$ 4,713	$ 6,416	$ 6,005	$ 5,907
Total interest expense	417	293	401	375	377
Net interest income	5,054	4,420	6,015	5,630	5,530
Provision for loan losses	155	135	180	180	130
Net interest income after provision for loan losses	4,899	4,285	5,835	5,450	5,400
Fees and service charges on deposit accounts	1,041	1,064	1,419	1,461	1,600
Gain on loan sales	13	39	36	134	149
Gain on sale of foreclosed real estate	30	14	12	39	49
Fees and service charges on loans	151	115	154	138	89
Fee income bank owned life insurance	67	73	97	75	—
Other income	20	73	180	493	17
Total noninterest income	1,322	1,388	1,898	2,340	1,904
Total noninterest expense	5,528	5,731	7,577	7,918	7,270
Earnings (loss) before income taxes (benefit)	693	(58)	156	(128)	34
Income taxes (benefit)	263	(8)	46	(52)	(5)
Net earnings (loss)	$ 430	$ (50)	$ 110	$ (76)	$ 39
Basic earnings (loss) per share	$ 0.45	$ (0.05)	$ 0.12	$ (0.08)	$ 0.04
Diluted earnings (loss) per share	$ 0.43	$ (0.05)	$ 0.11	$ (0.08)	$ 0.04

	As of and for the Nine Months Ended September 30,		For the Year Ended December 31,		
	2017	2016	2016	2015	2014
Selected Financial Ratios and Other Data:					
Performance ratios:					
Return on assets (ratio of net earnings (loss) to average total assets)	0.32%	(0.04)%	0.07%	(0.05)%	0.03%
Return on equity (ratio of net earnings (loss) to average equity)	2.61	(0.31)	0.51	(0.34)	0.17
Dividend payout ratio	—	—	—	—	—
Interest-rate spread information:					
Average during period	3.98	4.00	3.92	4.01	3.99
End of period	3.76	3.96	4.04	4.13	4.11
Net interest margin(1)	4.09	4.09	3.98	4.11	4.08
Noninterest income to operating revenue	19.46	22.75	22.83	28.04	24.38

Noninterest expense to average total assets	4.12	4.80	4.57	5.27	4.95
Average interest-earning assets to average interest-bearing liabilities	1.31	1.31	1.34	1.34	1.34
Efficiency ratio(2)	86.25	98.05	93.97	98.24	96.88

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	As of and for the Nine Months Ended September 30,		For the Year Ended December 31,		
	2017	2016	2016	2015	2014
Asset quality ratios:					
Nonperforming assets to total assets at end of period	1.35%	1.26%	1.55%	1.39%	1.53%
Nonperforming loans to total loans	1.55	1.36	1.88	1.54	2.01
Allowance for loan losses to non-performing loans	44.17	52.97	36.32	50.71	51.76
Allowance for loan losses to loans receivable, net	0.69	0.72	0.69	0.78	1.04
Net charge-offs to average loans outstanding	0.02	0.12	0.12	0.35	0.34
Capital Ratios:					
Equity to total assets at end of period	11.45	12.83	12.50	13.55	14.83
Average equity to average assets	12.28	13.43	12.93	14.77	15.84
Other data:					
Number of full-service offices	5	6	5	6	6

(1)
Net interest income divided by average interest-earning assets.

(2)
Total noninterest expense, excluding foreclosed asset and repossessed property related expenses, as a percentage of net interest income and total other operating income, excluding net securities transactions.

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UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma combined consolidated financial information and accompanying notes show the impact on the historical financial conditions and results of operations of First Bancshares, Sunshine and Southwest and have been prepared to illustrate the effects of the mergers under the acquisition method of accounting. See "The Merger — Accounting Treatment."

The unaudited pro forma combined consolidated balance sheet as of September 30, 2017 is presented as if the Sunshine and the Southwest mergers had occurred on September 30, 2017. The unaudited pro forma combined consolidated statements of income for the year ended December 31, 2016 and for the nine month period ended September 30, 2017 are presented as if both mergers had occurred on January 1, 2016. The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the mergers and, with respect to the income statement only, expected to have a continuing impact on consolidated results of operations, and, as such, First Bancshares' one-time merger costs for both mergers are not included. The historical results of operations for Iberville Bank, or Iberville, which was acquired on January 1, 2017, are included in our consolidated statement of income for the nine months ended September 30, 2017. The historical results of operations for Iberville for the period of January 1, 2016 through December 31, 2016 are included in the unaudited pro forma combined consolidated statement of income for the year ended December 31, 2016. The unaudited pro forma combined statements of income for the year ended December 31, 2016 and for the nine months ended September 30, 2017 assume the Iberville merger was completed on January 1, 2016. No pro forma adjustments for Iberville are presented for the unaudited pro forma combined consolidated balance sheet since the transaction is already reflected in First Bancshares' historical financial condition at September 30, 2017.

The unaudited pro forma combined consolidated financial statements are provided for informational purposes only. The unaudited pro forma combined consolidated financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the mergers been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma combined consolidated financial statements and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma combined consolidated financial statements should be read together with:

- The accompanying notes to the unaudited pro forma combined consolidated financial statements;
- First Bancshares' unaudited consolidated financial statements and accompanying notes as of and for the nine months ended September 30, 2017, included in First Bancshares' Quarterly Report on Form 10-Q for the nine months ended September 30, 2017, which is incorporated by reference into this proxy statement/prospectus;
- First Bancshares' audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2016, included in First Bancshares' Annual Report on Form 10-K for the year ended December 31, 2016, which is incorporated by reference into this proxy statement/prospectus;
- Sunshine's unaudited consolidated financial statements and accompanying notes as of and for the nine months ended September 30, 2017, which is included in Sunshine's Form 10-Q for the nine months ended September 30, 2017, a copy of which is included in Annex E to this proxy statement/prospectus;
- Sunshine's audited consolidated financial statements and accompanying notes as of the year ended December 31, 2016, which is included in Sunshine's Form 10-K for the year ended December 31, 2016, a copy of which is included in Annex D to this proxy statement/prospectus;
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Southwest's unaudited consolidated financial statements and accompanying notes as of and for the nine months ended September 30, 2017, beginning on F-2 in this proxy statement/prospectus; and

- Southwest's audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2016, beginning on F-29 in this proxy statement/prospectus.

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THE FIRST BANCSHARES, INC.
PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of September 30, 2017
(in thousands)
(unaudited)

	Historical			First Bancshares Sunshine Pro Forma Combined	Historical		Fi Ba Su Sc Pr Co
	The First Bancshares, Inc.	Sunshine Financial, Inc.	Pro Forma Adjustments		Southwest Bancshares, Inc.	Pro Forma Adjustments	
Assets							
Cash, due from banks and interest-bearing bank balances and interest-bearing time deposits	$ 93,317	$ 9,141	$ (13,674)(11)	$ 88,784	$ 14,390	$ 27,105(4)	$
Securities and Federal Home Loan Bank Stock	368,591	15,219	(100)(12)	383,710	79,897	218(12)	
Loans, net	1,190,018	159,541	(1,647)(3)(5)	1,347,912	281,617	(940)(3)(5)(7)	
Mortgage loans held for sale	4,588	—	—	4,588	424	—	
Other assets	54,629	4,383	372(10)	59,384	7,810	(129)(10)	
Buildings, Furniture & Fixtures and Equipment	46,203	3,519	—	49,722	7,235	—	
Deferred tax asset	5,305	2,287	(24)(2)	7,568	222	494(2)	
Core deposit intangible	4,882	—	1,763(6)	6,645	—	3,322(6)	
Goodwill	20,443	—	12,235(9)	32,678	—	26,268(9)	
Total assets	$ 1,787,976	$ 194,090	$ (1,075)	$ 1,980,991	$ 391,595	$ 56,338	$
Liabilities and Stockholders' Equity							
Deposits	$ 1,507,991	$ 141,668	$ —	$ 1,649,659	$ 345,075	$ 557(1)	$
Federal Home Loan Bank Advances and other	104,631	28,000	—	132,631	6,858	—	

borrowings							
Other liabilities	8,374	2,193	—	10,567	2,843	—	
Total liabilities	1,620,996	171,861	—	1,792,857	354,776	557	
Stockholders' equity							
Equity	166,980	22,229	(1,075)(8)	188,134	36,819	55,781(8)	
Total liabilities and stockholders' equity	$ 1,787,976	$ 194,090	$ (1,075)	$ 1,980,991	$ 391,595	$ 56,338	$

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.
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THE FIRST BANCSHARES, INC.
PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the 10year ended December 31, 2016
(in thousands, except per share data)
(unaudited)

	Historical				Historical		
	The First Bancshares, Inc.	Iberville Bank	Pro Forma Adjustments	First Bancshares Iberville Pro Forma Combined	Sunshine Financial, Inc.	Pro Forma Adjustments	First Bancshares Iberville Sunshine Pro Forma Combined
INTEREST INCOME							
Loans	$ 38,496	$ 7,873	$ 153(13)	$ 46,522	$ 5,995	$ 430(13)	$ 52,947
Investment securities and other	6,108	1,714	—	7,822	421	—	8,243
Total interest income	44,604	9,587	153	54,344	6,416	430	61,190
INTEREST EXPENSE							
Deposits	3,443	453	(85)(14)	3,811	374	—	4,185
Borrowed funds	872	22	—	894	27	—	921
Total interest expense	4,315	475	(85)	4,705	401	—	5,106
Net interest income	40,289	9,112	238	49,639	6,015	430	56,084
Provision for loan losses	625	123	—	748	180	—	928
Net interest income after provision for loan losses	39,664	8,989	238	48,891	5,835	430	55,156
NON-INTEREST INCOME							
Fees and service charges	5,657	813	—	6,470	1,419	—	7,889
Other	5,590	1,401	—	6,991	479	—	7,470
Total non-interest income	11,247	2,214	—	13,461	1,898	—	15,359
NON-INTEREST EXPENSE							
Salaries and employee benefits	22,137	6,175	(934)(16)	27,378	3,393	—	30,771

Occupancy and equipment	4,721	1,553	9(15)	6,283	1,103	—	7,386
Other operating expense	10,004	4,478	—	14,482	3,081	—	17,563
Amortization of core deposit intangible	—	—	319(17)	319	—	184(17)	503
Merger related expense	—	—	(1,281)(16)	(1,281)	—	7,639(16)	6,358
Total non-interest expense	36,862	12,206	(1,887)	47,181	7,577	7,823	62,581
Income before provision for income taxes	14,049	(1,003)	2,125	15,171	156	(7,393)	7,934
Provision for income taxes	3,930	—	314(18)	4,244	46	(2,026)(18)	2,264
Net Income (loss)	10,119	(1,003)	1,811	10,927	110	(5,367)	5,670
Preferred dividends and stock accretion	452	—	—	452	—	—	452
Net income (loss) applicable to common shareholders	$ 9,667	$ (1,003)	$ 1,811	$ 10,475	$ 110	$ (5,367)	5,218

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

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THE FIRST BANCSHARES, INC.
PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the nine months ended September 30, 2017
(in thousands, except per share data)
(unaudited)

	Historical			First Bancshares Sunshine Pro Forma Combined	Historical		First Bancshares Sunshine Southwest Pro Forma Combined
	The First Bancshares, Inc.	Sunshine Financial, Inc.	Pro Forma Adjustments		Southwest Bancshares, Inc.	Pro Forma Adjustments	
INTEREST INCOME							
Loans	$ 42,083	$ 5,183	$ 322(13)	$ 47,588	$ 10,498	$ 988(13)	$ 59,074
Investment securities and other	6,843	288	—	7,131	1,452	(55)	8,528
Total interest income	48,926	5,471	322	54,719	11,950	933	67,602
INTEREST EXPENSE							
Deposits	3,836	279	—	4,115	1,248	(295)(14)	5,068
Borrowed Funds	1,151	138	—	1,289	213	—	1,502
Total interest income	4,987	417	—	5,404	1,461	(295)	6,570
Net interest income	43,939	5,054	322	49,315	10,489	1,228	61,032
Provision for loan losses	384	155	—	539	383	—	922
Net interest income after provision for loan losses	43,555	4,899	322	48,776	10,106	1,228	60,110
NON-INTEREST INCOME							
Fees and services charges	2,692	1,041	—	3,733	967	—	4,700
Other	8,115	281	—	8,396	1,400	—	9,796
Total non-interest income	10,807	1,322	—	12,129	2,367	—	14,496
NON-INTEREST EXPENSE							
Salaries and employee benefits	23,070	2,422	—	25,492	5,294	—	30,786

Occupancy and equipment	4,108	751	—	4,859	1,258	—	6,117
Other operating expense	9,551	2,355	—	11,906	2,783	—	14,689
Amortization of core deposit intangible	—	—	138(17)	138	—	249(17)	387
Merger related expense	6,327	—	7,639(16)	13,966	—	4,341(16)	18,307
Total non-interest income	43,056	5,528	7,777	56,361	9,335	4,590	70,286
Income before provision for income taxes	11,306	693	(7,455)	4,544	3,138	(3,362)	4,320
Provision for income taxes	3,104	263	(1,893)(18)	1,473	144	(62)(18)	1,555
Net Income (loss)	8,202	430	(5,562)	3,070	2,994	(3,299)	2,765
Preferred dividends and stock accretion	—	—	—	—	—	—	—
Net income (loss) applicable to common shareholders	$ 8,202	$ 430	$ (5,562)	$ 3,070	$ 2,994	$ (3,299)	$ 2,765

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

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THE FIRST BANCSHARES, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The unaudited pro forma condensed combined financial information included herein has been prepared pursuant to the rules and regulations of the SEC. Certain information and certain footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, management believes that the disclosures are adequate to make the information presented not misleading.

Note 2 — First Bancshares' Acquisition of Iberville Bank

On January 1, 2017, First Bancshares completed a transaction in which it acquired all of the stock of Iberville Bank, Plaquemine, LA ("Iberville") for a total consideration of $31.1 million pursuant to a previously-announced Stock Purchase Agreement entered into on October 12, 2017 among First Bancshares and A. Wilbert's Sons Lumber & Shingle Co., a Louisiana corporation. The following table summarizes the cash paid and the preliminary estimated fair values of the assets and the liabilities assumed as if the acquisition of Iberville occurred on December 31, 2016 (in thousands):

Purchase Price:		
Cash paid		$ 31,100
Fair Value of assets acquired:		
Cash and due from banks	$ 28,789	
Securities, FHLB Stock and FNBB Stock	78,650	
Loans, net	148,517	
Buildings, Furniture & Fixtures and Equipment	4,443	
Goodwill	683	
Core Deposit Intangible	3,186	
Other Assets	8,900	
Total assets acquired	273,168	
Fair Value of deposits acquired:		
Deposits	243,725	
FHLB Advances	456	
Other liabilities	2,689	
Total liabilities assumed	246,870	
Fair Value of net assets acquired		26,298
Preliminary pro forma goodwill		$ 4,802

Note 3 — First Bancshares' Proposed Acquisition of Sunshine Financial, Inc.

On December 6, 2017, First Bancshares entered into the merger agreement with Sunshine, whereby Sunshine will be merged with and into First Bancshares. Pursuant to the merger agreement, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, or (ii) 0.93 of a share of First Bancshares common stock, provided that the total mix of merger consideration shall be fixed at 75% stock and 25% cash. Each option to purchase shares of Sunshine common stock shall be cancelled as of the effective time of the merger and converted into the right to receive a cash payment equal to the product of (i) the total number of shares of Sunshine common stock subject to such option times (ii) the excess, if any, of $27.00 over the exercise price per share of Sunshine common stock subject to such option.

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THE FIRST BANCSHARES, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 4 — First Bancshares' Proposed Acquisition of Southwest Banc Shares, Inc.

On October 24, 2017, First Bancshares entered into entered into an Agreement and Plan of Merger (the "Southwest Merger Agreement") with Southwest Banc Shares, Inc. an Alabama corporation ("Southwest"), whereby Southwest will be merged with and into First Bancshares (the "Southwest Merger"). Pursuant to the Southwest Merger Agreement, each outstanding share of Southwest common stock issued and outstanding immediately prior to the effective time of the Southwest Merger will be converted into the right to receive a "Pro Rata Share" (which is a ratio equal to one (1) divided by the number of shares of Southwest common stock issued and outstanding as of the closing) of (i) a number of shares of First Bancshares common stock equal to $36 million divided by the average closing price of First Bancshares common stock during the ten trading days preceding the fifth business day prior to the closing date (subject to a maximum per-share price of First Bancshares common stock of $36.54 and a minimum price of $24.36) and (ii) a cash amount equal to $24 million (subject to downward adjustment in accordance with the terms of the Southwest Merger Agreement in the event that Southwest's adjusted tangible common equity at closing is less than $32 million). Each outstanding share of Southwest common stock subject to vesting restrictions shall become vested immediately prior to the effective time of the Southwest Merger and will be converted into the right to receive the same merger consideration that other Southwest shareholders are entitled to receive. The following table summarizes the calculation of the purchase price and the preliminary allocation of the purchase price to the estimated fair value of assets and liabilities (in thousands):

Purchase Price:		
Cash paid		$ 60,000
Fair Value of assets acquired:		
Cash and due from banks	$ 10,050	
Securities, FHLB Stock and FNBB Stock	80,115	
Loans, net	280,677	
Buildings, Furniture & Fixtures and Equipment	7,235	
Goodwill	716	
Core Deposit Intangible	3,322	
Other Assets	6,950	
Total assets acquired	389,065	
Fair Value of deposits acquired:		
Deposits	345,632	
FHLB Advances	6,858	
Other liabilities	2,843	
Total liabilities assumed	355,333	
Fair Value of net assets acquired		33,732
Preliminary pro forma goodwill		$ 26,268

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THE FIRST BANCSHARES, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 5 — Pro Forma Adjustments

The following pro forma adjustments have been reflected in the unaudited pro forma condensed combined financial information. All adjustments are based on current assumptions and valuations, which are subject to change:

(1)
Adjustment reflects the preliminary fair value premium on time deposits which was calculated by discounting future contractual payments at a current market interest rate.

(2)
Adjustment reflects the deferred tax impact of fair value adjustments and CDI.

(3)
Adjustment reflects elimination of historical allowance for loan losses.

(4)
Adjustment reflects payment of cash consideration of $24.0 million and transaction costs of $4.3 million plus receipt of $55.4 million from the issuance of 2,012,500 shares.

(5)
Adjustment reflects estimated fair value discount due to credit worthiness.

(6)
Adjustment reflects estimated fair value of acquired core deposit intangible of $3.3 million for Southwest and $1.8 million for Sunshine. The anticipated core deposit intangible will be calculated as the present value of the difference between a market participant's cost of obtaining alternative funds and the cost to maintain the acquired deposit base. Deposit accounts that are evaluated as part of the core deposit intangible include demand deposit, money market and savings accounts.

(7)
Adjustment reflects an estimated fair value premium due to interest rates.

(8)
Adjustment reflects the issuance of 2,012,500 shares for a net of $55.4 million in October 2017 plus the elimination of historical stockholder's equity.

(9)
Adjustment reflects the excess of the purchase price over the estimated fair value of net assets acquired.

(10)
Adjustment reflects an expected fair value adjustment on other real estate owned as well as anticipated adjustment for employee stock ownership plan termination.

(11)
Adjustment reflects payment of cash consideration of $6.9 to common shareholders and $1.3 million to option holders and transaction costs of $5.5 million.

(12)
Adjustment reflects preliminary fair value of securities.

(13)
Interest income on loans was adjusted to reflect the anticipated difference between the contractual interest rate earned on loans and estimated discount accretion over the remaining life of the acquired loans based on current market yields for similar loans.

(14)
Interest expense on deposits was adjusted to reflect the anticipated amortization of the time deposit fair value premium over the remaining life of the deposits.

(15)
Adjustment to depreciation expense relating to the fair value of buildings over their estimated useful lives.

(16)
Adjustment reflects nonrecurring merger costs.

(17)
Adjustment reflects the anticipated amortization of core deposit intangible over an estimated ten-year useful life and calculated on a straight-line basis.

(18)
Adjustment reflects the tax impact of the pro forma acquisition accounting adjustments, as well as the tax impact due to the S Corp status of First Community Bank at effective tax rate.

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UNAUDITED COMPARATIVE PER SHARE INFORMATION

The following table sets forth for First Bancshares, Sunshine and Southwest common stock certain historical, pro forma and pro forma equivalent per share financial information. The pro forma information for First Bancshares and Iberville presented below gives effect to the acquisition of Iberville as if that acquisition by First Bancshares had been effective on January 1, 2016 in the case of net income per common share and dividends declared per common share. Because the Iberville acquisition closed on January 1, 2017, the impact of this acquisition is included in book value per common share amount at September 30, 2017. The information presented below should be read together with the historical consolidated financial statements of First Bancshares, including the related notes, filed by First Bancshares with the SEC and incorporated by reference into this proxy statement/prospectus, and the historical consolidated financial statements of Sunshine and Southwest, including the related notes, respectively, included elsewhere in this proxy statement/prospectus.

The pro forma and pro forma equivalent per share information gives effect to the Sunshine and Southwest mergers as if the transactions had been effective on the date presented, in the case of book value data, and as if the transactions had been effective on January 1, 2016, in the case of the income and dividend data. The pro forma information in the table assumes that the mergers are accounted for under the acquisition method of accounting. This information is presented for illustrative purposes only. You should not rely on the pro forma combined or pro forma equivalent amounts as they are not necessarily indicative of the operating results or financial position that would have occurred if the mergers had been completed as of the dates indicated, nor are they necessarily indicative of the future operating results or financial position of the combined company. The pro forma information, although helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings, opportunities to earn additional revenue, the impact of restructuring and merger-related costs or other factors that may result as a consequence of the mergers and, accordingly, does not attempt to predict or suggest future results.

	First Bancshares Historical	First Bancshares and Iberville Pro Forma Combined(1)	Sunshine Historical	First Bancshares, Iberville, and Sunshine Pro Forma Combined(2)	Southwest Historical	First Bancshares, Iberville, Sunshine and Southwest Pro Forma Combined(3)	Sunshine Equivalent Pro Forma(4)
As of and for the year ended December 31, 2016							
Income from continuing operations attributable to common shareholders per common share, basic	$ 1.78	$ 1.41	$ 0.12	$ 0.64	$ 51.13	$ 0.60	$ 0.56
Income from continuing operations attributable to common shareholders per	1.57	1.28	0.11	0.59	51.11	0.57	0.53

common share, diluted							
Cash dividends paid per common share	0.15	0.15	—	0.15	17.00	0.15	0.14
Book value per common share	17.19	19.15	21.02	19.44	471.49	20.51	19.07

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	First Bancshares Historical	First Bancshares and Iberville Pro Forma Combined(1)	Sunshine Historical	First Bancshares, Iberville, and Sunshine Pro Forma Combined(2)	Southwest Historical	First Bancshares, Iberville, Sunshine and Southwest Pro Forma Combined(3)	Sunshine Equivalent Pro Forma(4)
As of and for the nine months ended September 30, 2017							
Income from continuing operations attributable to common shareholders per common share, basic	0.90	0.90	0.45	0.26	41.98	0.21	0.20
Income from continuing operations attributable to common shareholders per common share, diluted	0.89	0.89	0.43	0.27	41.95	0.22	0.21
Cash dividends paid per common share	0.11	0.11	—	0.11	15.50	0.11	0.10
Book value per common share	18.24	18.24	21.58	20.16	516.27	21.10	19.62

(1)
The unaudited pro forma information for First Bancshares and Iberville gives effect to the acquisition of Iberville as if that acquisition had been effective on January 1, 2016 in the case of earnings per share and cash dividend data. Because the Iberville acquisition closed on January 1, 2017, the impact of this acquisition is included in book value per common share amounts at September 30, 2017. The unaudited pro forma information also gives effect to the issuance by First Bancshares of 2,012,500 shares common stock for net proceeds of $55,444,375.

(2)
Pro forma combined amounts are calculated by adding together First Bancshares and Iberville pro forma combined amounts, together with the historical amounts as reported by Sunshine, adjusted for the estimated purchase accounting adjustments to be recorded in connection with the Sunshine merger and an estimated 725,120 shares of First Bancshares common stock to be issued in connection with the merger with Sunshine based on the terms of the merger agreement and on the number of outstanding shares of Sunshine common stock as of February 5, 2018.

(3)
Pro forma combined amounts are calculated by adding together First Bancshares, Iberville and Sunshine pro forma combined amounts, together with the historical amounts as reported by Southwest, adjusted for the estimated purchase accounting adjustments to be recorded in connection with the Southwest Merger and an estimated 1,163,166 shares of First Bancshares common stock to be issued in connection with the Southwest Merger based on the terms of the Southwest Merger Agreement, assuming that the average closing price of First Bancshares common stock in calculating the stock consideration as of the effective time of the merger will be $30.95, the closing sale price of First

Bancshares common stock on February 8, 2018.

(4)
The equivalent pro forma per share data for Sunshine is computed by multiplying First Bancshares, Iberville, Sunshine and Southwest pro forma combined amounts, as defined in (3) above, by 0.93.

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COMPARATIVE MARKET PRICES AND DIVIDENDS

First Bancshares

First Bancshares common stock is listed on the NASDAQ Global Market under the symbol "FBMS." Sunshine common stock is traded on the Over-the-Counter Electronic Bulletin Board, or OTCBB, under the symbol "SSNF." As of February 8, 2018, the latest practicable date prior to this proxy statement/ prospectus, there were approximately 1,385 holders of record of First Bancshares common stock. As of the record date for the Sunshine special meeting, there were approximately 176 holders of record. The following table sets forth the high and low reported intra-day sales prices per share of First Bancshares common stock and Sunshine common stock, and the cash dividends declared per share for the periods indicated.

	First Bancshares Common Stock			Sunshine Common Stock		
	Sales Price		Dividends Declared Per Share	Sale Price		Dividends Declared Per Share
	High	Low		High	Low	
2016						
First Quarter	$ 18.50	$ 15.32	$ 0.0375	$ 19.30	$ 18.45	—
Second Quarter	$ 17.72	$ 15.50	$ 0.0375	$ 19.35	$ 19.01	—
Third Quarter	$ 19.55	$ 16.99	$ 0.0375	$ 20.05	$ 19.15	—
Fourth Quarter	$ 28.50	$ 17.10	$ 0.0375	$ 19.90	$ 18.60	—
2017						
First Quarter	$ 30.80	$ 26.00	$ 0.0375	$ 20.50	$ 19.40	—
Second Quarter	$ 28.75	$ 26.75	$ 0.0375	$ 21.85	$ 20.30	—
Third Quarter	$ 30.85	$ 26.10	$ 0.0375	$ 22.75	$ 21.75	—
Fourth Quarter	$ 34.70	$ 27.99	$ 0.0375	$ 29.95	$ 22.20	—
2018						
First Quarter (through February 8, 2018)	$ 35.10	$ 30.75	$ 0.05	$ 29.80	$ 28.55	—

On December 6, 2017, the last full trading day before the public announcement of the merger agreement, the closing sale price per share of First Bancshares common stock and Sunshine common stock was $33.35 and $22.25, respectively, and on February 8, 2018, the latest practicable date before the date of this proxy statement/prospectus, the closing sale price per share of First Bancshares common stock and Sunshine common stock was $30.95 and $28.55, respectively.

Sunshine stockholders are advised to obtain current market quotations for First Bancshares common stock and Sunshine common stock. The market price of First Bancshares common stock will fluctuate between the date of this proxy statement/prospectus and the date of completion of the merger. No assurance can be given concerning the market price of First Bancshares common stock before or after the effective date of the merger. Changes in the market price of First Bancshares common stock prior to the completion of the merger will affect the market value of the merger consideration that Sunshine stockholders will receive.

Dividends

The principal sources of funds to First Bancshares to pay dividends are the dividends received from The First. Consequently, dividends are dependent upon The First's earnings, capital needs, regulatory policies, as well as statutory and regulatory limitations. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Approval by First Bancshares' regulators is required if the total of all dividends declared in any calendar year exceed the total of its net income for that year combined with its retained net income of the preceding two years. See "Description of Capital Stock — Common Stock — Dividends."

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Sunshine does not currently pay any dividends. Sunshine's cash dividend payout policy, however, is continually reviewed by management and the Sunshine board of directors. The payment of dividends will depend upon a number of factors, including capital requirements, Sunshine's and Sunshine Community's financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. Future dividends are not guaranteed and will depend on Sunshine's ability to pay them. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Sunshine's future payment of dividends may depend, in part, upon receipt of dividends from Sunshine Community.

Federal and state regulations also restrict the ability of Sunshine Community to pay dividends and make other capital distributions to Sunshine. Generally, a Florida-chartered commercial bank that meets the capital conservation buffer requirement may make capital distributions during any calendar year equal to retained net profits of the previous two calendar years and the current year-to-date earnings. Sunshine and Sunshine Community must maintain a capital conservation buffer consisting of additional common equity tier 1 capital than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends. In addition, under the terms of the Florida Office of Financial Regulations, or FOFR, approval of the conversion to a Florida-chartered commercial bank, Sunshine Community must obtain the prior approval of the FOFR before declaring any dividend during the three years following July 1, 2016. See "Business — How We Are Regulated — Limitations on Dividends and Other Capital Distributi in Sunshine's Form 10-K for the year ended December 31, 2016, a copy of which is included in Annex D to this proxy statement/prospectus.

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RISK FACTORS

In addition to general investment risks and the other information contained in or incorporated by reference into this proxy statement/prospectus, including the matters addressed under the section "Cautionary Statement Concerning Forward-Looking Statements," you should carefully consider the following risk factors in deciding how to vote for the proposals presented in this proxy statement/prospectus. You should also consider the other information in this proxy statement/prospectus and the other documents incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information."

Risks Related to the Merger

Because of the fixed exchange ratio and the fluctuation of the market price of First Bancshares common stock, Sunshine stockholders will not know at the time of the special meeting the market value of the stock consideration they will receive.

Pursuant to the merger agreement, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, which we refer to as the cash consideration, or (ii) 0.93 of a share of First Bancshares common stock, which we refer to as to the stock consideration, provided that the total mix of merger consideration shall be fixed at 75% stock and 25% cash, and the exchange agent will make pro-rata adjustments to each Sunshine stockholder's elections in order to preserve that mix of merger consideration.

The market value of the stock consideration may vary from the market value on the date Sunshine and First Bancshares announced the merger, on the date that this proxy statement/prospectus is mailed, on the date of the Sunshine special meeting and on the date the merger is completed and thereafter due to fluctuations in the market price of First Bancshares common stock. Any fluctuation in the market price of First Bancshares common stock after the date of this proxy statement/prospectus will change the value of the shares of First Bancshares common stock that Sunshine stockholders may receive. Stock price changes may result from a variety of factors that are beyond the control of First Bancshares and Sunshine, including but not limited to general market and economic conditions, changes in their respective businesses, operations and prospects and regulatory considerations. Therefore, at the time of the Sunshine special meeting, Sunshine stockholders will not know the precise market value of the stock consideration they may receive at the effective time of the merger. Sunshine stockholders should obtain current sale prices for shares of First Bancshares common stock and Sunshine common stock before voting their shares at the Sunshine special meeting.

The merger and related transactions are subject to approval by Sunshine stockholders.

The merger cannot be completed unless the Sunshine stockholders approve the merger by the affirmative vote of the holders of at least a majority of the outstanding shares of Sunshine's common stock entitled to vote on the merger.

Failure to complete the merger could negatively affect the value of the shares and the future business and financial results of Sunshine.

If the merger is not completed, the ongoing business of Sunshine could be adversely affected and Sunshine will be subject to a variety of risks associated with the failure to complete the merger, including the following:

- Sunshine being required, under certain circumstances, to pay to First Bancshares a termination fee equal to $1,200,000;
- substantial costs incurred by Sunshine in connection with the proposed merger, such as legal, accounting, financial advisor, filing, printing and mailing fees;
- the loss of key employees and customers;
- the disruption of operations and business;

- deposit attrition, customer loss and revenue loss;

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- unexpected problems with costs, operations, personnel, technology and credit;

- diversion of management focus and resources from operational matters and other strategic opportunities while working to implement the merger; and

- reputational harm due to the adverse perception of any failure to successfully complete the merger.

If the merger is not completed, these risks could materially affect the business, financial results and the value of Sunshine common stock.

Sunshine will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Sunshine. These uncertainties may impair Sunshine's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with Sunshine to seek to change existing business relationships with Sunshine. Retention of certain employees by Sunshine may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles with Sunshine or First Bancshares. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Sunshine or First Bancshares, Sunshine's business or the business assumed by First Bancshares following the merger could be harmed. In addition, Sunshine has agreed to certain contractual restrictions on the operation of its business prior to closing. See "The Merger Agreement — Covenants and Agreements" for a description of the restrictive covenants applicable to Sunshine.

The merger agreement limits Sunshine's ability to pursue an alternative acquisition proposal and requires Sunshine to pay a termination fee of $1,200,000 under limited circumstances relating to alternative acquisition proposals.

Under the merger agreement, Sunshine has agreed not to initiate, solicit, induce or knowingly encourage, or take any action to facilitate any alternative business combination transaction or, subject to certain exceptions, participate in discussions or negotiations regarding, or furnish any non-public information relating to, any alternative business combination transaction. See "The Merger Agreement — No Solicitation" on page 91. The merger agreement also provides for Sunshine to pay to First Bancshares a termination fee in the amount of $1,200,000 in the event that the merger agreement is terminated for certain reasons. See "The Merger Agreement — Termination Fee" on page 95. These provisions could discourage a potential competing acquirer that might have an interest in acquiring Sunshine from considering or making a competing acquisition proposal, even if the potential competing acquirer was prepared to pay consideration with a higher per share cash value than the market value proposed to be received or realized in the merger, or might result in a potential competing acquirer proposing to pay a lower price than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances under the merger agreement.

The merger agreement contains provisions granting both Sunshine and First Bancshares the right to terminate the merger agreement in certain circumstances.

The merger agreement contains certain termination rights, including the right, subject to certain exceptions, of either party to terminate the merger agreement if the merger is not completed on or prior to May 31, 2018 (subject to automatic extension to August 31, 2018 if the only outstanding condition to closing is the receipt of regulatory approvals), and the right of Sunshine to terminate the merger agreement, subject to certain conditions, if the average closing price of First Bancshares common stock over a specified period prior to completion of the merger decreases below certain specified thresholds, or to accept a business combination transaction deemed to be superior to the merger by the Sunshine board of directors. If the merger is not completed, the ongoing business of Sunshine could be adversely affected and Sunshine will be subject to several risks, including the risks described elsewhere in this "Risk Factors" section

The merger is subject to a number of conditions which, if not satisfied or waived in a timely manner, would delay the merger or adversely impact the companies' ability to complete the transactions.

The completion of the merger is subject to certain conditions, including, among others, the (1) approval of the merger by the holders of at least a majority of the outstanding shares of Sunshine

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common stock entitled to vote; (2) the receipt of all required regulatory approvals for the merger, without the imposition of any material on-going conditions or restrictions, and the expiration of all regulatory waiting periods; (3) the absence of any legal restraint (such as an injunction or restraining order) that would prevent the consummation of the merger; (4) the effectiveness of the registration statement of which this proxy statement/prospectus forms a part; (5) each party's receipt of a tax opinion from its respective outside legal counsel, dated the closing date of the merger, confirming the tax-free treatment of the merger for U.S. federal income tax purposes; (6) the absence of more than 12.5% of the outstanding shares of Sunshine's common stock exercising (or being entitled to exercise) their dissenters' rights; (7) the Plan of Bank Merger in the form attached as Exhibit B to the merger agreement attached as Annex A to this document being executed and delivered; (8) the absence of the occurrence of a material adverse effect on Sunshine or First Bancshares; and (9) other customary closing conditions set forth in the merger agreement. See "The Merger Agreement — Conditions to Completion of the Merger" on page 93. While it is currently anticipated that the merger will be completed during the second quarter of 2018, there can be no assurance that such conditions will be satisfied in a timely manner or at all, or that an effect, event, development or change will not transpire that could delay or prevent these conditions from being satisfied. Accordingly, there can be no guarantee with respect to the timing of the closing of the merger, whether the merger will be completed at all and when Sunshine stockholders would receive the merger consideration, if at all.

First Bancshares and Sunshine may waive one or more of the conditions to the merger without re-soliciting stockholder approval for the merger.

Each of the conditions to the obligations of First Bancshares and Sunshine to complete the merger may be waived, in whole or in part, to the extent permitted by applicable law, by agreement of First Bancshares and Sunshine, if the condition is a condition to both parties' obligation to complete the merger, or by the party for which such condition is a condition of its obligation to complete the merger. The boards of directors of First Bancshares and Sunshine may evaluate the materiality of any such waiver to determine whether amendment of this proxy statement/prospectus and re-solicitation of proxies are necessary. First Bancshares and Sunshine, however, generally do not expect any such waiver to be significant enough to require re-solicitation of stockholders. In the event that any such waiver is not determined to be significant enough to require re-solicitation of stockholders, the companies will have the discretion to complete the merger without seeking further stockholder approval.

Regulatory approvals may not be received, may take longer than expected or impose conditions that are not presently anticipated.

Before the transactions contemplated by the merger agreement may be completed, approvals must be obtained from various regulatory authorities, which include the Federal Reserve Board, the OCC, and other securities and regulatory authorities. These governmental entities may request additional information or materials regarding the regulatory applications and notices submitted by First Bancshares and Sunshine, or may impose conditions on the granting of such approvals. Such conditions or changes and the process of obtaining regulatory approvals could have the effect of delaying the completion of the merger or of imposing additional costs or limitations on the combined company following the merger. The regulatory approvals may not be received at all, may not be received in a timely fashion, and may contain conditions on the completion of the merger that are not anticipated or cannot be met. There can be no assurance as to whether these and other regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed. See "The Merger — Regulatory Approvals Required for the Merger" on page 70.

The directors and executive officers of Sunshine have interests in seeing the merger completed that are different from, or in addition to, those of the other Sunshine stockholders.

The directors and executive officers of Sunshine have arrangements that provide them with interests in the merger that are different from, or in addition to, those of the stockholders of Sunshine generally. These interests and arrangements may create potential conflicts of interest and may influence or may have influenced the directors and executive officers of Sunshine to support or approve the merger. See "The Merger — Interests of Sunshine's Directors and Executive Officers in the Merger" beginning on page 64.

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The opinion of Sunshine's financial advisor does not reflect changes in circumstances between the date of the signing of the merger agreement and the completion of the merger.

Sunshine's board of directors received an opinion from its financial advisor as to the fairness of the merger consideration from a financial point of view as of the date of such opinion. Subsequent changes in the operation and prospects of Sunshine or First Bancshares, general market and economic conditions and other factors that may be beyond the control of Sunshine or First Bancshares, may significantly alter the value of Sunshine or First Bancshares or the price of the shares of First Bancshares common stock by the time the merger is completed. The opinion does not address the fairness of the merger consideration from a financial point of view at the time the merger is completed, or as of any other date other than the date of such opinion. The opinion of Sunshine's financial advisor is attached as Annex B to this proxy statement/ prospectus. For a description of the opinion, see "The Merger — Opinion of Sunshine's Financial Advisor" on page 55.

The merger may be completed even though First Bancshares or Sunshine experiences adverse changes in its business.

In general, either First Bancshares or Sunshine may refuse to complete the merger if the other party suffers a material adverse effect on its business prior to the closing of the merger. However, certain types of changes or occurrences with respect to First Bancshares or Sunshine would not prevent the merger from going forward, even if the change or occurrence would have adverse effects on First Bancshares or Sunshine, including the following:

- changes in laws and regulations affecting financial institutions and their holding companies generally, or interpretations thereof by courts or governmental entities, if such changes do not have a disproportionate impact on the affected company;

- changes in GAAP or regulatory accounting requirements generally applicable to financial institutions and their holding companies, if such changes do not have a disproportionate impact on the affected company;

- changes in global, national or regional political conditions including the outbreak of war or acts of terrorism, or in economic or market conditions affecting the financial services industry generally, if such changes do not have a disproportionate impact on the affected company;

- changes or effects from the announcement of the merger agreement and the transactions contemplated thereby, and compliance by the parties with the merger agreement on the business, financial condition or results of operations of the parties;

- any failure by Sunshine of First Bancshares to meet any internal or published industry analyst projections or forecasts or estimates of revenues or earnings for any period (but not including the underlying causes thereof);

- a decline in the trading price or trading volume of First Bancshares common stock; however, Sunshine may terminate the merger agreement if (i) the average closing price of First Bancshares common stock during a specified period prior to closing is less than $25.52 and (ii) First Bancshares common stock underperforms the KBW Regional Banking Index by more than 20%, unless First Bancshares elects to make a compensating adjustment to the exchange ratio; and

- the impact of the merger agreement and the transactions contemplated thereby on relationships with customers or employees, including the loss of personnel subsequent to the date of the merger agreement.

Litigation in transactions of this type are sometimes filed against the board of directors of either party that could prevent or delay the completion of the merger or result in the payment of damages following completion of the merger.

In connection with the merger, it is possible that Sunshine stockholders may file putative class action lawsuits against the boards of directors of First Bancshares and/or Sunshine. Among other remedies, these stockholders could seek to enjoin the merger. The outcome of any such litigation would be uncertain. If a dismissal is not granted or a settlement is not reached, such potential lawsuits could prevent or delay

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completion of the merger and result in substantial costs to First Bancshares and Sunshine. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is consummated may adversely affect the combined company's business, financial condition, results of operations, cash flows and market price.

Risks Related to the Combined Company Following the Merger

The combined company expects to incur substantial expenses related to the merger.

The combined company expects to incur substantial expenses in connection with completing the merger and integrating the business and operations of Sunshine and First Bancshares. Although First Bancshares and Sunshine have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond their control that could affect the total amount or the timing of their integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. As a result, the transaction and integration expenses associated with the merger could, particularly in the near term, exceed the savings that the combined company expects to achieve from the integration of the businesses following the completion of the merger.

Following the merger, the combined company may be unable to integrate Sunshine's business with First Bancshares successfully and realize the anticipated synergies and other benefits of the merger or do so within the anticipated timeframe.

The merger involves the combination of two companies that currently operate as independent companies, as well as the companies' subsidiaries. Although the combined company is expected to benefit from certain synergies, including cost savings, the combined company may encounter potential difficulties in the integration process, including:

- the inability to successfully combine Sunshine's business with First Bancshares in a manner that permits the combined company to achieve the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized in the timeframe currently anticipated or at all;

- the risk of not realizing all of the anticipated operational efficiencies or other anticipated strategic and financial benefits of the merger within the expected timeframe or at all;

- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the merger; and

- performance shortfalls as a result of the diversion of management's attention caused by completing the merger and integrating the companies' operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of the combined company's management, the disruption of the combined company's ongoing business or inconsistencies in the combined company's operations, any of which could adversely affect the ability of the combined company to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger, or could otherwise adversely affect the business and financial results of the combined company.

Following the merger, the combined company may be unable to retain key employees.

The success of the combined company after the merger will depend in part upon its ability to retain key employees. Simultaneous with the execution of the merger agreement, First Bancshares entered into employee retention agreements with certain key employees of Sunshine, the effectiveness of which is conditioned upon the completion of the merger. However, key employees may depart either before or after the merger because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the merger. Accordingly, no assurance can be given that Sunshine or First Bancshares or, following the merger, the combined company will be able to retain key employees.

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There is no assurance that First Bancshares will complete the Southwest merger transaction.

Like the merger transaction with Sunshine, First Bancshares merger with Southwest is subject to customary conditions to closing, including the receipt of required regulatory approvals and the approval of Southwest stockholders. If any conditions to the Southwest merger are not satisfied or waived, to the extent permitted by law, the merger will not be completed. In addition, First Bancshares and Southwest may terminate the Southwest merger agreement under certain circumstances even if the Southwest merger agreement is approved by Southwest stockholders. If First Bancshares and Southwest do not complete the merger, First Bancshares would not realize any of the expected benefits of having completed the merger. Accordingly, there is no assurance that the Southwest merger will be consummated, or if it is, the timing for its completion.

The voting power of Sunshine stockholders will be diluted by the merger.

The merger will result in Sunshine stockholders having an ownership stake in the combined company that is smaller than their current stake in Sunshine. Upon completion of First Bancshares' merger with Sunshine, we estimate that Sunshine stockholders will own approximately 6.1% of the issued and outstanding shares of common stock of the combined company. In addition, assuming that First Bancshares' merger with Sunshine will be completed subsequent to First Bancshares' merger with Southwest, and assuming that the average closing of price of First Bancshares common stock in calculating the stock consideration for the merger with Southwest will be $30.95, the closing sale price of First Bancshares common stock on February 8, 2018, we estimate that upon completion of First Bancshares' merger with Southwest and Sunshine, continuing First Bancshares shareholders will own approximately 85.5% of the issued and outstanding shares of common stock of the combined company, and former Sunshine stockholders will own approximately 5.6% of the issued and outstanding shares of common stock of the combined company. Consequently, Sunshine stockholders, as a general matter, will have less influence over the management and policies of the combined company after the effective time of the merger than they currently exercise over the management and policies of Sunshine.

Future capital needs could result in dilution of stockholder investment.

First Bancshares' board of directors may determine from time to time there is a need to obtain additional capital through the issuance of additional shares of its common stock or other securities. These issuances would dilute the ownership interests of its shareholders and may dilute the per share book value of First Bancshares common stock. New investors may also have rights, preferences and privileges senior to First Bancshares' shareholders which may adversely impact its shareholders.

The unaudited pro forma combined consolidated financial information included elsewhere in this proxy statement/prospectus may not be representative of the combined company's results after the merger with Sunshine and Southwest, and accordingly, you have limited financial information on which to evaluate the combined company.

The unaudited pro forma combined consolidated financial information included elsewhere in this proxy statement/prospectus has been presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that actually would have occurred had the mergers with Sunshine and Southwest been completed as of the date indicated, nor is it indicative of the future operating results or financial position of the combined company. The unaudited pro forma combined consolidated financial information presented elsewhere in this proxy statement/prospectus does not reflect future events that may occur after the mergers. Such information is based in part on certain assumptions regarding the transactions contemplated by (1) the Sunshine merger and the transactions relating thereto that First Bancshares believes are reasonable, as well as (2) the Southwest merger and the transactions relating thereto that First Bancshares believes are reasonable. Therefore, First Bancshares and Sunshine cannot assure you that the assumptions will prove to be accurate over time. For more information, see "Unaudited Pro Forma Combined Consolidated Financial Information."

Risks Related to an Investment in the Combined Company's Common Stock

The market price of the shares of common stock of the combined company may be affected by factors different from those affecting the price of shares of First Bancshares common stock before the merger.

The results of operations of the combined company, as well as the market price of shares of the common stock of the combined company after the merger, may be affected by factors in addition to those

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currently affecting First Bancshares' or Sunshine's results of operations and the market prices of shares of First Bancshares common stock. Accordingly, the historical financial results of First Bancshares and Sunshine and the historical market prices of shares of First Bancshares common stock may not be indicative of these matters for the combined company after the merger. For a discussion of the businesses of First Bancshares and Sunshine and certain risks to consider in connection with evaluating the proposals to be considered at the Sunshine special meeting, see the documents incorporated by reference by First Bancshares into this proxy statement/prospectus referred to under "Where You Can Find More Information" beginning on page 118 and the information contained in Sunshine's historical consolidated financial statements and notes thereto and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Sunshine's Form 10-K for the year ended December 31, 2016 and Form 10-Q for the nine months ended September 30, 2017, copies of which are included in Annex D and Annex E to this proxy statement/prospectus, respectively.

The market price of the combined company's common stock may decline as a result of the merger.

The market price of the combined company's common stock may decline as a result of the merger if the combined company does not achieve the perceived benefits of the merger or the effect of the merger on the combined company's financial results is not consistent with the expectations of financial or industry analysts. In addition, upon completion of the merger, First Bancshares and Sunshine stockholders will own interests in a combined company operating an expanded business with a different mix of assets, risks and liabilities. Current First Bancshares and Sunshine stockholders may not wish to continue to invest in the combined company, or for other reasons may wish to dispose of some or all of their shares of the combined company.

After the merger is completed, Sunshine stockholders who receive shares of First Bancshares common stock in the merger will have different rights that may be less favorable than their current rights as Sunshine stockholders.

After the closing of the merger, Sunshine stockholders who receive shares of First Bancshares common stock in the merger will have different rights than they currently have as Sunshine stockholders, which may be less favorable than their current rights as Sunshine stockholders. For a detailed discussion of the significant differences between the current rights of a stockholder of Sunshine and the rights of a shareholder of the combined company following the merger, see "Comparison of Rights of First Bancshares Shareholders and Sunshine Stockholders" beginning on page 104.

Risks Related to Tax

The merger may have adverse tax consequences.

Each of First Bancshares and Sunshine expects that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and they will receive a legal opinion to that effect. A legal opinion represents the judgment of counsel rendering the opinion and is not binding on the Internal Revenue Service or the courts. If the merger were to fail to qualify as a reorganization within the meaning of Section 368(a) of the Code, then each U.S. holder of Sunshine common stock generally would recognize gain or loss, as applicable, equal to the difference between (1) the sum of the fair market value of the shares of First Bancshares common stock received by such U.S. holder in the merger and the amount of cash received by such U.S. holder in the merger and (2) its adjusted tax basis in the shares of Sunshine common stock surrendered in exchange therefor. See "The Merger — Material U.S. Federal Income Tax Considerations" beginning on page 71.

Risks Related to First Bancshares' Business

There are certain risks relating to First Bancshares' business.

You should read and consider risk factors specific to First Bancshares' business that will also affect the combined company after the merger. These risks are described in the section entitled "Risk Factors" in First Bancshares' Annual Report on Form 10-K for the year ended December 31, 2016 and in other documents incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 118 for the location of information incorporated by reference into this proxy statement/prospectus.

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THE SUNSHINE SPECIAL MEETING

This proxy statement/prospectus is being provided to the holders of Sunshine common stock as part of a solicitation of proxies by the Sunshine board of directors for use at the Sunshine special meeting to be held at the time and place specified below and at any properly convened meeting following an adjournment thereof. This proxy statement/prospectus provides the holders of Sunshine common stock with information they need to know to be able to vote or instruct their vote to be cast at the Sunshine special meeting.

General

Sunshine is furnishing this proxy statement/prospectus to the holders of Sunshine common stock as of the record date for use at Sunshine's special meeting and any adjournment or postponement of its special meeting.

Date, Time and Place

The Sunshine special meeting will be held at Sunshine's executive offices located at 1400 East Park Avenue, Tallahassee, Florida, on Tuesday, March 27, 2018, at 10:00 a.m., Eastern Time, subject to any adjournment or postponement thereof.

Purpose of the Sunshine Special Meeting

At the Sunshine special meeting, Sunshine stockholders will be asked to consider and vote on the following:

- Proposal One: The Merger Proposal — To approve the merger, which we refer to as the merger proposal;

- Proposal Two: The Compensation Proposal — To approve, in a non-binding advisory vote, certain compensation that may become payable to Sunshine's named executive officers in connection with the merger; and

- Proposal Three: The Adjournment Proposal — To approve the adjournment of the Sunshine special meeting to a later date or dates, if the Sunshine board of directors determines it is necessary, among other things, to permit solicitation of additional proxies if there are not sufficient votes at the time of the Sunshine special meeting to approve the merger proposal.

Completion of the merger is conditioned on, among other things, the approval of the merger by the Sunshine stockholders.

No other matter can be brought up or voted upon at the Sunshine special meeting.

Proposal One: Merger Proposal

Sunshine is asking its stockholders to approve the merger proposal. After careful consideration, Sunshine's board of directors determined that the merger, the merger agreement and the transactions contemplated thereby, including the merger, were advisable and in the best interests of Sunshine and Sunshine's stockholders.

Sunshine stockholders should carefully read this document in its entirety, including the annexes and the documents incorporated by reference, for more detailed information concerning the merger agreement and the merger. For a detailed discussion of the merger, including the terms and conditions of the merger agreement, see "The Merger Agreement," beginning on page 79. In addition, Sunshine stockholders are directed to the merger agreement, a copy of which is attached as Annex A to this document and incorporated in this document by reference.

Proposal Two: Compensation Proposal

Section 14A of the Securities and Exchange Act of 1934, as amended, or the Exchange Act, requires Sunshine to seek a non-binding advisory vote from its stockholders to approve certain golden parachute compensation that its named executive officers may be eligible to receive from Sunshine in connection with the merger.

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Golden Parachute Compensation Subject to the Advisory Vote

The following table and the related footnotes present information about compensation payable by Sunshine to Sunshine's "named executive officers," as determined for purposes of Sunshine's most recent Annual Report on Form 10-K, that is based on or otherwise relates to the merger, assuming the merger occurs on March 31, 2018 (which is the earliest date that we expect the merger to close, with the actual closing date more likely to be in the second quarter of 2018). Pursuant to Exchange Act Rule 14a-21(c), compensation payable by The First to Messrs. Baggett and Swain pursuant to their retention agreements with The First is not subject to the non-binding advisory vote on golden parachute compensation, and therefore is not included in the table below.

Golden Parachute Compensation

Name	Cash ($)	Equity ($)(3)	Pension/ NQDC ($)	Perquisites/ benefits ($)(4)	Tax reimbursement ($)(5)	Other ($)	Total ($)(6)(7)
Louis O. Davis, Jr.	$ 972,581(1)	$ 28,694	—	$ 41,674	—	—	$ 1,042,949
Brian Baggett	324,104(2)	28,694	—	—	—	—	352,798
Scott Swain	268,800(2)	28,694	—	—	—	—	297,494

(1)

Reflects estimated cash severance payable to Mr. Davis (i) in the event his employment is terminated for any reason other than cause, death, or disability, or if he terminates his employment for good reason (double-trigger), pursuant to his employment agreement, and (ii) in the event he incurs an involuntary termination, pursuant to his change of control agreement (double-trigger). The estimated severance payable pursuant to his employment agreement ($360,528) is payable in equal installments through December 31, 2019, the last day of the term of the employment agreement, and the severance payable pursuant to his change of control agreement ($612,053) is payable in a lump sum upon termination except that $225,000 of the severance payable under his change of control agreement was paid in December 2017. While Mr. Davis' change of control agreement provides that severance and other payments will be reduced as much as necessary to ensure that no amounts payable to him will be considered excess parachute payments under Code Section 280G, no such reduction is expected to be triggered. See "The Merger — Interests of Sunshine's Directors and Executive Officers in the Merger" below. As previously disclosed by Sunshine, as part of tax planning to enable Mr. Davis to obtain the full amounts available to him under his employment and change of control agreements, Sunshine prepaid in 2017 $225,000 that would otherwise be payable to him under his change of control agreement at the closing of the merger. The amount of the prepaid severance is not subject to repayment to Sunshine if the transaction is not completed for any reason and such prepayment is deemed to be a single-trigger payment.

(2)

Reflects estimated cash severance payable to Mr. Baggett ($324,104) and Mr. Swain ($268,800) pursuant to their change of control agreements. The First agreed that (i) Sunshine will pay fifty percent (50%) of the amount due on the closing date (single trigger), and (ii) The First will pay the remaining fifty percent (50%) of the amount due on the earlier of (x) September 14, 2018, subject to the executive's continued employment on such date (absent an involuntary termination, death or disability) or (y) the executive's earlier involuntary termination of employment or death or disability (double-trigger).

(3)

Reflects the value of single-trigger accelerated vesting of restricted share awards that will become fully-vested on the closing date of the merger, based on the $28.694 average per share closing price of the Sunshine common stock for the first five trading days following the first public announcement of the merger. The value of the stock consideration may be higher or lower at the time of closing than the above average price, and the cash consideration is fixed at $27.00 per share.

(4)
Represents the value of disability and life insurance premiums ($19,040) for the remaining term of Mr. Davis' employment agreement and the estimated value of employer contributions to the Sunshine Employee Stock Ownership Plan ($22,634) that would have been made during the remaining term of Mr. Davis' employment agreement. These double-trigger benefits will be paid in equal monthly cash installments over the remaining term of Mr. Davis' employment agreement.

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(5)
Sunshine's named executive officers will not receive tax reimbursements in connection with the merger.

(6)
Amounts listed in this column are subject to reduction in connection with Section 280G of the Code although no such reduction is expected to be triggered.

(7)
The following table quantifies, for each named executive officer, the portion of the total estimated amount of golden parachute compensation that is payable in connection with the merger and not conditioned on a termination of employment, referred to as "single trigger," and the portion of the total amount of golden parachute compensation that is payable only after both consummation of the merger and a termination of the named executive officer's employment (or a date certain, subject to the executive's continued employment), referred to as "double trigger":

Name	Single-Trigger ($)	Double-Trigger ($)
Louis O. Davis, Jr.	$ 253,694	$ 789,255
Brian Baggett	190,746	162,052
Scott Swain	163,094	134,400

Proposal Three: Adjournment Proposal

If, at the Sunshine special meeting, the number of shares of Sunshine common stock present or represented and voting in favor of the merger proposal is insufficient to approve the merger proposal, Sunshine may move to adjourn the Sunshine special meeting in order to enable the Sunshine board of directors to solicit additional proxies for approval of the merger proposal. In that event, Sunshine's stockholders will be asked to vote upon the adjournment proposal and not the merger proposal.

In the adjournment proposal, Sunshine is asking its stockholders to authorize the holder of any proxy solicited by its board of directors to vote in favor of granting discretionary authority to the Sunshine board of directors to adjourn the Sunshine special meeting to another time and place for the purpose of soliciting additional proxies. If Sunshine's stockholders approve the adjournment proposal, Sunshine could adjourn the Sunshine special meeting and any adjourned session of the Sunshine special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from Sunshine stockholders who have previously voted.

Recommendation of the Sunshine Board of Directors

On December 6, 2017, the Sunshine board of directors unanimously determined that the merger and the other transactions contemplated by the merger agreement are in the best interests of Sunshine and its stockholders and it approved the merger agreement, the merger and the other transactions contemplated by the merger agreement. Accordingly, the Sunshine board of directors unanimously recommends that Sunshine stockholders vote as follows:

- "FOR" Proposal One approving the merger;

- "FOR" Proposal Two approving, in a non-binding advisory vote, certain compensation that may become payable to Sunshine's named executive officers in connection with the merger; and

- "FOR" Proposal Three approving the adjournment of the Sunshine special meeting if necessary to permit solicitation of additional proxies.

Holders of Sunshine common stock should carefully read this proxy statement/prospectus, including any documents incorporated by reference, and the annexes in their entirety for more detailed information concerning the merger

agreement, merger and the other transactions contemplated by the merger agreement.

Record Date; Stockholders Entitled to Vote

The record date for the Sunshine special meeting is February 5, 2018, which we refer to herein as the Sunshine record date. Only record holders of shares of Sunshine common stock as of the close of business

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(5:00 p.m. Eastern Time), on the Sunshine record date are entitled to notice of, and to vote at, the Sunshine special meeting or any adjournment thereof. At the close of business on the Sunshine record date, the only outstanding securities of Sunshine with a right to vote on the proposals were Sunshine common stock, with 1,039,599 shares of Sunshine common stock issued and outstanding. Each share of Sunshine common stock outstanding on the Sunshine record date is entitled to one vote on each proposal, provided, however, that pursuant to the Sunshine Articles, no stockholder who beneficially owns more than 10.0% of the shares of Sunshine common stock outstanding as of that date may vote shares in excess of this limit.

Quorum and Adjournment

No business may be transacted at the Sunshine special meeting unless a quorum is present. Holders representing at least a majority of the shares of Sunshine common stock entitled to vote at the Sunshine special meeting must be present, in person or represented by proxy, to constitute a quorum.

Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast on the matter. No notice of an adjourned Sunshine special meeting need be given if the new date, time and place are announced at the special meeting before adjournment, and no new record date is required to be set. If the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting, a new record date must be set and a new notice must be given to the stockholders as of the new record date. At any adjourned Sunshine special meeting, all proxies will be voted in the same manner as they would have been voted at the original convening of the Sunshine special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the adjourned Sunshine special meeting.

All shares of Sunshine common stock represented at the Sunshine special meeting, including shares that are represented but that vote to abstain and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum.

Vote Required for Approval; Abstentions; Failure to Vote

The required votes to approve the Sunshine proposals are as follows:

Proposal One: The Merger Proposal — Approving the merger proposal requires the affirmative vote of at a majority of the issued and outstanding shares of Sunshine common stock entitled to vote at the Sunshine special meeting. Failure to vote, broker non-votes and abstentions will have the same effect as a vote AGAINST this proposal.

Proposal Two: The Compensation Proposal — Approving the compensation proposal requires the affirmative vote of a majority of the votes cast on the matter. Failure to vote, broker non-votes and abstentions will have no effect on this proposal.

Proposal Two: The Adjournment Proposal — Approving the adjournment proposal requires the affirmative vote of a majority of the votes cast on the matter. Failure to vote, broker non-votes and abstentions will have no effect on this proposal.

If you sign your proxy but do not indicate your vote, your proxy will be voted FOR each proposal.

Voting by Sunshine Directors and Executive Officers

At the close of business on the Sunshine record date, Sunshine directors and executive officers and their affiliates were entitled to vote 57,427 shares of Sunshine common stock, or approximately 5.5% of the shares of Sunshine common stock outstanding on that date. Sunshine expects that its directors and executive officers and their affiliates will vote their shares in favor of both of the Sunshine proposals.

Sunshine Common Stock Subject to Voting Agreements

All directors of Sunshine and Sunshine Community, solely in their capacity as stockholders of Sunshine, as well as certain stockholders of Sunshine have entered into voting agreements with First Bancshares pursuant to which they have agreed to vote their shares of Sunshine common stock in favor of the approval of the merger agreement and the merger and against the approval or adoption of any proposal

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made in opposition to the merger. As of the Sunshine record date, 155,727 shares of Sunshine common stock, or approximately 15.0% of the outstanding shares of Sunshine common stock entitled to vote at the Sunshine special meeting, are bound by the voting agreements.

Voting on Proxies by Holders of Record; Incomplete Proxies

If you were a record holder of Sunshine common stock at the close of business on the Sunshine record date, a proxy card is enclosed for your use. Sunshine requests that you vote your shares as promptly as possible by submitting your Sunshine proxy card by mail using the enclosed return envelope. If you are a registered stockholder, you may also vote via the Internet or telephone by following the instructions on the proxy card. When the accompanying proxy card is returned properly executed or if you voted via the Internet or telephone, the shares of Sunshine common stock represented by it will be voted at the Sunshine special meeting or any adjournment thereof in accordance with the instructions contained in the proxy card.

If a record holder returns an executed proxy card without an indication as to how the shares of Sunshine common stock represented by it are to be voted with regard to a particular proposal, the shares of Sunshine common stock represented by the proxy will be voted in accordance with the recommendation of the Sunshine board of directors and, therefore, such shares will be voted:

- “FOR” Proposal One approving the merger;

- “FOR” Proposal Two approving the compensation proposal; and

- “FOR” Proposal Three approving the adjournment of the Sunshine special meeting, if necessary to permit solicitation of additional proxies.

At the date hereof, the Sunshine board of directors has no knowledge of any business that will be presented for consideration at the Sunshine special meeting and that would be required to be set forth in this proxy statement/prospectus or the related proxy card other than the matters set forth in Sunshine’s Notice of Special Meeting of Stockholders.

Your vote is important. Accordingly, if you were a record holder of Sunshine common stock on the Sunshine record date, please sign and return the enclosed proxy card or vote via the Internet or telephone whether or not you plan to attend the Sunshine special meeting in person.

Shares Held in “Street Name;” Broker Non-Votes

Banks, brokers and other nominees who hold shares of Sunshine common stock in “street name” for a beneficial owner of those shares typically have the authority to vote in their discretion on “routine” proposals when they have not received instructions from beneficial owners. However, banks, brokers and other nominees are not allowed to exercise their voting discretion with respect to the approval of matters determined to be “non-routine,” without specific instructions from the beneficial owner. Broker non-votes are shares held by a broker, bank or other nominee that are represented at the Sunshine special meeting, but with respect to which the broker or nominee is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on such proposal. The merger proposal, the compensation proposal and the adjournment proposal are non-routine matters. Accordingly, if your broker, bank or other nominee holds your shares of Sunshine common stock in “street name,” your broker, bank or other nominee will vote your shares of Sunshine common stock with respect to the merger proposal, the compensation proposal and the adjournment proposal only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker, bank or other nominee with this proxy statement/prospectus.

Revocability of Proxies and Changes to a Sunshine Stockholder’s Vote

A Sunshine stockholder entitled to vote at the Sunshine special meeting may revoke a proxy at any time before such time that the proxy card for any such holders of Sunshine common stock must be received at the Sunshine special meeting by taking any of the following actions:

- delivering written notice of revocation to Brian P. Baggett, Corporate Secretary, Sunshine Financial, Inc., 1400 East Park Avenue, Tallahassee, Florida 32301;

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- delivering a proxy card bearing a later date than the proxy that such stockholder desires to revoke;

- voting by telephone or on the Internet (your latest telephone or Internet vote will be counted); or

- attending the Sunshine special meeting and voting in person.

Merely attending the Sunshine special meeting will not, by itself, revoke your proxy; a Sunshine stockholder must cast a subsequent vote at the Sunshine special meeting using forms provided for that purpose. The last valid vote that Sunshine receives before the polls close at the Sunshine special meeting is the vote that will be counted.

If you hold your shares in "street name" through a bank, broker or other nominee (referred to in this proxy statement/prospectus as a "beneficial owner"), you must contact such bank, broker or nominee if you desire to revoke your proxy as described above.

Solicitation of Proxies

The Sunshine board of directors is soliciting proxies for the Sunshine special meeting from holders of its Sunshine common stock entitled to vote at the Sunshine special meeting. In accordance with the merger agreement, Sunshine will pay its own cost of soliciting proxies from its stockholders, including the cost of mailing this proxy statement/prospectus. In addition to solicitation of proxies by mail, proxies may be solicited by Sunshine's officers, directors and regular employees, without additional remuneration, by personal interview, telephone or other means of communication. Sunshine has engaged Regan & Associates, Inc. to assist in the solicitation of proxies and to provide related advice and informational support for a service fee and the reimbursement of customary disbursements, which are not expected to exceed $8,000 in the aggregate.

Sunshine will make arrangements with brokerage houses, custodians, nominees and fiduciaries to forward proxy solicitation materials to beneficial owners of Sunshine common stock. Sunshine may reimburse these brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses incurred in forwarding the proxy materials.

Attending the Sunshine Special Meeting; Voting in Person

Only record holders of Sunshine common stock on the record date, their duly appointed proxies, and invited guests may attend the Sunshine special meeting. However, only holders of Sunshine common stock will be entitled to vote. All attendees must present government-issued photo identification (such as a driver's license or passport) for admittance. The additional items, if any that attendees must bring to gain admittance to the Sunshine special meeting depend on whether they are stockholders of record or proxy holders. A Sunshine stockholder who holds shares of Sunshine common stock directly registered in such stockholder's name who desires to attend the Sunshine special meeting in person need only bring government-issued photo identification.

A stockholder who holds shares in "street name" through a broker, bank, trustee or other nominee who desires to attend the Sunshine special meeting in person must bring proof of beneficial ownership as of the record date, such as a letter from the broker, bank, trustee or other nominee that is the record owner of such beneficial owner's shares, a brokerage account statement or the voting instruction form provided by the broker.

A person who holds a validly executed proxy entitling such person to vote on behalf of a record owner of Sunshine common stock who desires to attend the Sunshine special meeting in person must also bring the validly executed proxy naming such person as the proxy holder, signed by the Sunshine stockholder of record, and proof of the signing stockholder's record ownership as of the record date.

No cameras, recording equipment or other electronic devices will be allowed in the meeting room. Failure to provide the requested documents at the door or failure to comply with the procedures for the Sunshine special meeting may prevent Sunshine stockholders from being admitted to the Sunshine special meeting.

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Assistance

If you need assistance in completing your proxy card, have questions regarding the Sunshine special meeting or would like additional copies of this proxy statement/prospectus, please contact Brian P. Baggett, Corporate Secretary, at (850) 219-7200.

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THE MERGER

The following discussion contains certain information about the merger. The discussion is subject, and qualified in its entirety by reference, to the merger agreement attached as Annex A to this proxy statement/ prospectus. We urge you to read carefully this entire proxy statement/prospectus, including the merger agreement attached as Annex A, for a more complete understanding of the merger.

General

Each of First Bancshares' and Sunshine's respective boards of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement. The merger agreement provides for the acquisition of Sunshine by First Bancshares pursuant to the merger of Sunshine with and into First Bancshares, with First Bancshares as the surviving company, which we refer to as the merger. Immediately after the merger, Sunshine Community, a wholly owned bank subsidiary of Sunshine, will be merged with and into The First, a wholly owned bank subsidiary of First Bancshares, with The First as the surviving bank, which we refer to as the bank merger.

Purchase Price and Purchase Price Adjustments

At the effective time of the merger, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, which we refer to as the cash consideration, or (ii) 0.93 of a share of First Bancshares' common stock, which we refer to as to the stock consideration. The election of stock consideration or cash consideration will be subject to proration such that 75% of the issued and outstanding shares of Sunshine common stock will be exchanged for First Bancshares common stock and 25% will be exchanged for cash. As a result, if the aggregate number of shares with respect to which a valid stock or cash election has been made exceeds these limits, stockholders who have elected the form of merger consideration that has been over-subscribed will receive a mixture of both stock consideration and cash consideration in accordance with the proration procedures set forth in the merger agreement. The stock consideration and the cash consideration are collectively referred to as the merger consideration. Each outstanding share of Sunshine common stock subject to vesting restrictions shall become vested immediately prior to the effective time of the merger and will be converted into the right to receive the same merger consideration that other Sunshine stockholders are entitled to receive. Each option to purchase shares of Sunshine common stock shall be cancelled as of the effective time of the merger and converted into the right to receive a cash payment equal to the product of (i) the total number of shares of Sunshine common stock subject to such option times (ii) the excess, if any, of $27.00 over the exercise price per share of Sunshine common stock subject to such option.

First Bancshares will not issue any fractional shares of First Bancshares common stock in the merger. Sunshine stockholders who would otherwise be entitled to a fractional share of First Bancshares common stock upon the completion of the merger will instead receive an amount in cash (without interest and rounded to the nearest whole cent) determined by multiplying the fractional share interest in First Bancshares common stock (rounded to the nearest one hundredth of a share) by $27.00.

Sunshine stockholders are being asked to approve the merger. See "The Merger Agreement" for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the completion of the merger and the provisions for terminating or amending the merger agreement.

Background of the Merger

As part of their ongoing consideration and evaluation of Sunshine's long-term prospects, Sunshine's board of directors and executive officers have regularly reviewed and assessed Sunshine's business strategies and objectives, all with the goal of enhancing long-term value for Sunshine's shareholders.

As part of this review, BSP, an investment banking firm, executed a non-disclosure agreement with Sunshine on April 3, 2017, to discuss strategic options with the management and the board of directors of Sunshine. On April 25, 2017, BSP presented financial analysis to the board of directors to review the following strategic alternatives: remain independent, explore peer mergers or merge with a larger partner.

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After review of the analysis, the Sunshine board of directors decided to hire BSP to render financial advisory and investment banking services to Sunshine in connection with a potential merger or sale. The engagement letter between Sunshine and BSP was executed on April 28, 2017.

In connection with the potential sale, BSP contacted 68 parties on a no-name basis regarding possible interest in Sunshine. Twenty parties expressed an interest in evaluating the opportunity and executed a non-disclosure agreement. The initial Non-Binding Indications of Interests ("IOI") deadline was August 24, 2017. On August 24, 2017, four parties, including First Bancshares, submitted IOIs. On August 29, 2017, BSP reviewed recent merger pricing of banks with similar characteristics and financials to Sunshine with the board of directors. BSP analyzed the four IOIs and the historical financials and trading data of the four bidders.

Following the August 29, 2017 Sunshine board meeting, BSP was instructed to contact two of the bidders and request they increase the bottom of their consideration range. Both parties agreed and submitted updated IOIs reflecting the revised pricing. BSP then proceeded to invite three of the four bidders to conduct further diligence on Sunshine. The one bidder not invited to conduct further diligence submitted an IOI with an offer significantly lower than the other interested parties.

From September 4, 2017 to October 27, 2017, each of the three remaining parties conducted further due diligence on Sunshine via document requests, onsite loan review and in-person management meetings. On October 23, 2017, one party informed BSP that they would not be submitting an updated IOI. On October 27, 2017, the remaining two parties submitted updated IOIs. On November 2, 2017, BSP met with the Sunshine board of directors to review the updated IOIs. Sunshine executed the updated First Bancshares IOI on November 2, 2017.

On November 11, 2017, First Bancshares' legal counsel, Alston & Bird LLP, distributed a draft of the merger agreement to Sunshine and its legal counsel, Silver, Freedman, Taff & Tiernan LLP. From then until December 5, 2017, First Bancshares and Sunshine and their respective advisors worked to negotiate and finalize the terms of the merger agreement and the support agreements, and prepared disclosure schedules related to the merger agreement.

On November 17, 2017, BSP and members of Sunshine management conducted reverse due diligence on First Bancshares in Hattiesburg, Mississippi.

On December 5, 2017, First Bancshares' board of directors held a special meeting to review and discuss the proposed merger and the merger agreement. At this meeting, First Bancshares' board of directors received presentations from its legal counsel, Alston & Bird LLP and its financial advisor, Keefe, Bruyette & Woods, Inc. Following this discussion, First Bancshares' board of directors unanimously voted to approve the merger agreement and the other transactions contemplated by the merger agreement, including the merger, and authorized First Bancshares' executives to execute the merger agreement.

On December 6, 2017, the board of directors of Sunshine met to review the merger agreement. After receiving a fairness opinion presentation from BSP, and reviewing the merger agreement with Silver, Freedman, Taff & Tiernan LLP, the Sunshine board of directors unanimously adopted and approved the merger agreement and unanimously determined to recommend the merger to the Sunshine shareholders for approval.

First Bancshares' Reasons for the Merger

In reaching its decision to approve and adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, including the issuance of First Bancshares common stock as part of the merger consideration, the First Bancshares board of directors considered a number of factors, including the following material factors:

- each of First Bancshares' and Sunshine's business, operations, financial condition, asset quality, earnings and prospects;

- the strategic fit of the businesses of the two companies, including their complementary markets, business lines and loan and deposit profiles;

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- the anticipated pro forma impact of the transaction on the combined company, including the expected impact on financial metrics including earnings and tangible book value and regulatory capital levels, as well as the future impact the transaction could have on First Bancshares' earning asset mix to more heavily weight loans and reduce the percentage of the securities portfolio;

- its understanding of the current and prospective environment in which First Bancshares and Sunshine operate, including national, state and local economic conditions, the competitive environment for financial institutions generally, and the likely effect of these factors on First Bancshares both with and without the proposed transaction;

- its review and discussions with First Bancshares' management concerning the due diligence investigation of Sunshine, including its review of Sunshine's financial condition, results of operation, asset quality, market areas, growth potential (projected potential accretion to earnings per share and the projected payback period of the estimated decrease in tangible book value) and quality of senior management;

- the perceived compatibility of the corporate cultures of the two companies, which management believes should facilitate integration and implementation of the transaction;

- the structure of the transaction as a combination in which the combined company would operate under the First Bancshares brand and First Bancshares' board of directors and management would have substantial participation in the combined company;

- the regulatory and other approvals required in connection with the merger and the expectation that such regulatory approvals will be received in a timely manner and without the imposition of unacceptable conditions; and

- the financial and other terms of the merger agreement, including the merger consideration, expected tax treatment, the deal protection and termination fee provisions, and restrictions on the conduct of Sunshine's business between the date of the merger agreement and the date of completion of the merger.

First Bancshares' board of directors also considered potential risks relating to the merger including the following:

- First Bancshares management's attention and First Bancshares resources may be diverted from the operation of First Bancshares' business and towards the completion of the merger;

- First Bancshares may not realize all of the anticipated benefits of the merger, including cost savings, maintenance of existing customer and employee relationships, and minimal disruption in the integration of Sunshine's operations with First Bancshares;

- the nature and amount of payments and other benefits to be received by Sunshine management in connection with the merger pursuant to existing Sunshine plans and compensation arrangements and the merger agreement;

-

the substantial costs that First Bancshares will incur in connection with the merger even if they are not consummated;

- approvals from regulatory authorities could impose conditions that could have the effect of delaying completion of the merger or imposing additional costs; and

- possibility of litigation in connection with the merger.

The foregoing discussion of the factors considered by the First Bancshares board of directors is not intended to be exhaustive, but, rather, includes the material factors considered by the First Bancshares board of directors. In reaching its decision to approve and adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, including the issuance of First Bancshares common stock as part of the merger consideration, the First Bancshares board of directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The First Bancshares board of directors considered all these factors as a whole and overall considered the factors to be favorable to, and to support, its determination.

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Sunshine's Reasons for the Merger

Sunshine's board of directors believes that the merger is in the best interest of Sunshine and its stockholders. Accordingly, Sunshine's board of directors has unanimously approved the merger agreement and unanimously recommends that Sunshine's stockholders vote "FOR" approval of the merger.

In approving the merger agreement, Sunshine's board of directors consulted with management and its financial advisors with respect to the financial aspects and fairness of the merger consideration, from a financial point of view, to the holders of shares of Sunshine common stock, and with its outside legal counsel as to its legal duties and the terms of the merger agreement. The board believes that combining with First Bancshares will create a stronger and more diversified organization that will provide significant benefits to Sunshine's stockholders and customers alike. The terms of the merger agreement, including the consideration to be paid to Sunshine's stockholders, were the result of arm's length negotiations between representatives of Sunshine and representatives of First Bancshares. In arriving at its determination to approve the merger agreement, Sunshine's board of directors considered a number of factors, including the following material factors:

- Sunshine's board of directors' familiarity with and review of information concerning the business, results of operations, financial condition, competitive position and future prospects of Sunshine and First Bancshares compared to the risks and challenges associated with the operation of Sunshine's business as an independent entity;

- the current and prospective environment in which Sunshine operates, including national, regional and local economic conditions, the competitive environment for banks, thrifts and other financial institutions generally and the increased regulatory burdens on financial institutions generally and the trend toward consolidation in the banking industry and in the financial services industry;

- the financial presentation of management;

- the financial information and analyses presented by its outside financial advisor, BSP, to the board of directors, and BSP's opinion to the board of directors to the effect that, as of the date of such opinion, based upon and subject to the factors and assumptions set forth in such opinion, the merger consideration is fair from a financial point of view to holders of Sunshine common stock;

- that stockholders of Sunshine will receive a portion of the merger consideration in shares of First Bancshares common stock, which is listed on the NASDAQ, contrasted with the limited trading market for Sunshine's common stock which is traded on the Over-the-Counter Market;

- the treatment of the merger as a "reorganization" within the meaning of Section 368(a) of the Code with respect to the shares of Sunshine common stock exchanged for First Bancshares common stock;

- the results that Sunshine could expect to obtain if it continued to operate independently, and the likely benefits to stockholders of that course of action, as compared with the value of the merger consideration offered by First Bancshares;

- the ability of First Bancshares to receive the requisite regulatory approvals in a timely manner;

- the terms and conditions of the merger agreement, including the parties' respective representations, warranties, covenants and other agreements, and the conditions to closing;

- that a merger with a larger holding company would provide the opportunity to realize economies of scale, increase efficiencies of operations and enhance the development of new products and services;

- that Sunshine's directors and executive officers have financial interests in the merger in addition to their interests as Sunshine stockholders, including financial interests that are the result of compensation arrangements with Sunshine, and the manner in which such interests would be affected by the merger;

- that the cash portion of the merger consideration will be taxable to Sunshine's stockholders upon completion of the merger;

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- the requirement that Sunshine conduct its business in the ordinary course and the other restrictions on the conduct of Sunshine's business before completion of the merger, which may delay or prevent Sunshine from undertaking business opportunities that may arise before completion of the merger; and

- that under the merger agreement, Sunshine cannot solicit competing proposals for the acquisition of Sunshine.

The Sunshine board of directors also considered a number of potential risks and uncertainties associated with the merger in connection with its deliberation of the proposed transaction, including, without limitation, the following:

- the potential risk of diverting management attention and resources from the operation of Sunshine's business towards the completion of the merger;

- the restrictions on the conduct of Sunshine's business prior to the completion of the merger, which are customary for merger agreements involving financial institutions, but which, subject to specific exceptions, could delay or prevent Sunshine from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of Sunshine absent the pending completion of the merger;

- the possibility that Sunshine will have to pay a $1.2 million termination fee to First Bancshares if the merger agreement is terminated under certain circumstances;

- the potential risks associated with achieving anticipated cost synergies and savings and successfully integrating Sunshine Community Bank's business, operations and workforce with those of The First;

- the merger-related costs and expenses; and

- the other risks described under the heading "Risk Factors."

The foregoing discussion of the information and factors considered by the Sunshine board of directors is not intended to be exhaustive, but includes the material factors considered by the Sunshine board of directors. In reaching its decision to approve the merger agreement, the merger and the other transactions contemplated by the merger agreement, the board of directors of Sunshine did not assign any relative or specific weight to different factors and individual directors may have given weight to different factors. Based on the reasons stated above, the board of directors of Sunshine believes that the merger is in the best interest of Sunshine and its stockholders and therefore the board of directors of Sunshine unanimously approved the merger agreement and the merger.

This summary of the reasoning of Sunshine's board of directors and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements."

SUNSHINE'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE MERGER AGREEMENT.

Opinion of Sunshine's Financial Advisor

Sunshine retained BSP on an exclusive basis to render financial advisory and investment banking services and to render a written opinion to the board of directors of Sunshine as to the fairness, from a financial point of view, of the merger consideration to be paid under the terms of the merger agreement. BSP is an investment banking firm that

specializes in providing financial advisory and investment banking services to financial institutions. BSP has been involved in many bank-related business combinations. No limitations were imposed by Sunshine upon BSP with respect to rendering its opinion.

At the December 6, 2017, meeting at which the Sunshine board of directors considered and approved the merger agreement, BSP delivered its written opinion that, as of such date, the merger consideration to be received was fair from a financial point of view.

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The full text of BSP's opinion is attached as Annex B to this proxy statement/prospectus. The opinion outlines the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by BSP in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. We urge you to read the entire opinion carefully in connection with your consideration of the proposed merger.

The opinion speaks only as of the date of the opinion. The opinion was directed to the Sunshine board of directors and is directed only to the fairness, from a financial point of view, of the merger consideration to be received. It does not address the underlying business decision to engage in the merger or any other aspect of the merger and is not a recommendation to any shareholder as to how such shareholder should vote with respect to the merger or any other matter.

For purposes of the opinion and in connection with its review of the proposed transaction, BSP, among other things, did the following:

1.
Reviewed the terms of the merger agreement;

2.
Participated in discussions with Sunshine's management concerning Sunshine's financial condition, asset quality and regulatory standing, capital position, historical and current earnings, management succession and Sunshine's and First Bancshares' future financial performance;

3.
Reviewed Sunshine's audited financial statements for the years ended December 31, 2016, 2015 and 2014, and unaudited financial statements for the quarter and nine months ended September 30, 2017;

4.
Reviewed First Bancshares' audited financial statements for the years ended December 31, 2016, 2015 and 2014, and unaudited financial statements for the quarter and nine months ended September 30, 2017;

5.
Reviewed certain financial forecasts and projections of Sunshine, prepared by its management, as well as the estimated cost savings and related transaction expenses expected to result from the merger;

6.
Analyzed certain aspects of Sunshine's financial performance and condition and compared such financial performance with similar data of publicly-traded companies BSP deemed similar to Sunshine;

7.
Reviewed historical trading activity of First Bancshares and management's projections for future financial performance;

8.
Compared the proposed financial terms of the merger with the financial terms of certain other recent merger and acquisition transactions, involving acquired companies that BSP deemed to be relevant to Sunshine; and

9.
Performed such other analyses and considered such other information, financial studies, and investigations and financial, economic and market criteria as BSP deemed relevant.

BSP assumed and relied, without independent verification, upon the accuracy and completeness of all of the financial and other information provided to it by Sunshine, First Bancshares and each company's respective representatives and

of the publicly available information for Sunshine and First Bancshares that BSP reviewed. BSP is not an expert in the evaluation of allowances for loan losses and has not independently verified such allowances, and relied on and assumed that such allowances of Sunshine and First Bancshares at September 30, 2017, were adequate to cover such losses and complied fully with applicable law, regulatory policy and sound banking practice as of the date of such financial statements. BSP was not retained to, and did not, conduct a physical inspection of any of the properties or facilities of Sunshine. BSP also did not make any independent evaluation or appraisal of the assets, liabilities or prospects of Sunshine, was not furnished with any such evaluation or appraisal, and did not review any individual credit files. The opinion of BSP was necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, the date thereof. BSP expressed no opinion on matters of a legal, regulatory, tax or accounting nature or the ability of the merger, as set forth in the merger agreement, to be consummated. No opinion was expressed as to whether any alternative transaction might be more favorable to Sunshine than the merger.

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BSP, as part of its investment banking business, is regularly engaged in the valuation of banks and bank holding companies and various other financial services companies in connection with mergers and acquisitions, private placements of securities, and valuations for other purposes. In rendering its fairness opinion, BSP acted on behalf of the Sunshine board of directors.

BSP's opinion is limited to the fairness, from a financial point of view, of the merger consideration to be received under the terms of the merger agreement and does not address the ability of the merger to be consummated, the satisfaction of the conditions precedent contained in the merger agreement, or the likelihood of the merger receiving regulatory approval. Although BSP was retained on behalf of the Sunshine board of directors, BSP's opinion did not constitute a recommendation to any director of Sunshine as to how such director or any shareholder should vote with respect to the merger agreement.

Based upon and subject to the foregoing and based on BSP's experience as investment bankers, BSP's activities as described above, and other factors deemed relevant, BSP rendered its opinion that, as of December 6, 2017, the merger consideration received is fair to the holders of Sunshine common stock, from a financial point of view.

The following is a summary of material analyses performed by BSP in connection with its opinion to the Sunshine board of directors on December 6, 2017. The summary does not purport to be a complete description of the analyses performed by BSP but summarizes the material analyses performed and presented in connection with such opinion.

Financial Analysis

In rendering its opinion, BSP performed a variety of financial analyses. The summary below is not a complete description of all the analyses underlying BSP's opinion or the presentation made by BSP to the Sunshine board of directors, but is a summary of the material analyses performed and presented by BSP. The summary includes information presented in tabular format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. BSP believes that its analysis must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in the comparative analyses described below is identical to Sunshine or First Bancshares and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Sunshine and First Bancshares and the companies to which they are being compared. In arriving at its opinion, BSP did not attribute any particular weight to any analysis or factor that it considered. Rather, BSP made qualitative judgments as to the significance and relevance of each analysis and factor. BSP did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support its opinion; rather, BSP made its determination as to the fairness of the merger consideration on the basis of its experience and professional judgment after considering the results of all of the analyses taken as a whole.

In performing its analysis, BSP also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which are beyond the control of Sunshine, First Bancshares and BSP. The analyses performed by BSP are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. BSP prepared its analyses solely for purposes of rendering its opinion and presented such analyses to Sunshine's board of directors at its December 6, 2017, meeting. Estimates of the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty, and actual values may be materially different. Accordingly, BSP's analysis does not necessarily reflect the value of Sunshine or First Bancshares common stock or the prices at which Sunshine common stock or First Bancshares common stock may be

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sold at any time. BSP's analysis was among a number of factors taken into consideration by Sunshine's board of directors in making its determination to approve the merger agreement and should not be viewed as determinative of the merger consideration or the decision of the Sunshine board of directors or management with respect to the fairness of the merger.

Summary of Merger Consideration and Implied Transaction Metrics

Under the terms of the merger agreement, each share of Sunshine common stock outstanding prior to the merger will be converted into and exchanged for the right to receive the following:

(i)

a cash payment, without interest, in an amount equal to $27.00; or

(ii)

0.93 of a share of First Bancshares common stock

Holders of record of Sunshine common stock may elect to receive shares of FBMS common stock or cash in exchange for their shares of Sunshine common stock, provided that the aggregate number of shares of Sunshine common stock to be converted into the per share stock consideration shall be 75% of the total outstanding shares number.

As part of its analysis, BSP reviewed a group of selected merger and acquisition transactions involving U.S. banks. The criteria for the merger peers consisted of the following: whole-bank transactions announced between January 1, 2016, and December 5, 2017, with target total assets between $100 million and $300 million, tangible equity/tangible assets between 10.00% and 15.00% and LTM Return on Average Assets between 0.00% and 0.50% at announcement:

Buyer	Seller
First Bank	Delanco Bancorp, Inc.
Atlantic Community Bancshares, Inc.	BBN Financial Corp.
Seacoast Banking Corp. of Florida	NorthStar Banking Corp.
First Bank	Bucks County Bank
First Guaranty Bancshares, Inc.	Premier Bancshares, Inc.
Southern Missouri Bancorp, Inc.	Tammcorp, Inc.
Suncrest Bank	Security First Bank
Monticello Bankshares, Inc.	Banco Harlan, Inc.
Central Valley Community Bancorp	Sierra Vista Bank
Independent Bank Corp.	New England Bancorp, Inc.
NASB Financial, Inc.	Lexington B&L Financial Corp.
Carolina Financial Corp.	Congaree Bancshares, Inc.

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Using the latest publicly available information prior to the announcement of the relevant transaction, BSP reviewed the following transaction metrics for each selected merger transaction group: transaction price to last-12-months earnings, transaction price to tangible book value, transaction price to total assets and tangible book premium to core deposits. BSP compared the indicated transaction multiples for the merger to the 25th percentile, 75th percentile, and median multiples of each merger transaction group.

Buyer Name/ Target Name	Transaction Value ($mm)	Transaction Price/ LTM EPS (x)	Transaction Price/ Tangible Book (%)	Assets (%)	Premium/ Core Deposits (%)
First Bancshares, Inc./ Sunshine Financial, Inc.	32.2	54.5	145.5	16.6	6.9
Median	18.8	37.4	124.9	13.4	4.3
25th Percentile	15.7	32.3	108.5	11.3	1.1
75th Percentile	25.1	42.0	135.4	14.0	5.7
First Bank/ Delanco Bancorp, Inc.	13.4	NM	98.7	10.6	(0.2)
Atlantic Community Bancshares, Inc./ BBN Financial Corp.	17.0	36.2	109.2	10.2	1.1
Seacoast Banking Corp. of Florida/ NorthStar Banking Corp.	29.9	38.6	136.8	14.1	6.1
First Bank/ Bucks County Bank	27.2	46.7	124.7	13.8	5.2
First Guaranty Bancshares, Inc./ Premier Bancshares, Inc.	20.6	42.3	125.2	13.4	4.3
Southern Missouri Bancorp, Inc./ Tammcorp, Inc.	23.4	31.5	158.6	11.8	6.3
Suncrest Bank/ Security First Bank	17.0	31.8	111.2	16.1	2.1
Monticello Bankshares, Inc./ Banco Harlan, Inc.	14.3	41.1	91.2	10.2	(1.5)
Central Valley Community Bancorp/ Sierra Vista Bank	24.4	30.7	135.1	15.6	7.1
Independent Bank Corp./ New England Bancorp, Inc.	30.1	46.7	136.2	11.6	5.6
NASB Financial, Inc./ Lexington B&L Financial Corp.	15.8	33.9	106.2	13.3	1.0
Carolina Financial Corp./ Congaree Bancshares, Inc.	15.3	NM	127.4	14.0	4.3

Sources: S&P Global Market Intelligence, BSP

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BSP also performed an analysis that estimated the net present value per share of Sunshine common stock on a standalone basis assuming Sunshine performed in accordance with management guidance for 2018 – 2019 and BSP projections for 2020. For purposes of this analysis, BSP assumed that Sunshine would earn $1.18 per share in 2018, $1.53 per share in 2019 and $1.92 per share in 2020. To approximate the terminal trading value of a share of Sunshine common stock at December 31, 2020, BSP applied price to 2020 earnings per share multiples ranging from 13.0x to 19.0x and price to December 31, 2020 tangible book value per share multiples ranging from 90% to 120%. The terminal values were then discounted to present values using different discount rates ranging from 11.0% to 15.0%, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Sunshine common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of Sunshine common stock of $16.40 to $26.65 when applying multiples of earnings per share and $15.80 to $23.42 when applying multiples of tangible book value per share.

Sources: Sunshine, BSP

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BSP performed an analysis that estimated the net present value per share of Sunshine common stock on a standalone basis assuming Sunshine performed in accordance with management guidance for 2018 – 2019 and BSP projections for 2020. For purposes of this analysis, BSP normalized net income for loan participations by assuming purchased loan participations were replaced with securities at a 2% yield and assumed that Sunshine would earn $1.00 per share in 2018, $1.35 per share in 2019 and $1.69 per share in 2020. To approximate the terminal trading value of a share of Sunshine common stock at December 31, 2020, BSP applied price to 2020 earnings per share multiples ranging from 13.0x to 19.0x and price to December 31, 2020 tangible book value per share multiples ranging from 90% to 120%. The terminal values were then discounted to present values using different discount rates ranging from 11.0% to 15.0%, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Sunshine common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of Sunshine common stock of $14.42 to $23.44 when applying multiples of earnings per share and $15.42 to $22.86 when applying multiples of tangible book value per share.

Sources: Sunshine, BSP

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BSP performed an analysis that estimated the net present value per share of First Bancshares common stock on a standalone basis assuming First Bancshares performed in accordance with mean analyst operating income estimates for 2018 – 2019 and BSP projections for 2020. For purposes of this analysis, BSP assumed that First Bancshares would earn $1.97 per share in 2018, $2.34 per share in 2019 and $2.58 per share in 2020. To approximate the terminal trading value of a share of First Bancshares common stock at December 31, 2020, BSP applied price to 2020 earnings per share multiples ranging from 17.0x to 23.0x and price to December 31, 2020 tangible book value per share multiples ranging from 150% to 210%. The terminal values were then discounted to present values using different discount rates ranging from 10.0% to 14.0%, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of First Bancshares common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of First Bancshares common stock of $30.04 to $45.03 when applying multiples of earnings per share and $23.80 to $36.85 when applying multiples of tangible book value per share.

Sources: Sunshine, BSP

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BSP performed an analysis that estimated the net present value per share of First Bancshares common stock on a pro forma basis assuming First Bancshares performed in accordance with mean analyst net income estimates for 2018 – 2019 and BSP projections for 2020. BSP pro forma estimates include the impact of cost savings and other merger-related adjustments. For purposes of this analysis, BSP assumed that First Bancshares would earn $1.82 per share in 2018, $2.50 per share in 2019 and $2.79 per share in 2020. To approximate the terminal trading value of a share of First Bancshares common stock at December 31, 2020, BSP applied price to 2020 earnings per share multiples ranging from 17.0x to 23.0x and price to December 31, 2020 tangible book value per share multiples ranging from 150% to 210%. The terminal values were then discounted to present values using different discount rates ranging from 10.0% to 14.0%, which were chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of First Bancshares common stock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of First Bancshares common stock of $32.47 to $48.68 when applying multiples of earnings per share and $24.05 to $37.25 when applying multiples of tangible book value per share.

Sources: S&P Global Market Intelligence, BSP

Conclusion

Based on the results of the various analyses described above, BSP concluded that the merger consideration to be received under the terms of the merger agreement is fair, from a financial point of view.

The opinion expressed by BSP was based upon market, economic and other relevant considerations as they existed and could be evaluated as of the date of the opinion. Events occurring after the date of issuance of the opinion, including, but not limited to, changes affecting the securities markets, the results of operations or material changes in the assets or liabilities of Sunshine or First Bancshares, could materially affect the assumptions used in preparing the opinion.

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As described above, BSP's opinion was among the many factors taken into consideration by the Sunshine board of directors in making its determination to approve the merger agreement. For purposes of rendering its opinion, BSP assumed that, in all respects material to its analyses:

- the merger will be consummated in accordance with the terms of the merger agreement without waiver, modification or amendment of any term, condition or agreement thereof;

- the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

- each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

- all conditions to the completion of the merger will be satisfied without any waivers; and

- in the course of obtaining the necessary regulatory, contractual or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination, or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger.

BSP cannot provide assurance as to when or if all of the conditions to the merger can or will be satisfied or, if applicable, waived by the appropriate party. As of the date of this proxy statement/ prospectus, BSP has no reason to believe that any of these conditions will not be satisfied.

Compensation to BSP

BSP was engaged as financial advisor to Sunshine in connection with the merger. Pursuant to the terms of the engagement agreement, Sunshine agreed to pay BSP certain fees in conjunction with this transaction, $15,000 of which was paid upon signing of the engagement letter, $35,000 of which was paid upon the signing of a merger agreement and $25,000 which was paid upon BSP's delivery of the written opinion to Sunshine. Upon closing of the transaction, BSP will be paid a fee calculated as one percent (1.00%) of total consideration. In addition, Sunshine has agreed to indemnify BSP and its directors, officers and employees from liability in connection with the transaction, and to hold BSP harmless from any losses, actions, claims, damages, expenses or liabilities related to any of BSP's acts or decisions made in good faith and in the best interest of Sunshine. During the year preceding the current engagement associated with the merger, BSP did not provide advisory services to Sunshine where compensation was received. BSP has never provided financial advisory services to First Bancshares where compensation was received.

Board Composition and Management of First Bancshares after the Merger

Each of the officers and directors of First Bancshares immediately prior to the effective time of the merger will be the officers and directors of the surviving company from and after the effective time of the merger, until their respective successors have been duly elected, appointed or qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of First Bancshares.

Interests of Sunshine's Directors and Executive Officers in the Merger

In considering the recommendation of Sunshine's board of directors to vote for the merger proposal, Sunshine stockholders should be aware that directors and officers of Sunshine have interests in the merger that are in addition to, or different from, their interests as stockholders of Sunshine. The Sunshine board of directors was aware of these interests and considered them in approving the merger agreement and the transactions contemplated by the merger agreement, including the merger, and the decision to recommend that the Sunshine stockholders approve the merger proposal. These interests are described below.

Sunshine Stock Options and Restricted Shares

Under the terms of Sunshine's equity compensation plan, outstanding equity awards held by Sunshine's employees (including executive officers) and directors generally vest in full upon consummation of a change in control transaction. The merger will constitute a change in control for purposes of the plan.

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Upon the completion of the merger, each outstanding Sunshine stock option (whether vested or unvested) will be cancelled and converted into the right to receive an amount in cash, without interest, equal to (i) the number of shares subject to such option, multiplied by (ii) the excess, if any, of $27.00 over the exercise price per share of such option. Each outstanding Sunshine option with a per share exercise price equal to or greater than $27.00 will be cancelled without payment. Each outstanding Sunshine restricted share will become fully vested and will be converted into the right to receive, at the election of the holder, the per share cash consideration or the per share stock consideration

The following table sets forth, for each of Sunshine's executive officers and non-employee directors, the number of all outstanding stock options and/or outstanding restricted shares held by each such person as of February 5, 2018, and the estimated consideration (assuming that each individual elects the cash consideration) that each will receive after the effective time of the merger in connection with such awards:

Name	Number of Shares Underlying Outstanding, In-the-Money Stock Options (#)	Resulting Option Consideration ($)	Number of Restricted Shares (#)	Resulting Restricted Share Consideration ($)(1)
Executive Officers:				
Louis O. Davis, Jr.	—	—	1,000	$ 28,694
Brian Baggett	10,000	$ 162,500	1,000	28,694
Scott Swain	10,000	162,500	1,000	28,694
Non-Employee Directors:				
Benjamin F. Betts	—	—	400	11,478
Robert K. Bacon	—	—	400	11,478
Joyce E. Chastain	—	—	400	11,478
Corissa J. Briglia	—	—	—	—
Richard A. Moore	—	—	800	22,955
Fred G. Shelfer, Jr.	—	—	400	11,478

(1)
Based on the average per share closing price of the Sunshine common stock for the first five trading days following the first public announcement of the merger, which average price was $28.694 per share. A holder of restricted shares can elect to receive either the stock consideration or the cash consideration. The value of the stock consideration may be higher or lower at the time of closing than the above average price, and the cash consideration is fixed at $27.00 per share.

For further information regarding the beneficial ownership of Sunshine common stock by the directors and executive officers of Sunshine, see "— Beneficial Ownership of Sunshine Common Stock by Management and Principal Stockholders of Sunshine" beginning on page 68.

Employment Agreement with Sunshine

Sunshine is party to an employment agreement with Mr. Davis. Under the employment agreement, if Mr. Davis' employment is terminated for any reason other than cause, death, or disability, or if Mr. Davis terminates his employment for good reason (which includes a change in his status, title, position or responsibilities, a reduction in his base salary or any failure to pay him any compensation or benefits to which he is entitled, relocation outside a 50-mile radius from his current office, Sunshine's failure to continue in effect any material compensation or employee benefit plan in which the executive participates, the insolvency, or the filing by any person or entity, including Sunshine, of a petition for bankruptcy of Sunshine, any material breach by Sunshine of the employment agreement, and any

purported termination of the executive's employment for cause which does not comply with the terms of the employment agreement), then he will be entitled to severance equal to his salary and the value of certain benefits provided by Sunshine (including country club dues, long-term disability premiums, group term life

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insurance premiums, annual ESOP benefit and additional life insurance premiums) for the remaining term of the employment agreement (which ends December 31, 2019). The employment agreement includes an agreement not to compete with Sunshine in the delivery of financial services for a period of one year following termination of employment.

Change of Control Agreements with Sunshine

Sunshine is party to a change of control agreement with each of Messrs. Davis, Baggett and Swain. The change of control agreements provide that if the executive incurs an involuntary termination within six months prior to, or 24 months following, a change in control, then he will be entitled to a lump sum severance payment equal to a multiple of his then-current base salary (2.99x in the case of Mr. Davis, and 2x in the case of Messrs. Baggett and Swain). Upon completion of the merger, Mr. Baggett and Mr. Swain would be entitled to terminate their employment as a result of an involuntary termination (as defined under their change in control agreements) and collect their change in control payments in full. The First, however, has requested that Mr. Baggett and Mr. Swain continue employment with The First following completion of the merger to assist in post-merger transition matters. The First has agreed that (i) Sunshine will pay fifty percent (50%) of the amount due on the closing date, and (ii) The First will pay the remaining fifty percent (50%) of the amount due on the earlier of (x) September 14, 2018, subject to the executive's continued employment on such date (absent an involuntary termination, death or disability) or (y) the executive's earlier involuntary termination of employment or death or disability. An involuntary termination includes termination by Sunshine or its successor without cause or a resignation by the executive for any of the following reasons: a reduction in base salary as of March 31 of the most recent calendar year, a material adverse change in the executive's benefits, contingent benefits or vacation, relocation more than 30 miles from Sunshine's executive offices located in Tallahassee, or a material demotion, including but not limited to a material diminution of the executive's title, duties or responsibilities. Each change of control agreement contains a Code Section 280G cutback provision, which provides that there will be a cut back of parachute payments to the extent necessary to avoid the imposition of the excise tax under Section 4999 of the Code (i.e., limited to 2.999 times the employee's base amount). The Code Section 280G cutback provision is not expected to be triggered with respect to any of the executives who have a change of control agreement.

Retention Agreements with The First

First Bancshares has entered into a retention agreement with each of Messrs. Baggett and Swain, contingent on the completion of the merger. The retention agreements provide for a single lump sum cash payment of $15,000, less normal withholdings, on the date that is sixty (60) days following the date of integration of the operating systems of First Bancshares and Sunshine, provided that the executive remains employed by First Bancshares on such date, or within thirty (30) days following the executive's termination of employment by First Bancshares without cause.

Indemnification of Directors and Officers

First Bancshares has agreed to indemnify Sunshine's directors and officers following the effective time of the merger to the same extent as currently provided under Sunshine's indemnification agreements, or if not subject to an agreement, to the fullest extent permitted by applicable laws. First Bancshares has also agreed to maintain in effect a directors' and officers' liability insurance policy for a period of six years after the effective time of the merger with respect to claims arising from facts, events or actions which occurred prior to the effective time of the merger and covering persons who are currently covered by such insurance. The insurance policy must contain at least the same coverage and amounts, and contain terms and conditions no less advantageous to the directors and officers as currently provided, subject to a cap on the cost of such policy equal to 200% of the last annual premium paid by Sunshine.

Golden Parachute Compensation

The following table sets forth the information required by Item 402(t) of Regulation S-K promulgated by the SEC regarding certain compensation which Sunshine's named executive officers may receive that is based on or that otherwise relates to the merger. The amounts are calculated assuming that the effective

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date of the merger and a qualifying termination occurs on March 31, 2018 (which is the earliest date that we expect the merger to close, with the actual closing date more likely to be in the second quarter of 2018), and that all required conditions to the payment of these amounts have been satisfied.

Golden Parachute Compensation

Name	Cash ($)	Equity ($)(3)	Pension/ NQDC ($)	Perquisites/ benefits ($)(4)	Tax reimbursement ($)(5)	Other ($)	Total ($)(6)(7)
Louis O. Davis, Jr.	$ 972,581(1)	$ 28,694	—	$ 41,674	—	—	$ 1,042,949
Brian Baggett	339,104(2)	28,694	—	—	—	—	367,798
Scott Swain	283,800(2)	28,694	—	—	—	—	312,494

(1)

Reflects estimated cash severance payable to Mr. Davis (i) in the event his employment is terminated for any reason other than cause, death or disability, or if he terminates his employment for good reason (double-trigger), pursuant to his employment agreement, and (ii) in the event he incurs an involuntary termination, pursuant to his change of control agreement (double-trigger), each as described above. The estimated severance payable pursuant to his employment agreement ($360,528) is payable in equal installments through December 31, 2019, the last day of the term of the employment agreement, and the severance payable pursuant to his change of control agreement ($612,053) is payable in a lump sum upon termination, except that $225,000 of the severance payable under his change of control agreement was paid in December 2017. While, as described above, Mr. Davis' change of control agreement provides that severance and other payments will be reduced as much as necessary to ensure that no amounts payable to him will be considered excess parachute payments under Code Section 280G, no such reduction is expected to be triggered. As previously disclosed by Sunshine, as part of tax planning to enable Mr. Davis to obtain the full amounts available to him under his employment and change of control agreements, Sunshine prepaid in 2017 $225,000 that would otherwise be payable to him under his change of control agreement at the closing of the merger. The amount of the prepaid severance is not subject to repayment to Sunshine if the transaction is not completed for any reason, and such prepayment is deemed to be a single-trigger payment.

(2)

Reflects (i) estimated cash severance payable to Mr. Baggett ($324,104) and Mr. Swain ($268,800) pursuant to their change of control agreements, payable fifty percent (50%) on the closing date (single trigger), and fifty percent (50%) on the earlier of (x) September 14, 2018, subject to the executive's continued employment on such date (absent an involuntary termination, death or disability) or (y) the executive's earlier involuntary termination of employment or death or disability (double-trigger); and (ii) the $15,000 retention payment payable pursuant to each executive's retention agreement with The First upon his satisfaction of the terms and conditions thereof, each as described above (double-trigger).

(3)

Reflects the value of single-trigger accelerated vesting of restricted share awards that will become fully-vested on the closing date of the merger, based on the $28.694 average per share closing price of the Sunshine common stock for the first five trading days following the first public announcement of the merger. The value of the stock consideration may be higher or lower at the time of closing than the above average price, and the cash consideration is fixed at $27.00 per share.

(4)

Represents the value of disability and life insurance premiums ($19,040) for the remaining term of Mr. Davis' employment agreement and the estimated value of employer contributions to the Sunshine Employee Stock Ownership Plan ($22,634) that would have been made during the remaining term of Mr. Davis' employment

agreement. These double-trigger benefits will be paid in equal monthly cash installments over the remaining term of Mr. Davis' employment agreement.

(5)
Sunshine's named executive officers will not receive tax reimbursements in connection with the merger although no such reduction is expected to be triggered.

(6)
Amounts listed in this column are subject to reduction in connection with Section 280G of the Code.

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(7)

The following table quantifies, for each named executive officer, the portion of the total estimated amount of golden parachute compensation that is payable in connection with the merger and not conditioned on a termination of employment, referred to as "single trigger," and the portion of the total amount of golden parachute compensation that is payable only after both consummation of the merger and a termination of employment (or a date certain, subject to the executive's continued employment), referred to as "double trigger":

Name	Single-Trigger ($)	Double-Trigger ($)
Louis O. Davis, Jr.	$ 253,694	$ 789,255
Brian Baggett	190,746	177,052
Scott Swain	163,094	149,400

Beneficial Ownership of Sunshine Common Stock by Management and Principal Stockholders of Sunshine

The following table sets forth certain information regarding the beneficial ownership of Sunshine common stock as of February 5, 2018, by (1) each director and executive officer of Sunshine, (2) each person who is known by Sunshine to own beneficially 5% or more of the Sunshine common stock, and (3) all directors and executive officers of Sunshine as a group. Unless otherwise indicated, based on information furnished by such stockholders, management of Sunshine believes that each person has sole voting and dispositive power over the shares indicated as owned by such person. An asterisk (*) in the table indicates that an individual beneficially owns less than one percent of the outstanding common stock of Sunshine. As of February 5, 2018, there were 1,039,599 shares of Sunshine common stock outstanding.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Beneficial Owners of More Than 5%		
Stilwell Value Partners VII, L.P., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Partners, L.P., Stilwell Value LLC and Joseph Stilwell (collectively, "The Stilwell Group") 111 Broadway, 12th Floor New York, NY 10006	98,300(1)	9.5%
Sunshine Financial Employee Stock Ownership Plan	93,339	9.0%
Maltese Capital Management, LLC, Maltese Capital Holdings, LLC and Terry Maltese 150 East 52nd Street, 30th Floor New York, NY 10022	92,500(2)	8.9%
Context BH Capital Management, LP ("BH Capital") 401 City Avenue, Suite 800 Bala Cynwyd, PA 19004	62,457(3)	6.1%
Palogic Value Management, L.P., Palogic Value Fund, L.P., Palogic Capital Management, LLC and Ryan L. Vardeman (collectively, the "Palogic Group") 5310 Harvest Hill Road, Suite 110 Dallas, TX 75230	52,700(4)	5.1%
AllianceBernstein L.P. 1345 Avenue of the Americas New York, NY 10105	51,787(5)	5.0%

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Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Directors and Executive Officers		
Benjamin F. Betts Chairman of the Board	6,500(6)	*
Louis O. Davis, Jr. Director/President and Chief Executive Officer	18,597(7)	1.8%
Brian P. Baggett Director/Executive Vice President	22,782(8)	2.2%
Robert K. Bacon Director	2,200(6)	*
Joyce E. Chastain Director	2,100(6)	*
Corissa J. Briglia Director	—(9)	*
Richard A. Moore Director	1,900(10)	*
Fred G. Shelfer, Jr. Director	1,900(6)	*
Scott A. Swain Senior Vice President/Chief Financial Officer	21,448(11)	2.0%
All directors and executive officers of Sunshine as a group (9 persons)	77,427(12)	7.3%

(1)
Based on a Schedule 13D/A filed with the Securities and Exchange Commission (“SEC”) on February 8, 2016 the Stilwell Group, reported shared voting and dispositive power with respect to all shares reported.

(2)
Based on a Schedule 13G/A filed with the SEC on February 3, 2017, by Maltese Capital Management LLC (“MCM”), Maltese Capital Holding, LLC (“MCH”) and Terry Maltese, Managing Member of MCM. MCM reported shared voting and dispositive power with respect to 66,000 shares; MCH reported shared voting and dispositive power with respect 54,400 shares; and Mr. Maltese reported sole voting and dispositive power with respect to 26,500 shares and, as the Managing Member of MCM, shared voting and dispositive power with respect to 66,000 shares.

(3)
Based on a Schedule 13G filed with the SEC on January 24, 2018, BH Capital reported having sole voting and dispositive power with respect to all shares reported.

(4)
Based on a Schedule 13G/A filed with the SEC on February 1, 2017, the Palogic Group reported having shared voting and dispositive power with respect to all shares reported.

(5)
Based on a Schedule 13G filed with the SEC on February 10, 2017, by AllianceBernstein L.P. AllianceBernstein L.P. reported sole voting and dispositive power with respect to all shares reported.

(6)
Includes 400 restricted shares over which the individual has sole voting power and no dispositive power.

(7)
Includes 5,402 shares allocated to Mr. Davis in Sunshine's Employee Stock Ownership Plan. In addition, includes 1,000 restricted shares over which he has sole voting power and no dispositive power. Individual allocations under the ESOP for 2017 were not available at the time of mailing of the proxy statement-prospectus and, as a result are, are not reflected in Mr. Davis' beneficial ownership.

(8)
Includes 4,534 shares held by Mr. Baggett in Sunshine's 401(k) plan, 4,304 shares allocated to him in Sunshine's Employee Stock Ownership Plan, 1,000 restricted shares over which Mr. Baggett has sole voting power and no dispositive power and options to acquire 10,000 shares over which Mr. Baggett has no voting or dispositive power. The amount of securities reported as beneficially owned in Sunshine's 401(k) plan represents the best estimate of the number of share equivalents held by the

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reporting person in the unitized stock fund of Sunshine's 401(k) plan. Shares of Company common stock are not directly allocated to 401(k) plan participants, but instead are held in a unitized fund that consists of cash and Company common stock in amounts that vary from time to time. Individual allocations under the ESOP for 2017 were not available at the time of mailing of the proxy statement-prospectus and, as a result are, are not reflected in Mr. Baggett's beneficial ownership.

(9)

Ms. Briglia is the Director of Research at The Stilwell Group. See footnote (1) above.

(10)

Includes 800 restricted shares over which the individual has sole voting power and no dispositive power.

(11)

Includes 4,146 shares held by Mr. Swain in Sunshine's 401(k) plan, 3,366 shares allocated to him in Sunshine's Employee Stock Ownership Plan, 1,000 restricted shares over which Mr. Swain has sole voting power and no dispositive power and options to acquire 10,000 shares over which Mr. Swain has no voting or dispositive power. The amount of securities reported as beneficially owned in Sunshine's 401(k) plan represents the best estimate of the number of share equivalents held by the reporting person in the unitized stock fund of Sunshine's 401(k) plan. Shares of Company common stock are not directly allocated to 401(k) plan participants, but instead are held in a unitized fund that consists of cash and Company common stock in amounts that vary from time to time. Individual allocations under the ESOP for 2017 were not available at the time of mailing of the proxy statement-prospectus and, as a result are, are not reflected in Mr. Swain's beneficial ownership.

(12)

Includes shares held by directors and executive officers directly, in retirement accounts, in a fiduciary capacity or by certain affiliated entities or members of the named individuals' families, with respect to which shares the named individuals and group may be deemed to have sole or shared voting and/or dispositive powers. Also includes options to acquire 20,000 shares over which the individuals have no voting or dispositive power and 5,400 shares of restricted stock over which they have sole voting power and no dispositive power.

Regulatory Approvals Required for the Merger

Completion of the merger is subject to prior receipt of all approvals required to be obtained from applicable governmental and regulatory authorities. Subject to the terms and conditions of the merger agreement, Sunshine and First Bancshares have agreed to use their reasonable best efforts and cooperate to prepare and file, as promptly as possible, all necessary documentation and to obtain as promptly as practicable all regulatory approvals required or advisable to complete the transactions contemplated by the merger agreement. These approvals include, among others, a waiver from the Federal Reserve Board and an approval from the OCC. First Bancshares and/or Sunshine have filed applications, waiver requests and notifications to obtain the required regulatory approvals or waivers.

Federal Reserve Board

The merger of Sunshine with First Bancshares must be approved by the Federal Reserve Board under Section 3 of the Bank Holding Company Act of 1956, or the BHC Act, and its implementing regulations, unless the Federal Reserve Board waives the application requirements of the BHC Act. In considering the approval of a transaction such as the merger, the BHC Act and related laws require the Federal Reserve Board to review, with respect to the parent holding companies and the bank concerned: (1) the competitive impact of the transaction; (2) financial, managerial and other supervisory considerations, including capital positions and managerial resources of the subject entities; (3) the record of the insured depository institution subsidiaries of the bank holding companies under the Community Reinvestment Act and fair lending laws; (4) the extent to which the proposal would result in greater or more concentrated risks to the stability of the U.S. banking or financial system; and (5) additional public benefits of the proposal, such as the benefits to the customers of the subject entities. In connection with its review, the Federal Reserve Board will provide an opportunity for public comment on the application and is authorized to hold a public meeting or other proceeding if they determine that would be appropriate. First Bancshares has filed a written request that the Federal Reserve Board

waive the application requirements of the BHC Act with regard to its acquisition of Sunshine, and received the waiver from the Federal Reserve Board on January 19, 2018.

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Office of the Comptroller of the Currency

The merger of Sunshine Community with and into The First must be approved by the OCC under the National Bank Consolidation and Merger Act, 12 U.S.C. 215, 215a, commonly known as the Bank Merger Act. An application for approval of the bank merger has been filed with the OCC and will be subject to a 30-day comment and review period by the OCC. In evaluating an application filed under the Bank Merger Act, the OCC generally considers: (1) the competitive impact of the transaction; (2) financial and managerial resources of the banks party to the bank merger or merger; (3) the convenience and needs of the community to be served and the record of the banks under the Community Reinvestment Act; (4) the banks' effectiveness in combating money-laundering activities; and (5) the extent to which the bank merger or merger would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. In connection with its review, the OCC will provide an opportunity for public comment on the application for the bank merger, and is authorized to hold a public meeting or other proceeding if they determine that would be appropriate.

First Bancshares and Sunshine believe that the merger does not raise substantial antitrust or other significant regulatory concerns and that we will be able to obtain all requisite regulatory approvals. However, neither First Bancshares nor Sunshine can assure you that all of the regulatory approvals described above will be obtained and, if obtained, we cannot assure you as to the timing of any such approvals, our ability to obtain the approvals on satisfactory terms or the absence of any litigation challenging such approvals. The parties have agreed that First Bancshares will not be required, and Sunshine and its subsidiaries will not be permitted, to take any action or commit to take any action or agree to any condition or restrictions in connection with the regulatory approvals that, individually or in the aggregate, would have or would be reasonably likely to have a material adverse effect on First Bancshares and its subsidiaries or Sunshine and its subsidiaries as of and following the completion of the merger.

The parties' obligation to complete the merger is conditioned upon the receipt of all required regulatory approvals. First Bancshares and Sunshine will use their respective commercially reasonable efforts to resolve any objections that may be asserted by any regulatory authority with respect to the merger agreement or the merger or the other transactions contemplated by the merger agreement.

Neither First Bancshares nor Sunshine is aware of any material governmental approvals or actions that are required for completion of the merger other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

Material U.S. Federal Income Tax Considerations

The following is a general discussion of the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of Sunshine common stock. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any U.S. federal laws other than those pertaining to the income tax, nor does it address any considerations in respect of any withholding required pursuant to the Foreign Account Tax Compliance Act of 2010 (including the U.S. Treasury regulations issued thereunder and intergovernmental agreements entered into pursuant thereto). This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated under the Code, and court and administrative rulings and decisions, all as in effect on the date of this proxy statement/prospectus, and all of which are subject to change, potentially retroactively, which could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those U.S. holders of Sunshine common stock that hold their shares of Sunshine common stock as a "capital asset" within the meaning of Section 1221 of the Code (generally, property held for investment). Importantly, this discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular U.S. holder in light of that U.S. holder's individual circumstances or to a U.S. holder that is subject to special treatment under the U.S. federal income tax laws, including, without limitation, a U.S. holder that is:

- a bank or other financial institution;
- a tax-exempt organization;

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- a regulated investment company;
- a real estate investment trust;
- an S corporation, partnership or other pass-through entity (or an investor in an S corporation, partnership or other pass-through entity);
- a retirement plan, individual retirement account or other tax-deferred account;
- an insurance company;
- a mutual fund;
- a controlled foreign corporation or passive foreign investment company;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects to use the mark-to-market method of accounting;
- a holder of Sunshine common stock subject to the alternative minimum tax provisions of the Code;
- a holder of Sunshine common stock that received Sunshine common stock through the exercise of an employee stock option, through a tax-qualified retirement plan or otherwise as compensation;
- a holder of Sunshine common stock that has a functional currency other than the U.S. dollar;
- a holder of Sunshine common stock that holds Sunshine common stock as part of a hedge, straddle, constructive sale, conversion or other integrated transaction;
- a person that is not a U.S. holder; or
- a U.S. expatriate or former citizen or resident of the United States.

For purposes of this discussion, the term “U.S. holder” means a beneficial owner of Sunshine common stock that is for U.S. federal income tax purposes: (a) an individual citizen or resident of the United States; (b) a corporation (or any

other entity treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any state thereof or the District of Columbia; (c) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) such trust was in existence on August 20, 1996, and has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes; or (d) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

Determining the actual tax consequences of the merger to a U.S. holder is complex and can depend, in part, on the U.S. holder's specific situation. Each U.S. holder should consult its own independent tax advisor as to the tax consequences of the merger in its particular circumstance, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and of changes in those laws.

Tax Consequences of the Sunshine Merger Generally

In connection with the filing with the SEC of the registration statement of which this proxy statement/ prospectus forms a part, Alston & Bird LLP has rendered its tax opinion to First Bancshares and Silver, Freedman, Taff & Tiernan LLP has rendered its tax opinion to Sunshine addressing the U.S. federal income tax consequences of the merger as described below. A copy of each of these tax opinions is attached as Exhibit 8.1 and Exhibit 8.2, respectively, to the registration statement of which this proxy statement/ prospectus forms a part. In addition, the obligations of the parties to complete the merger is conditioned on, among other things, the receipt by First Bancshares and Sunshine of opinions from Alston & Bird LLP and Silver, Freedman, Taff & Tiernan LLP, respectively, dated the closing date of the merger, to the effect that for U.S. federal income tax purposes the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. The conditions relating to receipt of such closing opinions may be waived by both First Bancshares and Sunshine. Neither First Bancshares nor Sunshine currently intends to waive the conditions related to the receipt of the closing opinions. If receipt of the closing opinions were to be

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waived, the vote of the holders of Sunshine stock to approve the merger would be resolicited. In addition, the obligation of Alston & Bird LLP and Silver, Freedman, Taff & Tiernan LLP to deliver such closing opinions is conditioned on the merger satisfying the continuity of proprietary interest requirement. That requirement generally will be satisfied if First Bancshares common stock constitutes at least 40% of the value of the total merger consideration.

These opinions are and will be subject to customary qualifications and assumptions, including assumptions regarding the absence of changes in existing facts and the completion of the merger strictly in accordance with the merger agreement and the registration statement of which this proxy statement/ prospectus forms a part. In rendering their legal opinions, Alston & Bird LLP and Silver, Freedman, Taff & Tiernan LLP relied and will rely upon representations and covenants, including those contained in certificates of officers of First Bancshares and Sunshine, reasonably satisfactory in form and substance to each such counsel, and will assume that these representations are true, correct and complete without regard to any knowledge limitation, and that these covenants will be complied with. If any of these assumptions or representations are inaccurate in any way, or any of the covenants are not complied with, these opinions could be adversely affected. The opinions represent each counsel's best legal judgment, but have no binding effect or official status of any kind, and no assurance can be given that contrary positions will not be taken by the Internal Revenue Service or a court considering the issues. In addition, neither Sunshine nor First Bancshares has requested nor does either of them intend to request a ruling from the Internal Revenue Service as to the U.S. federal income tax consequences of the merger. Accordingly, there can be no assurances that the Internal Revenue Service will not assert, or that a court will not sustain, a position contrary to any of the tax consequences set forth below or any of the tax consequences described in the tax opinions.

In the opinion of Alston & Bird LLP and Silver, Freedman, Taff & Tiernan LLP, in reliance on representation letters provided by First Bancshares and Sunshine and upon customary factual assumptions, as well as certain covenants and undertakings of First Bancshares and Sunshine the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. The discussion below of the material U.S. federal income tax consequences of the merger serves, insofar as such discussion constitutes statements of United States federal income tax law or legal conclusions, as the opinion of each of Alston & Bird LLP and Silver, Freedman, Taff & Tiernan LLP as to the material U.S. federal income tax consequences of the merger to the U.S. holders of Sunshine common stock.

The U.S. federal income tax consequences of the merger to a U.S. holder of Sunshine common stock will depend on whether the U.S. holder receives cash, shares of First Bancshares common stock or a combination of cash and shares of First Bancshares common stock in exchange for the U.S. holder's Sunshine common stock in the merger. At the time a U.S. holder makes a cash or stock election pursuant to the terms of the merger agreement, the U.S. holder will not know whether, and to what extent, the proration provisions of the merger agreement will alter the mix of consideration the U.S. holder will receive in the merger. As a result, the tax consequences to such U.S. holder will not be ascertainable with certainty until the U.S. holder knows the precise amount of cash and shares of First Bancshares common stock that the U.S. holder will receive in the merger.

U.S. Holders that Exchange Sunshine Common Stock Solely for First Bancshares Common Stock

Subject to the discussion below relating to the receipt of cash in lieu of a fractional share, a U.S. holder that exchanges all of its Sunshine common stock solely for shares of First Bancshares common stock:

- will not recognize any gain or loss upon the exchange of shares of Sunshine common stock for shares of First Bancshares common stock in the merger;

- will have a tax basis in the First Bancshares common stock received in the merger equal to the tax basis of the Sunshine common stock surrendered in exchange therefor; and

- will have a holding period for shares of First Bancshares common stock received in the merger that includes its holding period for its shares of Sunshine common stock surrendered in exchange therefor.

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U.S. Holders that Exchange Sunshine Common Stock Solely for Cash

A U.S. holder that exchanges all of its Sunshine common stock solely for cash will generally recognize capital gain or loss measured by the difference between the amount of cash received in the merger and the U.S. holder's tax basis in the shares of Sunshine common stock surrendered in exchange therefor. Such capital gain or loss will generally be long term capital gain or loss if the holding period for such shares of Sunshine common stock is more than one year. Long term capital gain of certain non-corporate taxpayers, including individuals, is generally taxed at preferential rates. The deductibility of capital losses is subject to limitations.

US. Holders that Exchange Sunshine Common Stock for a Combination of First Bancshares Common Stock and Cash

Subject to the discussion below relating to the receipt of cash in lieu of a fractional share, a U.S. holder that exchanges its Sunshine common stock for a combination of shares of First Bancshares common stock and cash:

- will recognize capital gain (but not loss) equal to the lesser of (i) the excess, if any, of the amount of cash plus the fair market value of any First Bancshares common stock received in the merger over the U.S. holder's tax basis in the shares of Sunshine common stock surrendered in exchange therefor and (ii) the amount of cash received by the U.S. holder in the merger (other than cash received in lieu of a fractional share);

- will have a tax basis in the First Bancshares common stock received equal to the tax basis of the Sunshine common stock surrendered in exchange therefor, increased by the amount of taxable gain, if any, recognized by the U.S. holder in the merger (other than with respect to cash received in lieu of a fractional share), and decreased by the amount of cash received by the U.S. holder in the Sunshine merger (other than cash received in lieu of a fractional share); and

- will have a holding period for shares of First Bancshares common stock received in the merger that includes its holding period for its shares of Sunshine common stock surrendered in exchange therefor.

Such capital gain or loss will generally be long-term capital gain or loss if the holding period for such shares of Sunshine common stock is more than one year. Long-term capital gain of certain non-corporate taxpayers, including individuals, is generally taxed at preferential rates. The deductibility of capital losses is subject to limitations.

In the case of any U.S. holder that acquired different blocks of Sunshine common stock at different times and at different prices, any realized gain or loss will be determined separately for each identifiable block of shares exchanged in the merger. Such U.S. holder should consult the U.S. holder's independent tax advisor regarding the manner in which gain or loss should be determined for each identifiable block of Sunshine shares.

Potential Recharacterization of Gain as a Dividend

Any gain recognized by a U.S. holder of Sunshine common stock in connection with the merger generally will be capital gain unless such holder's receipt of cash has the effect of a distribution of a dividend, in which case the gain will be treated as a dividend to the extent of such holder's ratable share of Sunshine's accumulated earnings and profits, as calculated for U.S. federal income tax purposes. For purposes of determining whether your receipt of cash has the effect of a distribution of a dividend, you will be treated as if you first exchanged all of your Sunshine common stock solely in exchange for First Bancshares common stock and then First Bancshares immediately redeemed a portion of that stock for the cash that you actually received in the merger (referred to herein as the "deemed redemption"). Receipt of cash will generally not have the effect of a dividend to you if such receipt is "not essentially equivalent to a dividend" or "substantially disproportionate," each within the meaning of Section 302(b) of the Code. In order for the deemed redemption to be "not essentially equivalent to a dividend," the deemed redemption must result in a "meaningful reduction" in your deemed percentage stock ownership of First Bancshares following the merger. The determination generally requires a comparison of the percentage of the

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outstanding stock of First Bancshares that you are considered to have owned immediately before the deemed redemption to the percentage of the outstanding stock of First Bancshares that you own immediately after the deemed redemption. The IRS has indicated in rulings that any reduction in the interest of a minority shareholder that owns a small number of shares in a publicly and widely held corporation and that exercises no control over corporate affairs would result in capital gain (as opposed to dividend) treatment. For purposes of applying the foregoing tests, a shareholder will be deemed to own the stock the shareholder actually owns and the stock the shareholder constructively owns under the attribution rules of Section 318 of the Code. Under Section 318 of the Code, a shareholder will be deemed to own the shares of stock owned by certain family members, by certain estates and trusts of which the shareholder is a beneficiary, and by certain affiliated entities, as well as shares of stock subject to an option actually or constructively owned by the shareholder or such other persons. If, after applying these tests, the deemed redemption results in a capital gain, the capital gain will be long-term if your holding period for your Sunshine common stock is more than one year as of the date of the exchange. If, after applying these tests, the deemed redemption results in the gain recognized being classified as a dividend, such dividend will be treated as either ordinary income or qualified dividend income. Any gain treated as qualified dividend income will be taxable to you at the long-term capital gains rate, provided you held the shares giving rise to such income for more than 60 days during the 121-day period beginning 60 days before the effective time of the merger. The determination as to whether you will recognize a capital gain or dividend income as a result of your exchange of Sunshine common stock for a combination of First Bancshares common stock and cash in the merger is complex and is determined on a shareholder-by-shareholder basis. Accordingly, we urge you to consult your own tax advisor with respect to any such determination that is applicable to your individual situation.

Cash In Lieu of a Fractional Share

If a U.S. holder receives cash in lieu of a fractional share of First Bancshares common stock, the U.S. holder will be treated as having received a fractional share of First Bancshares common stock in the merger and then as having exchanged the fractional share of First Bancshares common stock for cash in a redemption by First Bancshares. As a result, the U.S. holder generally will recognize gain or loss equal to the difference between the amount of cash received and the portion of the U.S. holder's aggregate tax basis (calculated in the manner as set forth above under "U.S. Holders that Receive a Combination of First Bancshares Common Stock and Cash") allocable to the fractional share of First Bancshares common stock. This gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if, as of the effective date of the merger, the U.S. holder's holding period with respect to the fractional share (including the holding period of the Sunshine common stock surrendered therefor) exceeds one year. The deductibility of capital losses is subject to limitations.

Dissenters

Upon its exercise of dissenters' rights, a U.S. holder of Sunshine common stock will exchange all of its Sunshine common stock for cash. Such a dissenting U.S. holder will recognize gain or loss equal to the difference between the amount of cash received and such U.S. holder's aggregate tax basis in its Sunshine common stock. This gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the U.S. holder's holding period with respect to the Sunshine common stock surrendered therefor exceeds one year. The deductibility of capital losses is subject to limitations.

Material U.S. Federal Income Tax Consequences if the Sunshine Merger Fails to Qualify as a Reorganization

If the merger does not qualify as a "reorganization" within the meaning of Section 368(a) of the Code, then each U.S. holder of Sunshine common stock generally will recognize capital gain or loss equal to the difference between (a) the sum of the fair market value of the shares of First Bancshares common stock received by such U.S. holder in the merger and the amount of any cash received by such U.S. holder in the merger and (b) its adjusted tax basis in the shares of Sunshine common stock surrendered in exchange therefor.

Net Investment Income Tax

A holder of Sunshine common stock that is an individual is subject to a 3.8% tax on the lesser of: (1) his or her "net investment income" for the relevant taxable year, or (2) the excess of his or her modified

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adjusted gross income for the taxable year over a certain threshold (between $125,000 and $250,000 depending on the individual's U.S. federal income tax filing status). Estates and trusts are subject to similar rules. Net investment income generally would include any gain recognized in connection with the merger (including any gain treated as a dividend), as well as, among other items, other interest, dividends, capital gains and rental or royalty income received by such individual. Holders of Sunshine common stock should consult their tax advisors as to the application of this additional tax to their circumstances.

Backup Withholding

Backup withholding at the applicable rate (currently 24%) may apply with respect to certain cash payments to holders of Sunshine common Stock unless the holder:

- furnishes a correct taxpayer identification number, certifying that it is not subject to backup withholding on IRS Form W-9 or successor form included in the letter of transmittal that the U.S. holder will receive and otherwise complies with all the applicable requirements of the backup withholding rules; or

- provides proof that it is otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules are not an additional tax and will generally be allowed as a refund or credit against the U.S. holder's U.S. federal income tax liability, if the U.S. holder timely furnishes the required information to the Internal Revenue Service.

Certain Reporting Requirements

If a U.S. holder that receives First Bancshares common stock in the merger is considered a "significant holder," such U.S. holder will be required (a) to file a statement with its U.S. federal income tax return providing certain facts pertinent to the merger, including such U.S. holder's tax basis in, and the fair market value of, the Sunshine common stock surrendered by such U.S. holder, and (b) to retain permanent records of these facts relating to the merger. A "significant holder" is any Sunshine stockholder that, immediately before the merger, (y) owned at least 1% (by vote or value) of the outstanding stock of Sunshine or (z) owned Sunshine securities with a tax basis of $1.0 million or more.

This discussion of material U.S. federal income tax considerations is for general information only and is not intended to be tax advice. Holders of Sunshine common stock are urged to consult their independent tax advisors with respect to the application of U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

Accounting Treatment

The merger will be accounted for under the acquisition method of accounting for business combinations under GAAP. Under this method, Sunshine's assets and liabilities as of the date of the merger will be recorded at their respective fair values. Any difference between the purchase price for Sunshine and the fair value of the identifiable net assets acquired (including core deposit intangibles) will be recorded as goodwill. In accordance with ASC Topic 805, "Business Combinations," the goodwill resulting from the merger will not be amortized to expense, but instead will be reviewed for impairment at least annually and to the extent goodwill is impaired, its carrying value will be written down to its implied fair value and a charge will be made to earnings. Core deposit and other intangibles with definite useful lives recorded by First Bancshares in connection with the merger will be amortized to expense in accordance with such rules. The consolidated financial statements of First Bancshares issued after the merger will reflect the results attributable to the acquired operations of Sunshine beginning on the date of completion of the merger.

Dissenters' Rights

General; Written Demand

Sunshine stockholders have the right to demand payment from Sunshine of the "fair value," determined as of the close of business on the day of the stockholder vote to approve the merger, of their shares of Sunshine common stock. Maryland law provides that a stockholder is not entitled to demand the

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fair value of his or her shares of stock in any transaction if the stock is listed on a national securities exchange. Because Sunshine's common stock is listed on the OTCBB Marketplace, the holders of Sunshine common stock are entitled to dissenters' or appraisal rights with respect to the merger proposal.

As a Sunshine stockholder, if you want to demand payment of the fair value of your common stock, you must fully comply with the procedures set out in the MGCL. A copy of Title 3, Subtitle 2 of the MGCL is included as Annex C to this proxy statement/prospectus. The required procedures are summarized below.

- You must deliver to the corporate secretary of Sunshine at 1400 East Park Avenue Tallahassee, Florida 32301, at or prior to the Sunshine special meeting, your written objection to the merger.

- You must not vote your Sunshine common stock in favor of the merger. This means that you should either return a proxy card or voting instruction card (if your shares are held in "street name") with the "Against" box or "Abstain" box checked, or not return a proxy card or voting instructions card at all. Merely voting against the merger or not voting will not constitute notice of objection, and will not entitle you to payment in cash of the fair value of your shares. Sunshine stockholders who return executed but unmarked proxies will be deemed to have voted in favor of the merger.

- Promptly after the effectiveness of the merger, as more fully described below, First Bancshares, as the successor to Sunshine, must send written notice to objecting stockholders, notifying them of the date on which the articles of merger were accepted for record. This notice will be sent by certified mail, return receipt requested, to the address you provide in your notice, or if no address is indicated, to the address which appears on First Bancshares' records.

- Within 20 days of the date on which the articles of merger were accepted for record, you, as an objecting stockholder, must make a written demand for payment of the fair value of your Sunshine common stock, stating the number and class of shares for which payment is demanded. Where no number of shares is expressly mentioned, the notice of intent to demand payment will be presumed to cover all shares held in the name of the record holder. The written demand for payment should be sent to: .

Once you have filed a demand for payment, you cease to have any rights as a stockholder, including the right to receive any dividends or distributions payable to holders of record of Sunshine stock on a record date after the close of business on the day as at which fair value is determined, to receive the merger consideration or vote the First Bancshares common stock, as applicable, except the right to receive payment of the fair value of your shares. Once you make a demand for payment, you may withdraw that demand only with the consent of First Bancshares.

First Bancshares' Actions; Court Proceedings

Provided that you do not vote in favor of the merger, or return an executed but unmarked proxy, and assuming the Sunshine stockholders approve the merger, then, promptly after the merger is effective, First Bancshares must notify you in writing of the date the articles of merger with respect to the merger are accepted for record. As part of that notice, First Bancshares may send a written offer to pay to you a specified price deemed by First Bancshares to be the fair value for your shares. Each offer will be accompanied by a balance sheet as of a date not more than six months prior to the offer date, a profit and loss statement for the 12 months ending on the date of the balance sheet, and any other information First Bancshares considers pertinent. Within 50 days after the date the articles of merger with respect to the merger are accepted for record by the Department, if you have not received from First Bancshares the fair value of your shares, you may file a petition with a court of equity in the county where the principal office of First Bancshares is located for an appraisal to determine the fair value of your shares.

IF YOU DO NOT COMPLY WITH THE PROCEDURES FULLY AND THE MERGER IS APPROVED, YOU MAY LOSE YOUR RIGHT TO DEMAND PAYMENT OF THE FAIR VALUE OF YOUR SHARES, AND YOU WILL BE REQUIRED TO ACCEPT THE MERGER CONSIDERATION.

If the court finds you are entitled to an appraisal of your stock, it will appoint three disinterested appraisers to determine the fair value of your stock. Unless the court permits a longer period, the appraisers have 60 days after their appointment to determine the fair value of your stock and file their

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report with the court, and within 15 days after the appraisers file their report, any party may object to it and request a hearing. The court may, among other things, accept the report or set its own determination of the fair value, and then direct First Bancshares to pay the appropriate amount.

Neither First Bancshares nor Sunshine can predict how the court will value the respective shares of First Bancshares or Sunshine common stock, and the fair value may be higher, lower or equal in value to the merger consideration being paid in the merger. Stockholders should note that opinions of investment banking firms as to the fairness, from a financial point of view, of the consideration payable in a sale transaction, such as the merger, are not opinions as to, and do not otherwise address, fair value under the MGCL.

If the court finds that the failure of a stockholder to accept an offer for the stock was arbitrary and vexatious or not in good faith, the court has the right to apportion among all or some of the parties any expenses of any proceeding to demand the fair or appraised value of shares as it deems equitable.

Restoration of Rights

The rights of a stockholder who demands payment are restored in full, if: (1) the demand for payment is withdrawn; (2) a petition for an appraisal is not filed within the time required by MGCL per the above; (3) a court determines that the stockholder is not entitled to relief; or (4) the transaction objected to is abandoned or rescinded. If your stockholder rights are restored, you will be entitled to receive the dividends, distributions, and other rights you would have received if you had not demanded payment for your stock. However, the restoration does not prejudice any corporate proceedings taken before the restoration.

U.S. Federal Income Tax Consequences

See “Material U.S. Federal Income Tax Considerations — Dissenters” beginning on page 75 for a discussion on how the material federal income tax consequences of the merger will change if you elect to dissent from the merger.

The above description is a summary of the material provisions of Subtitle 2 of Title 3 of the MGCL. For complete information, you should review the text of Subtitle 2, which appears as Annex C to this proxy statement/prospectus.

Exchange of Shares in the Merger

The conversion of Sunshine common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger. After completion of the merger, the exchange agent will exchange certificates representing shares of Sunshine common stock for the merger consideration to be received pursuant to the terms of the merger agreement. For more information regarding the procedures for electing the form of merger consideration you desire, the merger allocation process and the procedures for exchanging your shares of Sunshine common stock for the merger consideration, see “The Merger Agreement — Procedures for Converting Shares of Sunshine Common Stock into Merger Consideration” below.

Listing of First Bancshares Common Stock

It is a condition to the completion of the merger that the shares of First Bancshares common stock issuable in connection with the merger be approved for listing on the NASDAQ Global Market, subject to official notice of issuance.

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THE MERGER AGREEMENT

The following describes certain aspects of the merger, including certain material provisions of the merger agreement. The following description of the merger agreement is subject to, and qualified in its entirety by reference to, the merger agreement, which is attached to this proxy statement/prospectus as Annex A and is incorporated by reference into this proxy statement/prospectus. We urge you to read the merger agreement carefully and in its entirety, as it is the legal document governing the merger.

Structure of the Merger

The boards of directors of First Bancshares and Sunshine have each unanimously approved the merger agreement, which provides for the merger of Sunshine with and into First Bancshares, with First Bancshares as the surviving company in the merger.

The merger agreement also provides that immediately after the effective time of the merger but in effect simultaneously on the date the merger closes, Sunshine Community, which is a Florida state-chartered bank and a direct wholly owned subsidiary of Sunshine, will merge with and into The First, a direct wholly owned subsidiary of First Bancshares, with The First as the surviving bank of such merger. The terms and conditions of the merger of The First and Sunshine Community are set forth in a separate merger agreement and plan of merger, referred to as the bank merger agreement, the form of which is attached as Exhibit B to the merger agreement. As provided in the bank merger agreement, the merger of The First and Sunshine Community may be abandoned at the election of The First at any time, whether before or after filings are made for regulatory approval of such merger. We refer to the merger of The First and Sunshine Community as the bank merger.

The merger agreement allows First Bancshares to change the structure of the merger at any time and without the approval of Sunshine if and to the extent that First Bancshares reasonably deems such a change to be necessary; provided, however, that no such change shall (i) alter or change the amount or kind of merger consideration to be provided under the merger agreement, (ii) materially impede or delay consummation of the merger, (iii) adversely affect the federal or state income tax treatment of Sunshine stockholders in connection with the merger, or (iv) require submission or the approval of Sunshine stockholders after the merger proposal has already been approved by Sunshine's stockholders.

Closing and Effective Time of the Merger

The closing will take place immediately prior to the effective time of the merger. The effective time of the merger will be the later of (i) the date and time of filing of the articles of merger with the Secretary of State of the State of Mississippi and the Maryland State Department of Assessments and Taxation by First Bancshares or (ii) the date and time when the merger becomes effective as set forth in such articles of merger, which will be no later than three business days after all of the conditions to the closing of the merger have been satisfied or waived in accordance with their terms.

We currently expect that the merger will be completed in the second quarter of 2018, subject to obtaining the requisite approvals from the stockholders of Sunshine, the receipt of all necessary regulatory approvals and the expiration of all regulatory waiting periods and other conditions. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying any other conditions to the merger. No assurance is made as to whether, or when, First Bancshares and Sunshine will obtain the required approvals or complete the merger. See "The Merger Agreement — Conditions to Completion of the Merger."

Organizational Documents of the Surviving Company

At the effective time of the merger, the First Bancshares Articles and the First Bancshares Bylaws in effect immediately prior to the effective time of the merger will be the articles of incorporation and bylaws of the surviving company until thereafter amended in accordance with their respective terms and applicable laws.

Board Composition and Management of Surviving Company

Each of the officers and directors of First Bancshares immediately prior to the effective time of the merger will be the officers and directors of the surviving company from and after the effective time of the

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merger, until their respective successors have been duly elected, appointed or qualified or until their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of First Bancshares.

Merger Consideration

Under the terms of the merger agreement, each outstanding share of Sunshine common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive, at the election of each Sunshine stockholder, either (i) $27.00 in cash, which we refer to as the per share cash consideration, or (ii) 0.93 of a share of First Bancshares common stock, which we refer to as the per share stock consideration, provided that the total mix of merger consideration shall be fixed at 75% stock and 25% cash, and the exchange agent will apply the merger consideration allocation described below, in "— Merger Consideration Allocation," to each Sunshine stockholder's elections in order to preserve that mix of merger consideration. Each outstanding share of Sunshine common stock subject to vesting restrictions shall become vested immediately prior to the effective time of the merger and will be converted into the right to receive the same merger consideration that other Sunshine stockholders are entitled to receive, less any required withholding tax. Each option to purchase shares of Sunshine common stock shall be cancelled as of the effective time of the merger and converted into the right to receive a cash payment equal to the product of (i) the total number of shares of Sunshine common stock subject to such option times (ii) the excess, if any, of $27.00 over the exercise price per share of Sunshine common stock subject to such option.

First Bancshares will not issue any fractional shares of First Bancshares common stock in the merger. Sunshine stockholders who would otherwise be entitled to a fractional share of First Bancshares common stock upon the completion of the merger will instead receive an amount in cash (without interest and rounded to the nearest whole cent) determined by multiplying the fractional share interest in First Bancshares common stock (rounded to the nearest one hundredth of a share) by $27.00.

If First Bancshares or Sunshine change the number of shares of First Bancshares common stock or Sunshine common stock outstanding prior to the effective time of the merger as a result of a stock split, reverse stock split, stock combination, stock dividend, recapitalization, reclassification, reorganization or similar transaction with respect to First Bancshares common stock or Sunshine common stock and the record date for such corporate action is prior to the effective time of the merger, then the merger consideration shall be appropriately and proportionately adjusted to give Sunshine stockholders the same economic effect as contemplated by the merger agreement prior to any such event.

Sunshine may terminate the merger agreement if the average closing price of First Bancshares common stock over a specified period prior to completion of the merger decreases below certain specified thresholds unless First Bancshares elects to increase the merger consideration through an adjustment to the merger consideration, as discussed in further detail on page 94.

The value of the shares of First Bancshares common stock to be issued to Sunshine stockholders in the merger will fluctuate between now and the closing date of the merger. We make no assurances as to whether or when the merger will be completed, and you are advised to obtain current sale prices for the First Bancshares common stock.

Procedures for Converting Shares of Sunshine Common Stock into Merger Consideration

Exchange Agent

First Bancshares will designate a third party to act as the exchange agent in connection with the merger. The exchange agent shall also act as the agent for Sunshine stockholders for the purpose of receiving their Sunshine stock certificates and book-entry shares and shall obtain no rights or interests in the shares represented thereby. Prior to the effective time of the merger, First Bancshares will deposit, or cause to be deposited, with the exchange agent the aggregate stock consideration and the aggregate cash consideration and, to the extent then determinable, any cash payable in lieu of fractional shares, necessary to satisfy the aggregate merger consideration payable.

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Election Forms and Procedures

At least 20 business days prior to the later of (1) the date of the Sunshine stockholders' meeting or (2) a date agreed upon by Sunshine and First Bancshares that is as near as practicable to five business days prior to the expected closing date, which date we refer to as the election deadline, First Bancshares will cause the exchange agent to send the Sunshine stockholders election forms, which will include the appropriate form of letter of transmittal. Sunshine stockholders can specify on such election form the number of their shares of Sunshine common stock for which they desire to receive the cash consideration, the number of shares for which they desire to receive the stock consideration or to indicate that such stockholder has no preference as to the receipt of the cash consideration or stock consideration. The election forms must be returned to the exchange agent, along with certificates representing the shares subject to such election form, or a customary affidavit of loss and indemnity agreement, by the election deadline. If you are a Sunshine stockholder and you do not return your election form by the election deadline or improperly complete or do not sign your election form, your shares will be considered non-election shares and you will have no control over the type of consideration you receive and you may receive only the cash consideration, only the stock consideration or a mixture of the cash consideration and stock consideration based on what is available after giving effect to the valid elections made by other stockholders pursuant to the merger consideration allocation procedures described below.

A Sunshine stockholder may specify different elections with respect to different shares held by him or her. For example, if the stockholder has 100 shares, the stockholder could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares.

Merger Consideration Allocation

Pursuant to the merger agreement, the total mix of cash consideration and stock consideration to be issued by First Bancshares to holders of Sunshine common stock will be fixed at 75% stock and 25% cash. To achieve that mix, the exchange agent will set a number equal to 75% of the outstanding shares of Sunshine common stock, which we refer to as the stock conversion number. The exchange agent will collect the election forms that are received prior to the election deadline, and determine:

- The number of shares of Sunshine common stock with respect to which the holder has elected to receive stock consideration, which we refer to as the stock election shares, and such number of shares, as the stock election number;

- The number of shares of Sunshine common stock with respect to which the holder has elected to receive cash consideration, which we refer to as the cash election shares, and such number of shares, as the cash election number; and

- The number of shares of Sunshine common stock with respect to which the holder thereof has not made an effective election by the election deadline, which we refer to as the non-election shares.

No later than five business days after the effective time of the merger, the exchange agent will allocate the merger consideration as follows:

- If the stock election number is greater than the stock conversion number, then the cash election shares and all non-election shares of each holder thereof shall be converted into the right to receive the per share cash consideration and the stock election shares of each holder thereof will be converted into the right to receive (a) the per share stock consideration in respect of that number of stock election shares equal to the product obtained by multiplying (x) the number of stock election shares held by such holder by (y) a fraction, the numerator of which is the stock conversion number and the denominator of which is the stock election number, and (b) the right to receive the per share cash consideration in respect of the remainder of such holder's stock election shares that were not converted into the right to receive the per share stock consideration pursuant to clause (a) above.

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If the stock election number is less than the stock conversion number (the amount by which the stock conversion number exceeds the stock election number being referred to herein as the shortfall number), then all stock election shares shall be converted into the right to receive the per share stock consideration and the non-election shares and cash election shares shall be treated in the following manner:

If the shortfall number is less than or equal to the number of non-election shares, then all cash election shares shall be converted into the right to receive the per share cash consideration and the non-election shares of each holder thereof shall be converted into the right to receive (a) the per share stock consideration in respect of that number of non-election shares equal to the product obtained by multiplying (x) the number of non-election shares held by such holder by (y) a fraction, the numerator of which is the shortfall number and the denominator of which is the total number of non-election shares, and (b) the right to receive the per share cash consideration in respect of the remainder of such holder's non-election shares that were not converted into the right to receive the per share stock consideration pursuant to clause (a) above; and

If the shortfall number exceeds the number of non-election shares, then all non-election shares shall be converted into the right to receive the per share stock consideration and the cash election shares of each holder thereof shall be converted into the right to receive (a) the per share stock consideration in respect of that number of cash election shares equal to the product obtained by multiplying (x) the number of cash election shares held by such holder by (y) a fraction, the numerator of which is the amount by which the shortfall number exceeds the total number of non-election shares and the denominator of which is the total number of cash election shares, and (b) the right to receive the per share cash consideration in respect of the remainder of such holder's cash election shares that were not converted into the right to receive the per share stock consideration pursuant to clause (a) above.

Surrender of Sunshine Stock Certificates

The exchange agent will also send letters of transmittal to holders of Sunshine common stock who did not submit election forms by the election deadline no later than five business days following the closing date, along with instructions for completing the letter of transmittal and delivering to the exchange agent the completed letter of transmittal along with the stock certificates or book-entry shares representing the shares of Sunshine common stock held by the stockholder.

Following the effective time of the merger, the allocation of the merger consideration and the surrender to the exchange agent of the certificate(s) or book-entry shares representing his or her shares of Sunshine common stock, accompanied by a properly completed letter of transmittal, a Sunshine stockholder will be entitled to receive the merger consideration promptly after the effective time of the merger (including any cash in lieu of fractional shares). Until surrendered, each such certificate or book-entry share will represent after the effective time of the merger, for all purposes, only the right to receive the merger consideration, without interest (including any cash in lieu of fractional shares), and any dividends to which such holder is entitled pursuant to the merger agreement.

No dividends or other distributions with respect to First Bancshares common stock after completion of the merger will be paid to the holder of any unsurrendered Sunshine stock certificates or book-entry shares with respect to the shares of Sunshine common stock represented by those certificates until those certificates or book-entry shares have been properly surrendered. Subject to applicable abandoned property, escheat or similar laws, following the proper surrender of any such previously unsurrendered Sunshine stock certificate or book-entry shares, the holder of the certificate or book-entry shares will be entitled to receive, without interest: (i) the amount of unpaid dividends or other distributions with a record date after the effective time of the merger payable with respect to the whole shares of First Bancshares common stock represented by that certificate or the book-entry shares; and (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of First Bancshares common stock represented by that certificate or the book-entry shares with a record date after the effective time of the merger (but before the date on which the certificate or book-entry shares are surrendered) and with a payment date subsequent to

the issuance of the shares of First Bancshares common stock issuable in exchange for that certificate or book-entry shares.

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None of First Bancshares, the exchange agent or any other person will be liable to any former Sunshine stockholder for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

In the event any Sunshine stock certificate is lost, stolen or destroyed, in order to receive the merger consideration (including cash in lieu of any fractional shares), the holder of that certificate must provide an affidavit of that fact and, if reasonably required by First Bancshares or the exchange agent, post a bond in such amount as First Bancshares or the exchange agent determines is reasonably necessary to indemnify it against any claim that may be made against it with respect to that certificate.

First Bancshares and the exchange agent will be entitled to deduct and withhold from the consideration otherwise payable to any Sunshine stockholder the amounts they are required to deduct and withhold under any applicable federal, state, local or foreign tax law. If any such amounts are withheld, these amounts will be treated for all purposes of the merger agreement as having been paid to the stockholders from whom they were withheld.

After completion of the merger, there will be no further transfers on the stock transfer books of Sunshine other than to settle transfers of Sunshine common stock that occurred prior to the effective time of the merger.

No interest will be paid or accrued on any amount payable upon cancellation of shares of Sunshine common stock.

The shares of First Bancshares common stock issued and cash amount paid in accordance with the merger agreement upon conversion of the shares of Sunshine common stock (including any cash paid in lieu of fractional shares) will be deemed to have been issued and paid in full satisfaction of all rights pertaining to the shares of Sunshine common stock.

If any portion of the merger consideration is to be delivered to a person or entity other than the holder in whose name any surrendered certificate is registered, it will be a condition of such exchange that (i) the certificate surrendered must be properly endorsed or must be otherwise in proper form for transfer and (ii) the person or entity requesting such payment pays any transfer or other similar taxes required by reason of the payment of the merger consideration to a person or entity other than the registered holder of the certificate surrendered or will establish to the satisfaction of First Bancshares that such tax has been paid or is not required to be paid. Payment of the applicable merger consideration with respect to book-entry shares will only be made to the person or entity in whose name such book-entry shares are registered. The shares of First Bancshares common stock may be in uncertificated book-entry form, unless a physical certificate is otherwise required by any applicable law.

Representations and Warranties

The merger agreement contains customary representations and warranties of First Bancshares and Sunshine relating to their respective businesses that are made as of the date of the merger agreement and as of the closing date of the merger. The representations and warranties of each of First Bancshares and Sunshine have been made solely for the benefit of the other party, and these representations and warranties should not be relied on by any other person. In addition, these representations and warranties:

- have been qualified by information set forth in confidential disclosure schedules in connection with signing the merger agreement — the information contained in these schedules modifies, qualifies and creates exceptions to the representations and warranties in the merger agreement;

- will not survive consummation of the merger;

- may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to the merger agreement if those statements turn out to be inaccurate;

- are in some cases subject to a materiality standard described in the merger agreement which may differ from what may be viewed as material by you; and

- were made only as of the date of the merger agreement or such other date as is specified in the merger agreement.

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The representations and warranties made by First Bancshares and Sunshine to each other primarily relate to:

- corporate organization, existence, power and authority;
- capitalization;
- corporate authorization to enter into the merger agreement and to consummate the merger;
- regulatory approvals and consents required in connection with the merger and the bank merger;
- reports filed with governmental entities, including the SEC;
- absence of material adverse effect on each party since December 31, 2016;
- compliance with laws and the absence of regulatory agreements;
- tax matters;
- litigation and legal proceedings;
- fees paid to financial advisors; and
- accuracy of the information supplied by each party for inclusion or incorporation by reference in this proxy statement/prospectus.

Sunshine has also made representations and warranties to First Bancshares with respect to:

- labor and employee relations;
- employee benefits plans;
- investment portfolio;
- material contracts;
- intellectual properties;

- environmental matters;
- receipt of fairness opinion;
- insurance policies;
- derivative transactions;
- financial statements;
- loan portfolio;
- adequacy of allowances for loan losses;
- absence of state takeover laws applicability;
- real and personal property matters; and
- transactions with affiliates.

Definition of "Material Adverse Effect"

Certain representations and warranties of First Bancshares and Sunshine are qualified as to "materiality" or "material adverse effect." For purposes of the merger agreement, a "material adverse effect," when used in reference to either First Bancshares or Sunshine, means (i) any change, development or effect that individually or in the aggregate is, or is reasonably likely to be, material and adverse to the condition (financial or otherwise), results of operations, liquidity, assets or deposit liabilities, properties, or business of such party and its subsidiaries, taken as a whole, or (ii) any change, development or effect that individually or in the aggregate would, or would be reasonably likely to, materially impair the ability of such

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party to perform its obligations under the merger agreement or otherwise materially impairs, or is reasonably likely to materially impair, the ability of such party to consummate the merger and the transactions contemplated by the merger agreement. For purposes of clause (i) only, the definition of "material adverse effect" excludes the following:

- changes in banking and similar laws of general applicability or interpretations thereof by any governmental authority;

- changes in GAAP or regulatory accounting requirements applicable to banks or bank holding companies generally;

- changes in global, national or regional political conditions (including the outbreak of war or acts of terrorism) or in economic or market (including equity, credit and debt markets, as well as changes in interest rates) conditions affecting the financial services industry generally;

- public disclosure of the transactions contemplated or actions expressly required by the merger agreement or actions or omissions that are taken with the prior written consent of the other party, or as otherwise expressly permitted or contemplated by the merger agreement;

- any failure by Sunshine or First Bancshares to meet any internal or published industry analyst projections or forecasts or estimates of revenues or earnings for any period (it being understood and agreed that the facts and circumstances giving rise to such failure that are not otherwise excluded from the definition of material adverse effect may be taken into account in determining whether there has been a material adverse effect);

- changes in the trading price or trading volume of First Bancshares common stock; and

- the impact of this merger agreement and the transactions contemplated by the merger agreement on relationships with customers or employees, including the loss of personnel;

except, with respect to the first three bullets, if the effects of such change disproportionately affect such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate.

Covenants and Agreements

Pursuant to the merger agreement, First Bancshares and Sunshine have agreed to certain restrictions on their activities until the effective time of the merger. First Bancshares has agreed that it will carry on its business consistent with prudent banking practices and in compliance in all material respects with applicable laws. Sunshine has agreed to carry on its business, including the business of each of its subsidiaries, in the ordinary course of business and consistent with prudent banking practice. In addition, Sunshine has agreed that it will use commercially reasonable efforts to:

- preserve its business organization and assets intact;

- keep available to itself and First Bancshares the present services of the current officers and employees of Sunshine and its subsidiaries;

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preserve for itself and First Bancshares the goodwill of its customers, employees, lessors and others with whom business relationships exists; and

- continue diligent collection efforts with respect to any delinquent loans and, to the extent within its control, not allow any material increase in delinquent loans.

First Bancshares has also agreed that until the effective time of the merger, it and its subsidiaries will not take any or knowingly fail to take any action that is intended or is reasonably likely to:

- prevent, delay or impair First Bancshares' ability to consummate the merger or the transactions contemplated by the merger agreement;

- agree to take, commit to take, or adopt any resolution of its board of directors in support of, any of the actions prohibited by the merger agreement;

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- take any action that is intended or is reasonably likely to result in the merger or the bank merger failing to qualify as a "reorganization" under Section 368(a) of the Code;

- take any action that is likely to materially impair First Bancshares' ability to perform any of its obligations under the merger agreement or The First to perform any of its obligations under the bank plan of merger; or

- agree or commit to do any of the foregoing.

Sunshine has also agreed that it will not, and will not permit its subsidiaries to do any of the following without the prior written consent of First Bancshares, except as previously agreed to by the parties:

- except as previously disclosed to First Bancshares, (i) issue, sell, grant, pledge, dispose of, encumber, or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its stock, any rights, any new award or grant under the Sunshine stock plans or otherwise, or any other securities (including units of beneficial ownership interest in any partnership or limited liability company), or enter into any agreement with respect to the foregoing (except that Sunshine may issue shares of Sunshine common stock upon the exercise of Sunshine stock options which are currently outstanding and vested or which become vested prior to the effective time), (ii) except as permitted in the merger agreement, accelerate the vesting of any existing rights, or (iii) except as permitted in the merger agreement, directly or indirectly change (or establish a record date for changing), adjust, split, combine, redeem, reclassify, exchange, purchase or otherwise acquire any shares of its capital stock, or any other securities (including units of beneficial ownership interest in any partnership or limited liability company) convertible into or exchangeable for any additional shares of stock, any rights issued and outstanding prior to the effective time;

- make, declare, pay or set aside for payment of dividends payable in cash, stock or property on or in respect of, or declare or make any distribution on, any shares of its capital stock, except dividends from wholly owned subsidiaries to Sunshine;

- enter into or amend or renew any employment, consulting, compensatory, severance, retention or similar agreements or arrangements with any director, officer or employee of Sunshine or its subsidiaries, or grant any salary, wage or fee increase or increase any employee benefit or pay any incentive or bonus payments, except (i) normal increases in base salary to employees in the ordinary course of business and pursuant to policies currently in effect, provided that, such increases shall not result in an annual adjustment in base compensation (which includes base salary and any other compensation other than bonus payments) of more than 5% for any individual or 3% in the aggregate for all employees of Sunshine or its subsidiaries, except as previously disclosed to First Bancshares, (ii) as specifically provided for by the merger agreement, (iii) as may be required by law, (iv) to satisfy contractual obligations, or (v) as previously disclosed to First Bancshares;

- hire any person as an employee of Sunshine or any of its subsidiaries, except for at-will employees at an annual rate of salary not to exceed $100,000;

- enter into, establish, adopt, amend, modify or terminate (except (i) as may be required by or to make consistent with applicable law, subject to the provision of prior written notice to and consultation with First Bancshares, (ii) to satisfy contractual obligations existing as of the date of the merger agreement and as previously disclosed to First

Bancshares, (iii) as previously disclosed to First Bancshares, or (iv) as may be required pursuant to the terms of the merger agreement) any Sunshine benefit plan or other pension, retirement, stock option, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any current or former director, officer or employee of Sunshine or any of its subsidiaries;

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- except pursuant to agreements or arrangements in effect on the date of the merger agreement and previously disclosed to First Bancshares and loans to directors, officers, and their immediate family members, affiliates, or associates that are below certain thresholds and which are in compliance with Regulation O, pay, loan or advance any amount to, or sell, transfer or lease any properties or assets (real, personal or mixed, tangible or intangible) to, or enter into any agreement or arrangement with, any of its officers or directors or any of their immediate family members or any affiliates or associates of any of its officers or directors other than compensation or business expense advancements or reimbursements in the ordinary course of business;

- except in the ordinary course of business, sell, license, lease, transfer, mortgage, pledge, encumber or otherwise dispose of or discontinue any of its rights, assets, deposits, business or properties or cancel or release any indebtedness owed to Sunshine or any of its subsidiaries;

- acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business) all or any portion of the assets, debt, business, deposits or properties of any other entity or person, except for purchases specifically approved by First Bancshares;

- make any capital expenditures in amounts exceeding $50,000 individually, or $250,000 in the aggregate;

- amend the Sunshine Articles or the Sunshine Bylaws or any equivalent documents of Sunshine's subsidiaries;

- implement or adopt any change in its accounting principles, practices or methods, other than as may be required by applicable laws, GAAP or applicable accounting requirements of any governmental authority, in each case, including changes in the interpretation or enforcement thereof;

- except as previously disclosed to First Bancshares, enter into, amend, modify, terminate, extend, or waive any material provision of, any Sunshine material contract, lease or insurance policy, or make any change in any instrument or agreement governing the terms of any of its securities, or material lease, license or contract, other than normal renewals of contracts, licenses and leases without material adverse changes of terms with respect to Sunshine or any of its subsidiaries, or enter into any contract that would constitute a Sunshine material contract if it were in effect on the date of the merger agreement, except for any amendments, modifications or terminations reasonably requested by First Bancshares;

- other than settlement of foreclosure actions in the ordinary course of business, (i) enter into any settlement or similar agreement with respect to any action, suit, proceeding, order or investigation to which Sunshine or any of its subsidiaries is or becomes a party after the date of the merger agreement, which settlement or agreement involves payment by Sunshine or any of its subsidiaries of an amount which exceeds $100,000 individually or $200,000 in the aggregate and/or would impose any material restriction on the business of Sunshine or any of its subsidiaries or (ii) waive or release any material rights or claims, or agree or consent to the issuance of any injunction, decree, order or judgment restricting or otherwise affecting its business or operations;

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(i) enter into any material new line of business, introduce any material new products or services, any material marketing campaigns or any material new sales compensation or incentive programs or arrangements; (ii) change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking and operating policies, except as required by applicable law, regulation or policies imposed by any governmental authority; (iii) make any material changes in its policies and practices with respect to underwriting, pricing, originating, acquiring, selling, servicing, or buying or selling rights to service loans, its hedging practices and policies, and (iv) incur any material liability or obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the ordinary course of business;

- enter into any derivative transaction;

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- incur any indebtedness for borrowed money other than in the ordinary course of business consistent with past practice with a term not in excess of 12 months (other than creation of deposit liabilities or sales of certificates of deposit in the ordinary course of business), or incur, assume or become subject to, whether directly or by way of any guarantee or otherwise, any obligations or liabilities (whether absolute, accrued, contingent or otherwise) of any other person, other than the issuance of letters of credit in the ordinary course of business and in accordance with restrictions on making or extending loans as set forth in the merger agreement;

- (i) other than in accordance with Sunshine's investment guidelines, acquire, sell or otherwise dispose of any debt security or equity investment or any certificates of deposits issued by other banks, or (ii) change the classification method for any of the Sunshine investment securities from "held to maturity" to "available for sale" or from "available for sale" to "held to maturity," as those terms are used in ASC 320;

- make any changes to deposit pricing other than such changes made in the ordinary course of business;

- except for loans or extensions of credit approved and/or committed as of the date of the merger agreement and disclosed to First Bancshares, (i) make, renew, renegotiate, increase, extend or modify any (A) unsecured loan, if the amount of such unsecured loan, together with any other outstanding unsecured loans made by Sunshine or any of its subsidiaries to such borrower or its affiliates, would be in excess of $100,000, in the aggregate, (B) loan secured by other than a first lien in excess of $500,000, (C) loan in excess of the Federal Financial Institutions Examination Council's regulatory guidelines relating to loan to value ratios, (D) loan secured by a first lien residential mortgage and with no loan policy exceptions in excess of $750,000, (E) secured loan over $2,000,000, (F) any loan that is not made in conformity with Sunshine's ordinary course lending policies and guidelines in effect as of the date hereof, or (G) loan, whether secured or unsecured, if the amount of such loan, together with any other outstanding loans (without regard to whether such other loans have been advanced or remain to be advanced), would result in the aggregate outstanding loans to any borrower of Sunshine or any of its subsidiaries (without regard to whether such other loans have been advanced or remain to be advanced) to exceed $2,000,000, (ii) sell any loan or loan pools in excess of $1,000,000 in principal amount or sale price (other than residential mortgage loan pools sold in the ordinary course of business), or (iii) acquire any servicing rights, or sell or otherwise transfer any loan where Sunshine or any of its subsidiaries retains any servicing rights. Any loan in excess of the foregoing limits shall require the prior written approval of the President or Chief Credit Officer or Credit Administrator of The First;

- make any investment or commitment to invest in real estate or in any real estate development project other than by way of foreclosure or deed in lieu thereof or make any investment or commitment to develop, or otherwise take any actions to develop any real estate owned by Sunshine or its subsidiaries;

- except as required by applicable law or in the ordinary course of business, make or change any material tax election, file any material amended tax return, enter into any material closing agreement with respect to taxes, settle or compromise any material liability with respect to taxes, agree to any material adjustment of any tax attribute, or consent to any extension or waiver of the limitation period applicable to any material tax claim or assessment, provided that, for purposes of the foregoing, "material" means affecting or relating to $100,000 or more in taxes or $200,000 or more of taxable income;

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take any action or knowingly fail to take any action not contemplated by the merger agreement that is intended or is reasonably likely to (i) prevent, delay or impair Sunshine's ability to consummate the merger or the transactions contemplated by the merger agreement, or (ii) agree to take, make any commitment to take, or adopt any resolutions of its board of directors in support of any actions prohibited by the merger agreement;

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- directly or indirectly repurchase, redeem or otherwise acquire any shares of Sunshine capital stock or any securities convertible into or exercisable for any shares of Sunshine capital stock, provided that Sunshine may repurchase, redeem or otherwise acquire shares of Sunshine common stock in connection with the payment of (x) the exercise price and any related withholding taxes owed by the holder of an Sunshine stock option who exercises a Sunshine stock option or (y) the withholding taxes owed by a holder of an Sunshine restricted share upon the vesting of a Sunshine restricted share);

- except as required by law, file any application or make any contract or commitment for the opening, relocation or closing of any, or open, relocate or close any, branch office, loan production or servicing facility or automated banking facility, except for any change that may be requested by First Bancshares;

- merge or consolidate itself or any of its subsidiaries with any other person, or restructure, reorganize or completely or partially liquidate or dissolve it or any of its subsidiaries; or

- (i) enter into any contract with respect to, or otherwise agree or commit to do, or adopt any resolutions of its board of directors or similar governing body in support of, any of the foregoing or (ii) take any action that is intended or expected to result in any of its representations and warranties set forth in the merger agreement being or becoming untrue in any material respect at any time prior to the effective time, or in any of the conditions to the merger not being satisfied or in a violation of any provision of the merger agreement, except, in every case, as may be required by applicable law.

Sunshine has also agreed to cause to be delivered to First Bancshares (i) resignations of all the directors of Sunshine and its subsidiaries to be effective as of the effective time of the merger, and (ii) a termination agreement, in form acceptable to First Bancshares in its sole discretion, with respect to that certain agreement dated February 5, 2016 by and among Sunshine, Sunshine Bank, Stilwell Value Partners VII, L.P., Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Partners, L.P., and Stilwell Value LLC, a Delaware limited liability company, and Corissa J. Briglia.

Regulatory Matters

First Bancshares and Sunshine agreed to use their respective commercially reasonable efforts to cause the registration statement to be declared effective by the SEC as promptly as reasonably practicable after filing. First Bancshares has also agreed to use its commercially reasonable efforts to obtain all necessary state securities law or “blue sky” permits and approvals required to carry out the transactions contemplated by the merger agreement.

First Bancshares and Sunshine and their respective subsidiaries have agreed to cooperate with each other and use their reasonable best efforts to prepare and file all necessary documentation, to effect all filings, to obtain as promptly as practicable all permits, consents, approvals and authorizations of all third parties and regulatory and governmental entities that are necessary to consummate the transactions contemplated by the merger agreement, and to comply with the terms and conditions of all such permits, consents, approvals and authorizations; provided, however, that nothing contained in the merger agreement will require First Bancshares or any of its subsidiaries or Sunshine or any of its subsidiaries to take any action, or commit to take any action, or agree to any condition or restriction, in connection with obtaining the foregoing permits, consents, approvals and authorizations of any governmental authority that would reasonably be likely to have a material and adverse effect (measured on a scale relative to Sunshine) on the condition (financial or otherwise), results of operations, liquidity, assets or deposit liabilities, properties or business of First Bancshares, Sunshine, the surviving entity or the surviving bank, after giving effect to the merger (a “burdensome condition”).

First Bancshares and Sunshine will furnish each other and each other’s counsel with all information as may be necessary or advisable in connection with any application, petition or any other statement or application made by or

on behalf of First Bancshares or Sunshine to any governmental authority in connection with the transactions contemplated by the merger agreement. Each party has the right to review and approve in advance all characterizations of the information relating to such party and any of its subsidiaries that appear in any filing with a governmental authority made in connection with the

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transactions contemplated by the merger agreement. In addition, First Bancshares and Sunshine agreed to provide to the other party for review a copy of each filing with a governmental authority made in connection with the transactions contemplated by the merger agreement prior to its filing.

NASDAQ Listing

First Bancshares has agreed to use its commercially reasonable efforts to cause the shares of its common stock to be issued in connection with the merger to be approved for listing on NASDAQ, subject to official notice of issuance, prior to the effective time of the merger.

Employee Matters

General

Following the effective time of the merger, First Bancshares must maintain employee benefit plans and compensation opportunities for those persons who are full-time employees of Sunshine and its subsidiaries on the closing date of the merger (referred to below as "covered employees") that provide employee benefits and compensation opportunities which, in the aggregate, are substantially comparable to the employee benefits and compensation opportunities that are made available on a uniform and non-discriminatory basis to similarly situated employees of First Bancshares or its subsidiaries (except that no covered employee may participate in any closed or frozen plan of First Bancshares or its subsidiaries). First Bancshares shall give the covered employees full credit for their prior service with Sunshine and its subsidiaries for purposes of eligibility and vesting under any qualified or non-qualified employee benefit plan maintained by First Bancshares in which covered employees may be eligible to participate and for all purposes under any welfare benefit plans, vacation plans and similar arrangements maintained by First Bancshares.

With respect to any First Bancshares health, dental, vision or other welfare plan in which any covered employee is eligible to participate, for the first plan year in which the covered employee is eligible to participate, First Bancshares or its applicable subsidiary must use its commercially reasonable best efforts to: (i) cause any pre-existing condition limitations or eligibility waiting periods under such plan to be waived with respect to the covered employee and his or her covered dependents to the extent the condition was, or would have been, covered under the Sunshine benefit plan in which the covered employee participated immediately prior to the effective time of the merger; and (ii) recognize any health, dental, vision or other welfare expenses incurred by the covered employee and his or her covered dependents in the year that includes the closing date of the merger (or, if later, the year in which the covered employee is first eligible to participate) for purposes of any applicable copayment, deductible and annual out-of-pocket expense requirements.

Employees of Sunshine (other than employees who are otherwise parties to employment, severance or change or control agreements) (i) who are not offered the opportunity to continue as employees of First Bancshares or its wholly owned bank subsidiary after the merger or (ii) who are terminated without cause within one year after the merger, will be entitled to receive (A) severance compensation based on the number of years of service with Sunshine and the employees' weekly rate of pay, (B) accrued benefits, including vacation pay, through the date of separation, and (C) any rights to continuation of medical coverage to the extent such rights are required under applicable federal or state law and subject to the employee's compliance with all applicable requirements for such continuation coverage, including payment of all premiums or other expenses related to such coverage.

Prior to the effective time of the merger, Sunshine will effectuate the termination or discontinuation of certain benefits plans maintained by Sunshine, as requested by First Bancshares.

Indemnification and Directors' and Officers' Insurance

For a period of six years after the effective time of the merger, First Bancshares shall indemnify and hold harmless the present and former directors and officers of Sunshine and its subsidiaries against all costs or expenses, judgements, fines, losses, claims, damages or other liabilities incurred in connection with any claim, action, suit, proceeding or investigation arising out of actions or omissions of such persons in the

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course of performing their duties for Sunshine or its subsidiaries occurring at or before the effective time of the merger (including the transactions contemplated by the merger agreement), to the same extent as such persons have the right to be indemnified pursuant to the organizational documents of Sunshine and to the extent permitted by applicable law. First Bancshares will also advance expenses in connection with such indemnification.

For a period of six years after the effective time of the merger, First Bancshares will provide directors' and officers' liability insurance that serves to reimburse the present and former officers and directors of Sunshine or its subsidiaries with respect to claims against them arising from facts or events occurring before the effective time of the merger (including the transactions contemplated by the merger agreement). The directors' and officers' liability insurance will contain at least the same coverage and amounts, and contain terms and conditions no less advantageous to the indemnified person as the coverage currently provided by Sunshine; provided, however, that: (i) if First Bancshares is unable to obtain or maintain the directors' and officers' liability insurance, then First Bancshares will provide as much comparable insurance as is reasonably available, and (ii) officers and directors of Sunshine or its subsidiaries may be required to make application and provide customary representations and warranties to the carrier of the insurance. First Bancshares will not be required to expend for such tail insurance a premium amount in excess of an amount equal to 200% of the annual premiums paid by Sunshine for director and officer insurance in effect as of the date of this Agreement.

First Bancshares has agreed that if it, or any of its successors and assigns, consolidates with or merges with any other corporation or entity where it is not the continuing or surviving corporation, or transfers all or substantially all of its property or assets, it will make proper provision so that the successors and assigns of First Bancshares and its subsidiaries will assume the obligations of indemnification under the merger agreement.

No Solicitation

Sunshine has agreed that, from the date of the merger agreement it will not, and will cause its subsidiaries and each of their respective officers, directors and employees not to, and will not authorize any investment bankers, financial advisors, attorneys, accountants, consultants, affiliates or other agents of Sunshine or any of its subsidiaries to, directly or indirectly, (i) initiate, solicit, induce or knowingly encourage or take any action to facilitate an inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an acquisition proposal; (ii) participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access to, any person (other than First Bancshares) any information or data with respect to Sunshine or any of its subsidiaries or otherwise relating to an acquisition proposal; (iii) release any person from, waive any provision of, or fail to enforce any confidentiality agreement or standstill agreement to which Sunshine is a party; or (iv) enter into any agreement, agreement in principle or letter of intent with respect to any acquisition proposal or approve or resolve to approve any acquisition proposal or any agreement, agreement in principle or letter of intent relating to an acquisition proposal.

For purposes of the merger agreement, an "acquisition proposal" means any inquiry, offer or proposal that could reasonably be expected to lead to: (A) any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving Sunshine or any of its subsidiaries; (B) any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, a significant portion of the assets of Sunshine or any of its subsidiaries; (C) any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing 20% or more of the votes attached to the outstanding securities of Sunshine or any of its subsidiaries; (D) any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning 20% or more of any class of equity securities of Sunshine or any of its subsidiaries; or (E) any transaction which is similar in form, substance or purpose to any of the foregoing transactions, or any combination of the foregoing.

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However, at any time prior to the Sunshine special meeting, Sunshine may take any of the actions described in the first paragraph of this "— No Solicitation" section if, but only if (i) Sunshine receives a bona fide unsolicited acquisition proposal that did not result from a breach of the first paragraph of this section, (ii) the Sunshine board of directors reasonably determines in good faith, after consultation with and having considered the advice of its outside financial advisor and outside legal counsel, that such acquisition proposal constitutes or is reasonably likely to lead to a superior proposal and it is reasonably necessary to take such actions to comply with its fiduciary duties to Sunshine's stockholders under applicable law, (iii) Sunshine has provided First Bancshares with at least three business days' prior notice of such determination, and (iv) prior to furnishing or affording access to any information or data with respect to Sunshine or any of its subsidiaries or otherwise relating to an acquisition proposal, Sunshine receives from such person a confidentiality agreement with terms no less favorable to Sunshine than those contained in the confidentiality agreement with First Bancshares. Sunshine must promptly provide to First Bancshares any non-public information regarding Sunshine or any of its subsidiaries provided to any other person which was not previously provided to First Bancshares, and such additional information must be provided no later than the date of provision of such information to such other party.

A "superior proposal" means a bona fide, unsolicited acquisition proposal (i) that if consummated would result in a third party (or in the case of a direct merger between such third party and Sunshine or any of its subsidiaries, the stockholders of such third party) acquiring, directly or indirectly, more than 50% of the outstanding Sunshine common stock or more than 50% of the assets of Sunshine and its subsidiaries, taken as a whole, for consideration consisting of cash and/or securities and (ii) that the board of directors of Sunshine reasonably determines in good faith, after consultation with its outside financial advisor and outside legal counsel, (a) is reasonably capable of being completed, taking into account all financial, legal, regulatory and other aspects of such proposal, including all conditions contained therein and the person making such acquisition proposal, and (b) taking into account any changes to the merger agreement proposed by First Bancshares in response to such acquisition proposal, taking into account all financial, legal, regulatory and other aspects of such proposal, including all conditions contained therein and the person making such acquisition proposal, such proposal is more favorable to the stockholders of Sunshine from a financial point of view than the merger.

Sunshine must promptly (and in any event within 24 hours) notify First Bancshares in writing if any proposals or offers are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with, Sunshine or its representatives, in each case in connection with any acquisition proposal, and such notice must indicate the name of the person initiating such discussions or negotiations or making such proposal, offer or information request and the material terms and conditions of any proposals or offers (and, in the case of written materials relating to such proposal, offer, information request, negotiations or discussion, providing copies of such materials (including e-mails or other electronic communications), except to the extent that such materials constitute confidential information of the party making such offer or proposal under an effective confidentiality agreement). Sunshine has agreed that it will keep First Bancshares informed, on a reasonably current basis, of the status and terms of any such proposal, offer, information request, negotiations or discussions (including any amendments or modifications to such proposal, offer or request).

Except as provided below, neither the board of directors of Sunshine nor any committee thereof shall (i) withdraw, qualify, amend or modify, or propose to withdraw, qualify, amend or modify, in a manner adverse to First Bancshares in connection with the transactions contemplated by the merger agreement (including the merger), the Sunshine recommendation, fail to reaffirm the Sunshine recommendation within three business days following a request by First Bancshares, or make any statement, filing or release, in connection with the Sunshine special meeting or otherwise, inconsistent with the Sunshine recommendation (it being understood that taking a neutral position or no position with respect to an acquisition proposal will be considered an adverse modification of the Sunshine recommendation); (ii) approve or recommend, or propose to approve or recommend, any acquisition proposal; or (iii) enter into (or cause Sunshine or any of its subsidiaries to enter into) any letter of intent, agreement in principle, acquisition agreement or other agreement (a) related to any acquisition transaction (other than a confidentiality agreement entered into in accordance with the foregoing) or (b) requiring Sunshine to abandon, terminate or fail to consummate the merger or any other transaction contemplated by the merger agreement.

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Notwithstanding the foregoing, prior to the date of the Sunshine special meeting, the board of directors of Sunshine may withdraw, qualify, amend or modify the Sunshine recommendation ("Sunshine subsequent determination") after the fifth business day following First Bancshares' receipt of a notice (the "notice of superior proposal") from Sunshine advising First Bancshares that the board of directors of Sunshine has decided that a bona fide unsolicited written acquisition proposal that it received (that did not result from a breach of the merger agreement) constitutes a superior proposal if, but only if, (i) the board of directors of Sunshine has determined in good faith, after consultation with and having considered the advice of outside legal counsel and its financial advisor, that it is reasonably necessary to take such actions to comply with its fiduciary duties to Sunshine's stockholders under applicable law, (ii) during the five business day period after receipt of the notice of superior proposal by First Bancshares (the "notice period"), Sunshine and the board of directors of Sunshine shall have cooperated and negotiated in good faith with First Bancshares to make such adjustments, modifications or amendments to the terms and conditions of the merger agreement as would enable Sunshine to proceed with the Sunshine recommendation in favor of the merger with First Bancshares without a Sunshine subsequent determination; provided, however, that First Bancshares does not have any obligation to propose any adjustments, modifications or amendments to the terms and conditions of the merger agreement and (iii) at the end of the notice period, after taking into account any such adjusted, modified or amended terms as may have been proposed by First Bancshares since its receipt of such notice of superior proposal, the board of directors of Sunshine has again in good faith made the determination that such acquisition proposal constitutes a superior proposal. In the event of any material revisions to the superior proposal, Sunshine is required to deliver a new notice of superior proposal to First Bancshares and again comply with the foregoing requirements, except that the notice period will be reduced to three business days.

Notwithstanding any Sunshine subsequent determination, the merger agreement will be submitted to Sunshine's stockholders at the Sunshine special meeting for the purpose of voting on the approval of the merger proposal and nothing contained in the merger agreement will be deemed to relieve Sunshine of such obligation; provided, however, that if the board of directors of Sunshine makes a Sunshine subsequent determination with respect to a superior proposal, then the board of directors of Sunshine may recommend approval of such superior proposal by the stockholders of Sunshine and may submit the merger proposal to Sunshine's stockholders without recommendation, in which event the board of directors of Sunshine will communicate the basis for its recommendation of such superior proposal and the basis for its lack of a recommendation with respect to the merger proposal to Sunshine's stockholders in an appropriate amendment or supplement to this proxy statement/prospectus.

Conditions to Completion of the Merger

The completion of the merger depends on a number of conditions being satisfied or, where permitted, waived, including:

- the required approval by the stockholders of Sunshine;

- the receipt of all regulatory approvals, or expiration or termination of all statutory waiting periods in respect thereof, required to consummate the transactions contemplated by the merger agreement, without any burdensome conditions;

- the absence of any judgement, order, injunction or decree issued by any court or agency of competent jurisdiction or other law preventing or making illegal the consummation of the merger, the bank merger or the other transactions contemplated by the merger agreement;

- the effectiveness of the registration statement on Form S-4, of which this proxy statement/ prospectus is a part, under the Securities Act;

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the receipt by First Bancshares and Sunshine from their respective tax counsel of a U.S. federal income tax opinion, dated the closing date of the merger, that the merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code;

- the accuracy, subject to varying degrees of materiality, of First Bancshares' and Sunshine's respective representations and warranties in the merger agreement on the date of the merger agreement and as of the effective time of the merger (or such other date specified in the merger agreement);

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- performance in all material respects by First Bancshares and Sunshine of their respective obligations under the merger agreement;

- the Plan of Bank Merger is executed and delivered;

- less than 12.5% of the outstanding shares of Sunshine common stock validly exercise, or remain entitled to exercise, their appraisal rights; and

- the absence of any event which has resulted in a material adverse effect on the other party, and the absence of any condition, event, fact, circumstance or other occurrence that is reasonably expected to have a material adverse effect on the other party.

No assurance is given as to when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Termination

The merger agreement may be terminated at any time prior to the effective time of the merger:

- by mutual written consent of First Bancshares and Sunshine;

- by First Bancshares or Sunshine if any regulatory approval required for consummation of the transactions contemplated by the merger agreement has been denied by final non-appealable action by the relevant governmental authority or any application for such regulatory approval shall have been permanently withdrawn at the request of a governmental authority;

- by First Bancshares or Sunshine if the approval of the stockholders of Sunshine is not obtained;

- by First Bancshares or Sunshine in the event of a material breach by the other party of any representation, warranty or covenant contained in the merger agreement and such breach is not cured prior to the earlier of thirty days of notice of the breach or two business days prior to the effective date and the terminating party is not itself in material breach;

- by First Bancshares or Sunshine if the merger is not consummated on or before May 31, 2018, subject to automatic extension to August 31, 2018 if the only outstanding condition to closing is the receipt of regulatory approvals;

- by First Bancshares if Sunshine materially breaches its covenant not to solicit other offers;

- by First Bancshares if Sunshine withdraws, qualifies, amends, modifies or withholds its recommendation to its stockholders to approve the merger and the merger agreement, or makes any statement, filing or release, in connection with the stockholder meeting or otherwise, inconsistent with its recommendation (it being understood that taking a neutral position or no position with respect to an acquisition proposal shall be considered an adverse modification of its recommendation);

- by First Bancshares if Sunshine fails to properly call, give notice of, and commence a meeting of stockholders to vote on the merger;

- by First Bancshares if Sunshine approves or recommends an acquisition proposal;

- by First Bancshares if Sunshine fails to publicly recommend against a publicly announced acquisition proposal within three (3) business days of being requested to do so by First Bancshares or fails to publicly reconfirm its recommendation to its stockholders within (3) business days of being requested to do so by First Bancshares;

- by Sunshine if (i) the average closing price of First Bancshares common stock over the 20 trading days preceding the date that is five days prior to the closing date is less than $25.52, and (ii) the decline in the price of First Bancshares common stock (as measured by the average closing price divided by $31.90) is less than the number obtained by dividing the average closing price of the KBW Regional Banking Index (KRX) over the 20 trading days preceding the date that is five days prior to the closing date by $111.38; provided, however, if Sunshine wishes to exercise its termination right pursuant to this provision, it shall give prompt written notice to First

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Bancshares, and within the five-day period after its receipt of the termination notice from Sunshine, First Bancshares will have the option, but not the obligation, to adjust the exchange ratio such that the total merger consideration would be worth at least $26,529,000, which will nullify and void Sunshine's termination, and the merger agreement will remain in full force and effect; or

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by Sunshine if Sunshine's board of directors determines to enter into a definitive agreement with respect to a superior proposal in accordance with the terms of the merger agreement, but only if Sunshine pays to First Bancshares the $1,200,000 termination fee.

Termination Fee

Sunshine will pay First Bancshares a termination fee equal to $1,200,000 in the event of any of the following:

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First Bancshares terminated the merger agreement because: (i) Sunshine materially breached its covenant not to solicit other offers; (ii) Sunshine withdrew, qualified, amended, modified or withheld its recommendation to its stockholders to approve the merger and the merger agreement to its stockholders, or made any statement, filing or release, in connection with the stockholder meeting or otherwise, inconsistent with its recommendation (it being understood that taking a neutral position or no position with respect to an acquisition proposal shall be considered an adverse modification of its recommendation); (iii) Sunshine failed to properly call, give notice of, and commence a meeting of stockholders to vote on the merger; (iv) Sunshine approved or recommended an acquisition proposal; (v) Sunshine failed to publicly recommend against a publicly announced acquisition proposal within three (3) business days of being requested to do so by First Bancshares or failed to publicly reconfirm its recommendation to its stockholders within (3) business days of being requested to do so by First Bancshares; or (vi) Sunshine resolved or otherwise determined to take, or announced an intention to take, any of the foregoing actions; or

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in the event that after the date of the merger agreement and prior to the termination of the merger agreement, an acquisition proposal was made known to senior management of Sunshine or has been made directly to Sunshine's stockholders generally or the acquisition proposal shall have been publicly announced (and not withdrawn), and (i) the merger agreement is terminated (A) by either First Bancshares or Sunshine because the requisite Sunshine stockholder approval was not obtained or (B) by First Bancshares because of Sunshine's material breach of its representations and warranties or covenants in the merger agreement, and (ii) prior to the date within 12 months of such termination, Sunshine enters into any agreement or consummates a transaction with respect to an acquisition proposal (whether or not it's the same acquisition proposal as that referred to above).

Effect of Termination

A termination of the merger agreement will not relieve a breaching party from liability for any breach of any covenant, agreement, representation or warranty of the merger agreement giving rise to such termination or resulting from fraud or any willful and material breach. Notwithstanding the foregoing, the parties have agreed that if Sunshine pays or causes to be paid to First Bancshares the termination fee in accordance with the merger agreement, Sunshine (or any successor in interest of Sunshine) will not have any further obligations or liabilities to First Bancshares with respect to the merger agreement or the transactions contemplated by it.

Amendment; Waiver

Prior to the effective time of the merger and to the extent permitted by applicable law, any provision of the merger agreement may be (a) waived by the party benefitted by the provision, provided the waiver is in writing and signed by such party, or (b) amended or modified at any time, by an agreement in writing between the parties, except that after the Sunshine special meeting no amendment may be made which by law requires further approval by the shareholders of First Bancshares or Sunshine without obtaining such approval.

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Expenses

All expenses incurred in connection with the merger, the bank merger, the merger agreement and other transactions contemplated thereby, including fees and expenses of financial consultants, accountants and counsel, will be paid by the party incurring the expenses. Nothing in the merger agreement limits either party's rights to recover any liabilities or damages arising out of the other party's willful breach of any provision of the merger agreement.

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ANCILLARY AGREEMENTS

Voting Agreements

In connection with, and as a condition to, entering into the merger agreement, each of the directors of Sunshine and Sunshine Community and certain stockholders of Sunshine entered into a voting agreement with First Bancshares. The following summary of the voting agreements is subject to, and qualified in its entirety by reference to, the form voting agreement attached as Exhibit A to the merger agreement attached as Annex A to this document.

Pursuant to the voting agreements, each party to a voting agreement has agreed to appear at the Sunshine special meeting (in person or by proxy) and to vote his or her shares of Sunshine common stock:

- in favor of adoption and approval of the merger agreement and the approval of the merger and the other transactions contemplated by the merger agreement;

- in favor of any proposal to adjourn or postpone such meeting, if necessary, to solicit additional proxies to approve the merger agreement and the merger;

- against any action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of Sunshine contained in the merger agreement;

- against any acquisition proposal other than the merger; and

- against any other action, agreement or transaction that is intended, or could reasonably be expected, to impede, interfere or be inconsistent with, delay, postpone, discourage or materially and adversely affect consummation of the transactions contemplated by the merger agreement.

In addition, the voting agreements provide that each stockholder party to a voting agreement will not:

- directly or indirectly sell, transfer, pledge, assign or otherwise dispose of, or enter into any contract, option, commitment or other arrangement or understanding with respect to the sale, transfer, pledge, assignment or other disposition of, any of such stockholder’s shares of Sunshine common stock; and

- (i) initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an acquisition proposal, (ii) participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access, to any person (other than First Bancshares) any information or data with respect to Sunshine or any of its subsidiaries or otherwise relating to an acquisition proposal, (iii) enter into any agreement, agreement in principle or letter of intent with respect to any acquisition proposal or approve or resolve to approve any acquisition proposal or any agreement, agreement in principle or letter of intent relating to an acquisition proposal, (iv) solicit proxies with respect to an acquisition proposal or otherwise encourage or assist any party in taking or planning any action that would compete with, restrain or otherwise serve to interfere with or inhibit the timely consummation of the merger in accordance with the terms of the merger agreement, or (v) initiate a stockholders’ vote or action by consent of Sunshine’s stockholders with respect to an acquisition proposal.

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The voting agreements will automatically terminate upon the earlier of (i) the effective date of the merger, (ii) the amendment of the merger agreement in any manner that materially and adversely affects any of the stockholder's rights set forth in the merger agreement, (iii) termination of the merger agreement, or (iv) three (3) years from the date the voting agreements are executed.

As of the record date, stockholders who are party to the voting agreements beneficially owned and were entitled to vote an aggregate of approximately 155,727 shares of Sunshine common stock, which represented approximately 15.0% of the shares of Sunshine common stock outstanding on that date.

Non-Competition and Non-Disclosure Agreements

In addition to the voting agreements, as a condition to First Bancshares entering into the merger agreement, each of the directors of Sunshine and Sunshine Community entered into a non-competition and non-disclosure agreements with First Bancshares. The following summary of the non-competition and non-disclosure agreements is subject to, and qualified in its entirety by reference to, the form non-competition and non-disclosure agreement attached as Exhibit C or Exhibit D to the merger agreement attached as Annex A to this document.

Pursuant to the non-competition and non-disclosure agreements, each party to a non-competition and non-disclosure agreement has agreed to, among other things:

- from and after the effective time of the merger, not disclose or use any confidential information or trade secrets of Sunshine for any purpose for so long as such information remains confidential information or a trade secret, except as required by law; and

- for a period of two years following the closing the merger:

- not solicit or attempt to solicit any customers of First Bancshares, The First, Sunshine or Sunshine Community, including actively sought prospective customers of Sunshine Community as of the effective time of the merger; and

- on such director's own behalf or on behalf of others, not solicit or recruit or attempt to solicit or recruit any employee (full-time or temporary) of First Bancshares, The First, Sunshine or Sunshine Community;

- for a period of six months or two years after the effective time of the merger (depending on the director), directly on the director's own behalf or on behalf any other person, not act as a director, manager, officer, or employee of any banking business that is the same or essentially the same as the banking business conducted by First Bancshares, The First or Sunshine or Sunshine Community and that has a banking office located within any county in Florida where Sunshine Community operates a banking office as of the closing of the merger and each county contiguous to each of such counties.

The restrictions in the non-competition and non-disclosure agreements will automatically terminate upon the earlier of (i) the termination of the merger agreement, (ii) two years after the effective date of the merger, or (iii) upon a change in control of First Bancshares.

Claims Letters

At the time of the execution of the merger agreement, and effective upon the closing of the merger, each director of Sunshine and Sunshine Community executed a claims letter with First Bancshares. The following summary of the claims letters is subject to, and qualified in its entirety by reference to, the claims letter attached as Exhibit E to the merger agreement attached as Annex A to this document.

Pursuant to the claims letter, each director of Sunshine and Sunshine Community released and discharged, effective upon the consummation of the merger, Sunshine and its subsidiaries, their respective directors and officers (in their capacities as such), and their respective successors and assigns (including First Bancshares and The First), of and from

any and all liabilities or claims that such director has or claims to have, or previously had or claimed to have, solely in his or her capacity as an officer, director or employee of Sunshine or any of its subsidiaries, as of the effective time of the merger. The release does not apply to (i) compensation for services that has accrued but not yet been paid in the ordinary course of

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business consistent with past practice; (ii) claims that the director may have in any capacity other than as an officer, director or employee of Sunshine or any of its subsidiaries, such as claims as a borrower under loan commitments and agreements, claims as a depositor under any deposit account with or as the holder of any certificate of deposit issued by Sunshine Community, claims on account of any services rendered by the director in a capacity other than as an officer, director or employee of Sunshine or any of its subsidiaries, claims in his or her capacity of a stockholder of Sunshine and claims as a holder of any check issued by any other depositor of Sunshine Community; (iii) any claims that the director may have under the merger agreement, including with respect to the indemnification provisions of the merger agreement; or (iv) any right to indemnification that the director may have under the articles of incorporation or bylaws of Sunshine or similar documents or any of its subsidiaries, or the merger agreement.

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THE COMPANIES

The First Bancshares, Inc.

First Bancshares was incorporated in Mississippi on June 23, 1995 and serves as the bank holding company for The First, headquartered in Hattiesburg, Mississippi. First Bancshares is a registered financial holding company. As of September 30, 2017, First Bancshares had consolidated assets of $1.79 billion, loans of $1.19 billion, deposits of $1.51 billion, and shareholders' equity of $167.0 million. First Bancshares operates 43 full service branches, one motor branch and four loan production offices in Mississippi, Alabama, Louisiana and Florida. The First's deposits are insured by the FDIC.

First Bancshares is a community-focused financial institution that offers a full range of financial services to individuals, businesses, municipal entities, and nonprofit organizations in the communities that it serves. These services include consumer and commercial loans, deposit accounts, trust services, safe deposit services and brokerage services.

First Bancshares and its subsidiaries are subject to comprehensive regulation, examination and supervision by the Federal Reserve Board, the OCC and the Mississippi Department of Banking and Consumer Finance, and are subject to numerous laws and regulations relating to their operations, including, among other things, permissible activities, capital adequacy, reserve requirements, standards for safety and soundness, internal controls, consumer protection, anti-money laundering, and privacy and data security.

On October 24, 2017, First Bancshares entered into an agreement and plan of merger to acquire Southwest Banc Shares, Inc., or Southwest, the holding company of First Community Bank. Pursuant to the merger agreement, Southwest will merge with and into First Bancshares, with First Bancshares as the surviving company, a transaction we refer to as the "Southwest merger." Immediately after the Southwest merger, First Community Bank, an Alabama-state chartered bank and wholly owned subsidiary of Southwest, will merge with and into The First, with The First as the surviving bank. The transaction was unanimously approved by the boards of directors of each of First Bancshares and Southwest and is expected to close in the first or second quarter of 2018. Completion of the transaction is subject to customary closing conditions, including receipt of required regulatory approvals and approval of Southwest's shareholders. Under the terms of the agreement, holders of Southwest common stock will receive in the aggregate $60 million, with 60% payable in First Bancshares common stock and 40% payable in cash, subject to adjustments. At September 30, 2017, Southwest had consolidated assets of $391.6 million, loans of $281.6 million, deposits of $345.1 million, and shareholders' equity of $36.8 million.

First Bancshares' headquarters are located at 6480 U.S. Hwy, 98 West, Hattiesburg, Mississippi 39402, and its telephone number is (601) 268-8998. First Bancshares' website can be found at www.thefirstbank.com. The contents of First Bancshares' website are not incorporated into this proxy statement/prospectus.

For more information about First Bancshares' business, see "Where You Can Find More Information" below.

Sunshine Financial, Inc.

Sunshine was incorporated in Maryland in 2010 and owns all of the outstanding shares of common stock of Sunshine Community headquartered in Tallahassee, Florida. As of September 30, 2017, Sunshine had consolidated assets of $194.1 million, loans of $160.0 million, deposits of $141.7 million, and stockholders' equity of $22.2 million. Sunshine operates five full service branches in Florida. Sunshine Community's deposits are insured by the FDIC.

Additional Information about Sunshine and its subsidiaries, including but not limited to information regarding its business, properties, legal proceedings, financial statements, financial condition and results of operations, changes in and disagreements with accountants on accounting and financial disclosure, market risk, executive compensation and related party transactions is set forth in Sunshine's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and Quarterly Report on Form 10-Q for the nine months ended September 30, 2017, which is included herewith as Annex D and Annex E, respectively. See also "Where You Can Find More Information."

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DESCRIPTION OF CAPITAL STOCK

As a result of the merger, Sunshine stockholders who receive shares of First Bancshares common stock in the merger will become shareholders of First Bancshares. Your rights as shareholders of First Bancshares will be governed by Mississippi law and the First Bancshares Articles and the Frist Bancshares Bylaws. The following briefly summarizes the material terms of First Bancshares common stock. We urge you to read the applicable provisions of the Mississippi Business Corporation Act, or the MBCA, the First Bancshares Articles and First Bancshares Bylaws and federal laws governing bank holding companies carefully and in their entirety. Copies of First Bancshares' governing documents have been filed with the SEC. To obtain copies of these documents, see "Where You Can Find More Information." First Bancshares common stock is listed on the NASDAQ Global Market under the symbol "FBMS."

Common Stock

Authorized. First Bancshares has 20,000,000 shares of authorized common stock, $1.00 par value. As of February 8, 2018 there were 11,165,907 shares of common stock issued and outstanding.

Voting Rights; Cumulative Voting. Pursuant to the MBCA and the First Bancshares Bylaws, each outstanding share of the First Bancshares common stock is entitled to one vote on each matter submitted to a vote. Holders of the First Bancshares common stock do not have cumulative voting rights. Article 2.6 of the First Bancshares Bylaws provides that unless otherwise required by the MBCA or the articles of incorporation, all classes or series of First Bancshares shares entitled to vote generally on a matter shall for that purpose be considered a single voting group.

Classified Board of Directors. Under Article 10 of the First Bancshares Articles, the board of directors of First Bancshares is divided into three classes — Class I, Class II, and Class III as nearly equal in numbers of directors as possible. Article 3.2 of the bylaws establishes a minimum of nine directors, and a maximum of 25 directors. At present there are a total of 10 directors divided as follows: three Class I directors, four Class II directors, and three Class III directors. The terms of the Class I directors will expire at the 2020 Annual Shareholders' Meeting. The terms of the Class II directors will expire at the 2018 Annual Shareholders' Meeting. The terms of the Class III directors will expire at the 2019 Annual Shareholders' Meeting.

Dividends. First Bancshares is a legal entity separate and distinct from The First. There are various restrictions that limit the ability of The First to finance, pay dividends or otherwise supply funds to First Bancshares or other affiliates. In addition, subsidiary banks of holding companies are subject to certain restrictions under Sections 23A and 23B of the Federal Reserve Act on any extension of credit to the bank holding company or any of its subsidiaries, on investments in the stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing of services.

The principal source of funds from which First Bancshares pay cash dividends are the dividends received from its bank subsidiary, The First. Consequently, dividends are dependent upon The First's earnings, capital needs, and regulatory policies, as well as statutory and regulatory limitations. Federal and state banking laws and regulations restrict the amount of dividends and loans a bank may make to its parent company. Approval by First Bancshares' regulators is required if the total of all dividends declared in any calendar year exceeds the total of its net income for that year combined with its retained net income of the preceding two years.

Under certain conditions, dividends paid to First Bancshares by The First are subject to approval by the OCC. A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless the bank has transferred to surplus no less than one-tenth of its net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, under the Federal Deposit Insurance Corporation Improvement Act, banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized.

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Preemptive Rights; Liquidation. First Bancshares common stock does not carry any preemptive rights enabling a holder to subscribe for or receive shares of First Bancshares common stock. In the event of liquidation, holders of First Bancshares common stock are entitled to share in the distribution of assets remaining after payment of debts and expenses and after required payments to holders of First Bancshares preferred stock, if any such shares are outstanding. There are no redemption or sinking fund provisions applicable to First Bancshares common stock.

Preferred Stock

Under the terms of the First Bancshares Articles, First Bancshares has authorized the issuance of up to 10,000,000 shares of preferred stock, par value $1.00 per share, any part or all of which shares may be established and designated from time to time by the First Bancshares board of directors by filing an amendment to the articles of incorporation, which is effective without shareholder action, in accordance with the appropriate provisions of the MBCA. First Bancshares Articles authorize First Bancshares' board of directors to establish one or more series of preferred stock, and to establish such preferences, limitations and relative rights as may be applicable to each series of preferred stock. The issuance of preferred stock and the determination of the terms of preferred stock by the board, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of First Bancshares common stock.

Anti-Takeover Provisions

Supermajority Voting Requirements; Business Combinations or Control Share Acquisition. The MBCA states that in the absence of a greater requirement in the articles of incorporation, a sale, lease, exchange, or other disposition of all, or substantially all, of a corporation's property requires approval by a majority of the shares entitled to vote on the transaction. The First Bancshares Articles do not provide for a greater than majority vote on such a transaction.

The First Bancshares Articles include a "control share acquisition" provision requiring any person who plans to acquire a control block of stock (generally defined as 10%) to obtain approval by the majority vote of disinterested shareholders or the affirmative vote of 75% of eligible members of the board of directors (excluding any director who is proposing or who is a member of a group proposing a control share acquisition) in order to vote the control shares. If a control share acquisition is made without first obtaining this approval, all stock beneficially owned by the acquiring person in excess of 10% will be considered "excess stock" and will not be entitled to vote.

Any person who proposes to make or has made a control share acquisition may deliver a statement to First Bancshares describing the person's background and the control share acquisition and requesting a special meeting of shareholders of First Bancshares to decide whether to grant voting rights to the shares acquired in the control share acquisition. The acquiring person must pay the expenses of this meeting. If no request is made, the voting rights to be accorded the shares acquired in the control share acquisition shall be presented to the next special or annual meeting of the shareholders. If the acquiring person does not deliver his or her statement to First Bancshares, it may elect to repurchase the acquiring person's shares at fair market value. Control shares acquired in a control share acquisition are not subject to redemption after an acquiring person's statement has been filed unless the shares are not accorded full voting rights by the shareholders.

Removal of Directors. Article 11 of the First Bancshares Articles provide that no director of First Bancshares may be removed except by the shareholders for cause; provided that directors elected by a particular voting group may be removed only by the shareholders in that voting group for cause. Article 3.3 of the First Bancshares Bylaws provide further that removal action may only be taken at a shareholders' meeting for which notice of the removal action has been given. A removed director's successor may be elected at the same meeting to serve the unexpired term.

Vacancies in the Board of Directors. Under the First Bancshares Bylaws, any vacancy may be filled for the unexpired term by the affirmative vote of a majority of the remaining directors, provided that, if the vacant office was held by a director elected by a particular voting group, only the shares of that voting group or the remaining directors elected by that voting group shall be entitled to fill the vacancy; provided

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further, that if the vacant office was held by a director elected by a particular voting group, the other remaining directors or director (elected by another voting group or groups) may fill the vacancy during an interim period before the shareholders of the vacated director's voting group act to fill the vacancy.

Amendment of the Articles of Incorporation or Bylaws. Under the MBCA, the board of directors has the power to amend or repeal the bylaws of a Mississippi corporation such as First Bancshares, unless such power is expressly reserved for the shareholders. Article 10 of the First Bancshares Bylaws provides that the bylaws may be amended, altered, or repealed by the board of directors, except with regard to the provisions establishing the number of directors and process for removal of directors, which may only be amended by the affirmative vote of holders of outstanding shares entitled to more than 80% of the votes eligible to be cast on the alteration, amendment, or repeal.

Under the MBCA, amendments to the articles of incorporation that result in dissenters' rights require the affirmative vote of a majority of the outstanding shares entitled to vote on the amendment. Otherwise, the articles of incorporation may be amended by a majority vote of the shares present at a meeting where a quorum is present.

Special Meetings of Shareholders. Under the First Bancshares Bylaws, special meetings of the shareholders, for any purpose or purposes, may be called by the chairman of the board of directors, the chief executive officer, or the board of directors, or within 75 days of a written request of shareholders holding in the aggregate 10% or more of the total voting power entitled to vote on an issue. Such a request must state the purpose or purposes of the proposed special meeting.

Shareholder Proposals and Nominations. The First Bancshares Bylaws provide procedures that must be followed to properly nominate candidates for election as directors. Director nominations, other than those made by or at the direction of the board of directors, may be made by any shareholder by delivering written notice to the corporate secretary of First Bancshares not less than 50 nor more than 90 days prior to the meeting at which directors are to be elected, provided that First Bancshares has mailed the first notice of the meeting at least 60 days prior to the meeting date. If First Bancshares has not given such notice, shareholder nominations must be submitted within 10 days following the earlier of (i) the date that notice of the date of the meeting was first mailed to the shareholders or (ii) the day on which public disclosure of such date was made. The bylaws also require information to be supplied about both the shareholder making such nomination or proposal and the person nominated.

Limitations on Directors' and Officers' Liability. Article 7 of the First Bancshares Articles provide that no director of First Bancshares shall be personally liable to First Bancshares or its shareholders for monetary damages for breach of fiduciary duty as a director, except for any appropriation in violation of fiduciary duties of any business opportunity; for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law; under Section 79-4-8.33 of the MBCA; or for any transaction from which the director derived an improper personal benefit. Article 8 of the First Bancshares Bylaws also provide for indemnification of directors and officers.

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COMPARISON OF RIGHTS OF
FIRST BANCSHARES SHAREHOLDERS AND SUNSHINE STOCKHOLDERS

If the merger is completed, stockholders of Sunshine will become shareholders of First Bancshares. The rights of Sunshine stockholders are currently governed by and subject to the provisions of the Maryland General Corporation Law, as amended, or the MGCL, and the Sunshine Articles and Sunshine Bylaws. Upon completion of the merger, the rights of the former Sunshine stockholders who receive shares of First Bancshares common stock will be governed by the MBCA and the First Bancshares Articles and First Bancshares Bylaws, rather than the Sunshine Articles and Sunshine Bylaws.

The following is a summary of the material differences between the rights of holders of First Bancshares common stock and holders of Sunshine common stock, but it does not purport to be a complete description of those differences, the specific rights of such holders or the terms of the First Bancshares common stock subject to issuance in connection with the merger. The following summary is qualified in its entirety by reference to the relevant provisions of: (1) Mississippi and Maryland law; (2) the First Bancshares Articles; (3) the Sunshine Articles; (4) the First Bancshares Bylaws; and (5) the Sunshine Bylaws.

The identification of some of the differences in the rights of such holders as material is not intended to indicate that other differences that may be equally important do not exist. You are urged to read carefully the relevant provisions of Mississippi law, as well as the governing corporate instruments of each of First Bancshares and Sunshine, copies of which are available, without charge, to any person, including any beneficial owner to whom this proxy statement/prospectus is delivered, by following the instructions listed under “Where You Can Find More Information.”

	Rights of First Bancshares Shareholders (which will be the rights of shareholders of the combined company following the merger)	Rights of Sunshine Stockholders
Corporate Governance	First Bancshares is a Mississippi corporation. The rights of First Bancshares shareholders are governed by the MBCA, the First Bancshares Articles and the First Bancshares Bylaws.	Sunshine is a Maryland corporation. The rights of the Sunshine stockholders are governed by the MGCL, the Sunshine Articles and the Sunshine Bylaws.
Authorized Capital Stock	First Bancshares’ authorized capital stock consists of 20,000,000 shares of common stock, par value $1.00 per share, and 10,000,000 shares of preferred stock, par value $1.00 per share. The First Bancshares Articles authorize First Bancshares’ board of directors to issue shares of preferred stock in one or more series and to fix the designations, preferences, rights, qualifications, limitations or restrictions of the shares of First Bancshares preferred stock in each series. As of February 8, 2018, there were 11,165,907 shares of First Bancshares common stock	Sunshine is authorized to issue up to 6,000,000 shares of common stock, par value $0.01 per share, and 1,000,000 shares of preferred stock, par value $.01 per share. The Sunshine Articles authorize Sunshine’s board of directors to issue shares of preferred stock in one or more series and to fix the designations, preferences, rights, qualifications, limitations or restrictions of the shares of Sunshine preferred stock in each series. As of February 5, 2018, there were 1,039,599 shares of Sunshine common stock issued and outstanding and no shares of preferred stock issued and outstanding.

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	Rights of First Bancshares Shareholders (which will be the rights of shareholders of the combined company following the merger)	Rights of Sunshine Stockholders
	outstanding and no shares of First Bancshares preferred stock outstanding.	
Preemptive Rights	The First Bancshares Articles provide that shareholders shall not have preemptive rights.	The Sunshine Articles provide that stockholders shall not have preemptive rights.
Voting Rights	Each holder of shares of First Bancshares common stock is entitled to one vote for each share held on all questions submitted to holders of shares of First Bancshares common stock. Election of First Bancshares directors requires the approval by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a shareholder meeting at which a quorum is present. Other matters (other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by Mississippi law or the First Bancshares Articles) require the votes cast within a voting group (defined as all classes or series of the First Bancshares' shares entitled to vote generally on a matter shall for that purpose be considered a single voting group) in favor of the action to exceed the votes cast opposing the action, where the vote on the matter occurred at a shareholder meeting at which a quorum is present.	Each share of Sunshine common stock has one vote for each matter properly brought before the stockholders; provided, however, the Sunshine Articles generally prohibit any Sunshine stockholder that beneficially owns more than 10% of the outstanding shares of Sunshine common stock from voting shares in excess of this limit. Sunshine directors are elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at a meeting of the stockholders at which a quorum is present. Other matters (other than the election of directors or a matter for which the affirmative vote of the holders of a specified portion of the shares entitled to vote is required by Maryland law or the Sunshine Articles) are determined by a majority of the votes cast on the matter. Under the MGCL and the Sunshine Bylaws, any action to be taken at a meeting of the stockholders may be taken by unanimous written consent of each stockholder entitled to vote on the matter.
Cumulative Voting	Holders of shares of First Bancshares common stock do not have cumulative voting rights at elections of directors. Article 2.6 of the First Bancshares Bylaws provides that unless otherwise required by the MBCA or the articles, all classes	Holders of shares of Sunshine common stock do not have cumulative voting rights at elections of directors.

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	Rights of First Bancshares Shareholders (which will be the rights of shareholders of the combined company following the merger)	Rights of Sunshine Stockholders
	or series of First Bancshares shares entitled to vote generally on a matter shall for that purpose be considered a single voting group.	
Size of the Board of Directors	The First Bancshares Bylaws provide for a board of directors consisting of between nine and 25 directors as fixed from time to time by First Bancshares' board. Currently, there are 10 directors on First Bancshares' board of directors	The Sunshine Bylaws provide that the number of directors may be determined by the Sunshine board from time to time, but no decrease in the number of directors will have the effect of shortening the term of any incumbent director, and that such number shall never be less than the minimum number of directors required by the MGCL. The Sunshine board currently consists of eight directors.
Independent Directors	A majority of the First Bancshares board of directors must be comprised of independent directors as defined in the listing rules of NASDAQ.	Although neither the Sunshine Articles nor Sunshine Bylaws contain provisions concerning the independence of the board, Sunshine has opted to follow the NASDAQ director independence requirements, which requires a majority of the Sunshine board of directors be comprised of independent directors as defined in the listing rules of NASDAQ.
Term of Directors and Classified Board	First Bancshares Articles provide for the election of directors to three classes, as nearly equal in number as possible, to hold office for staggered terms. Directors elected to each class shall hold office until the expiration of the three-year term applicable to the class of directorship to which the respective director is elected and until their successors are elected and qualified, or they shall hold office until death or retirement or until resignation or removal in the manner provided in the First Bancshares Bylaws.	The Sunshine Articles provide that the directors, other than those who may be elected by the holders of any series of preferred stock, shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class ("Class I") to expire at the conclusion of the first annual meeting of stockholders, the term of office of the second class ("Class II") to expire at the conclusion of the annual meeting of stockholders one year thereafter and the term of office of the third class ("Class III") to expire at the conclusion of the annual meeting of stockholders two years thereafter, with each director to hold office until his or

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		her successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election or for such shorter period of time as the board of directors may determine, with each director to hold office until his or her successor shall have been duly elected and qualified.
Election of Directors	First Bancshares directors are elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a shareholder meeting at which a quorum is present.	Sunshine directors are elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at a stockholder meeting at which a quorum is present.
Removal of Directors	The First Bancshares Bylaws provide that a director may only be removed for cause at a meeting of the shareholders for which notice of the removal action has been given.	The Sunshine Articles provide that directors may be removed only for cause, and only by the affirmative vote of the holders of at least a majority of the voting power of all of Sunshine's then-outstanding common stock entitled to vote.
Filling Vacancies of Directors	Under First Bancshares Bylaws, if during the year a vacancy in the board of directors should occur, the remaining directors on First Bancshares' board may appoint a First Bancshares shareholder to serve until the next annual meeting of shareholders; provided however, that if the vacant director was elected by a particular voting group, then only the remaining directors elected by the voting group, or if none, the voting group, may elect the new director.	The Sunshine Bylaws provide that any vacancies in the board of directors resulting from an increase in the size of the board or the death, resignation or removal of a director may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred and until a successor is elected and qualifies. The Sunshine Bylaws further provide that no decrease in the number of directors constituting the board shall shorten the term of any incumbent director.

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Amendments to Articles	The MBCA provides that a corporation's articles of incorporation may be amended by the board of directors without shareholder approval: (1) if the corporation has only one class of shares outstanding, (a) to change each issued and unissued authorized share of the class into a greater number of whole shares of that class or (b) increase the number of authorized shares of the class to the extent necessary to permit the issuance of shares as a share dividend; or (2) to accomplish certain ministerial tasks.	The Sunshine Articles generally may be amended upon approval by the board of directors and the holders of a majority of the outstanding shares of Sunshine common stock. The amendment of certain provisions of the Sunshine Articles, however, requires the vote of the holders of at least 80% of the outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class. These include provisions relating to: voting limitations on greater than 10% shareholders; the authorization of the board of directors to issue serial preferred stock; the opt-out of the Maryland control share acquisition statute; the number, classification, election and removal of directors; certain business combinations with greater than 10% shareholders; indemnification of directors and officers; limitation on liability of directors and officers; and amendments to the articles of incorporation and bylaws.
Bylaw Amendments	Under the MBCA, the board of directors has the power to amend or repeal the bylaws of a Mississippi corporation such as First Bancshares, unless such power is expressly reserved for the shareholders. Article 10 of the First Bancshares Bylaws provides that the bylaws may be amended, altered, or repealed by the board of directors, except with regard to the provisions establishing the number of directors and process for removal of directors, which may only be amended by the affirmative vote of holders of outstanding shares entitled to more than 80% of the votes entitled to be cast on the alteration, amendment, or repeal.	The Sunshine Articles provide that the Sunshine Bylaws may be amended by the affirmative vote of a majority of Sunshine's directors or by the stockholders by the affirmative vote of at least 80% of the total votes of the outstanding shares of capital stock eligible to be voted at a duly constituted meeting of stockholders. Any amendment to this super-majority requirement for amendment of the bylaws would also require the approval of 80% of the outstanding voting stock.

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Merger, Consolidations or Sales of Substantially All Assets; Anti-Takeover Provisions	Under the MBCA, a merger, share exchange, sale, lease, exchange or other disposal of all or substantially all of a Mississippi corporation's assets, or its dissolution, is approved if the votes cast in favor of the transaction exceed the votes cast against the transaction at a meeting of the shareholders of the corporation where a quorum is present and acting throughout, except approval of a merger by shareholders of the surviving corporation is not required in the instances specified in the MBCA. The First Bancshares Articles do include a control share acquisition provision requiring any person who plans to acquire a control block of stock (generally defined as 10%) to obtain approval by the majority vote of disinterested shareholders or the affirmative vote of 75% of eligible members of the board of directors in order to vote the control shares. If a control share is made without first obtaining this approval, all stock beneficially owned by the acquiring person in excess of 10% will be considered "excess stock" and will not be entitled to vote. Any person who proposes to make or has made a control share acquisition may deliver a statement to First Bancshares describing the person's background and the control share acquisition and requesting a special meeting of shareholders of First Bancshares to decide whether to grant voting rights to the shares acquired in the control share acquisition. The acquiring person must pay the expenses of this meeting. If no	The Sunshine Articles provide that certain business combinations (e.g., mergers, share exchanges, significant asset sales and significant stock issuances) involving "interested stockholders" of Sunshine require, in addition to any vote required by law, the approval of the holders of at least 80% of the voting power of the outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class, unless either (i) a majority of the disinterested directors have approved the business combination or (ii) certain fair price and procedure requirements are satisfied. An "interested stockholder" generally means a person who is a greater than 10% shareholder of Sunshine or who is an affiliate of Sunshine and at any time within the two years prior to the date in question was a greater than 10% shareholder of Sunshine. The MGCL contains a business combination statute that prohibits a business combination between a corporation and an interested shareholder (one who beneficially owns 10% or more of the voting power) for a period of five years after the interested shareholder first becomes an interested shareholder, unless the transaction has been approved by the board of directors before the interested shareholder became an interested shareholder or the corporation has exempted itself from the statute pursuant to a charter provision. After the five-year period has elapsed, a corporation subject to the statute may not consummate a business combination with an interested shareholder unless (1) the transaction has been recommended by the board of

request is made, the voting rights to
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	accorded the shares acquired in the control share acquisition shall be presented to the next special or annual meeting of the shareholders. If the acquiring person does not deliver his or her statement to First Bancshares, it may elect to repurchase the acquiring person's shares at fair market value. Control shares acquired in a control share acquisition are not subject to redemption after an acquiring person's statement has been filed unless the shares are not accorded full voting rights by the shareholders.	directors and (2) the transaction has been approved by (a) 80% of the outstanding shares entitled to be cast and (b) two-thirds of the votes entitled to be cast other than shares owned by the interested shareholder. This approval requirement need not be met if certain fair price and terms criteria have been satisfied. Sunshine has opted-out of the Maryland business combination statute.
Annual Meetings of the Shareholders	First Bancshares holds an annual meeting of shareholders, at a time determined by the board of directors, to elect directors and to transact any business that properly may come before the meeting. The annual meeting may be combined with any other meeting of shareholders, whether annual or special.	The Sunshine Bylaws provide that the annual meeting of stockholders for the election of Sunshine directors and such other business as may properly be brought before the meeting shall be held at such time and place as designated by the Sunshine board.
Special Meetings of the Shareholders	Under the First Bancshares Bylaws, special meetings of the shareholders, for any purpose or purposes, may be called by the Chairman of the Board, the Chief Executive Officer, or the board of directors, or within 75 days of a written request of shareholders holding in the aggregate 10% or more of the total voting power entitled to vote on an issue. Such a request must state the purpose or purposes of the proposed special meeting.	The Sunshine Bylaws provide that special meetings of stockholders can be called by the President, by a majority of the whole board of directors or upon the written request of stockholders entitled to cast at least a majority of all votes entitled to vote at the meeting. Business transacted at a special meeting shall be limited to the purposes stated in the notice of such meeting.
Advance Notice Provisions for Shareholder Nominations and Shareholder Business Proposals at Annual Meetings	Rule 14a-8 promulgated by the SEC under the Exchange Act establishes the rules for shareholder proposals intended to be included in a public company's proxy statement. Rule 14a-8 applies to First	Rule 14a-8 of the Exchange Act applies to Sunshine in the same manner as it applies to First Bancshares. The Sunshine Bylaws provide that Sunshine must receive written

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Bancshares. Under the rule, a shareholder proposal must be received by the subject company at least 120 days before the anniversary of the date on which the company first mailed the previous year's proxy statement to shareholders. If, however, the annual meeting date has been changed by more than 30 days from the date of the prior year's meeting, or for special meetings, the proposal must be submitted within a reasonable time before the subject company begins to print and mail its proxy materials. The First Bancshares Bylaws set forth advance notice procedures for the nomination, other than by First Bancshares' board of directors or one of its committees, of candidates for election as directors and for other shareholder proposals. The bylaws provide that, for any shareholder proposal to be presented in connection with an annual meeting, the shareholder must give timely written notice thereof to First Bancshares' Secretary in compliance with the advance notice and eligibility requirements contained in First Bancshares Bylaws. To be timely, a shareholder's notice must be delivered to or mailed to and received by the Secretary at First Bancshares' corporate headquarters on or before the later to occur of (i) 60 days prior to the annual meeting or (ii) 10 days after notice of the meeting is provided to the shareholders pursuant to the First Bancshares Bylaws. The notice must contain the detailed information specified in the First Bancshares Bylaws about the shareholder making the nomination or proposal and, as applicable, each nominee or	notice of any stockholder proposal for business at an annual meeting of stockholder, or any stockholder director nomination for an annual meeting of stockholder, not less than 90 days or more than 120 days before the anniversary of the preceding year's annual meeting. If, however, the date of the current year annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, notice of the proposal or nomination must be received by Sunshine no earlier than the 120th day prior to the annual meeting or later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the day on which notice of the meeting is mailed or public announcement of the meeting date is first made. The notice must contain the detailed information specified in the Sunshine Bylaws about the stockholder making the nomination or proposal and, as applicable, each nominee or the proposed business. The nomination notice must also be accompanied by a written consent of each proposed nominee to be named as a nominee and to serve as a director if elected. Nominations that are not made in accordance with the foregoing provisions may be ruled out of order by the presiding officer or the chairman of the meeting.

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	the proposed business. Nominations that are not made in accordance with the foregoing provisions may be ruled out of order by the presiding officer or the chairman of the meeting.	
Notice of Shareholder Meetings	First Bancshares must give written notice of the date, time, and place of each annual and special shareholders' meeting no fewer than 10 days nor more than 60 days before the meeting date to each shareholder of record entitled to vote at the meeting. The notice of an annual meeting need not state the purpose of the meeting unless otherwise required by the bylaws. The notice of a special meeting, however, must state the purpose for which the meeting is called.	Sunshine must give written notice of the date, time, and place of each annual and special stockholders' meeting no fewer than 10 days nor more than 90 days before the meeting date to each stockholder of record entitled to vote at the meeting. The notice of an annual meeting need not state the purpose of the meeting unless otherwise required by the bylaws. The notice of a special meeting, however, must state the purpose for which the meeting is called.
Liability and Indemnification of Directors and Officers	The First Bancshares Bylaws require First Bancshares to indemnify its directors (referred to in this subsection as the indemnitees) against liability and reasonable expenses (including attorneys' fees) incurred in connection with any proceeding an indemnitee is made a party to if he or she met the required standard of conduct. To meet the standard of conduct, the indemnitee must have conducted himself or herself in good faith, and he or she must have reasonably believed that any conduct was in First Bancshares' best interests, or in any criminal proceeding, the indemnitee had no reasonable cause to believe his or her conduct was unlawful. Unless otherwise ordered by a court, First Bancshares is not obligated to indemnify an indemnitee in connection with (1) any appropriation, in violation of his duties, of any business opportunity of First Bancshares, (b) acts or omissions	Under the MGCL, a corporation has the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, or employee benefit plan, against judgments, penalties, fines, settlements and reasonable expenses (including attorneys' fees) actually incurred by the person in connection with such proceeding unless it is established that (i) the act or omission of the person was material to the matter giving rise to the proceeding and was committed in bad faith, or

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not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 79-4-8.33 of the MBCA, or (d) any transaction from which the director derived an improper personal benefit. First Bancshares is allowed to extend its indemnification rights to any other officer, employee, or agent of the company upon a resolution of the board of directors to that effect. An indemnitee may apply to the court conducting the proceeding, or to another court, for indemnification or advance for expenses. The court shall (1) order indemnification if the court determines that the indemnitee is entitled to mandatory indemnification under applicable provisions of the MBCA or (2) order indemnification or advance for expenses if the court determines that (a) the indemnitee is entitled to indemnification or advance for expenses under the First Bancshares Bylaws or (b) in view of all relevant circumstances it is fair and reasonable to indemnify or advance expenses to such indemnitee even if he or she has not met the standard of conduct described above. First Bancshares must indemnify an indemnitee who is wholly successful, on the merits or otherwise, in the defense of any proceeding to which the indemnitee was a party against reasonable expenses incurred in the proceeding. First Bancshares generally must advance funds to pay for or reimburse the reasonable expenses incurred by an indemnitee who is a party to a proceeding.	was the result of active and deliberate dishonesty, or (ii) the person actually received an improper personal benefit in money, property or services, or (iii) in the case of a criminal proceeding, the person had no reasonable cause to believe that the person's act or omission was unlawful. The MGCL provides that, unless limited by the corporation's articles of incorporation, a Maryland corporation must indemnify a director or officer against reasonable expenses (including attorneys' fees) incurred if such person successfully defends himself or herself in a proceeding to which such person was a party because he or she was a director or officer of the Maryland corporation. Maryland law requires, as a prerequisite to advancement of fees, submission by the officer or director of a good faith affirmation that he/she meets the statutory standard of conduct for indemnification and a written undertaking by or on behalf of the director to repay the amount if it is ultimately determined that the standard of conduct has not been met. The MGCL further provides that a Maryland corporation may purchase and maintain insurance on behalf of any director, officer, employee or agent of such corporation against any liability asserted against such person and incurred by such person in any such capacity, whether or not such corporation would have the power to indemnify such person against such liability. The Sunshine Articles provide that Sunshine shall indemnify (1) its current and former directors and officers, whether

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		serving Sunshine or at its request any other entity, to the fullest extent required or permitted by the MGCL, including the advancement of expenses under the procedures and to the fullest extent permitted by law, and (2) other employees and agents to such extent as shall be authorized by the board and permitted by law; provided, however, that, except as provided in the Sunshine Bylaws with respect to proceedings to enforce rights to indemnification, Sunshine shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the board.
Limitation of Director Liability	The First Bancshares Articles provide that no director of First Bancshares will be personally liable to First Bancshares or its shareholders for monetary damages for breach of fiduciary duty as a director, unless he or she has (i) appropriated any business opportunity that rightly belonged to First Bancshares, (ii) acted or omitted to act not in good faith or which involves the intentional misconduct or a knowing violation of law, (iii) provided under Section 79-4-8.33 of the MBCA, or (iv) derived an improper personal benefit for any transaction. Under Miss. Code Ann. § 81-5-105(1), the duties of a director or officer of a bank or bank holding company to the bank or bank holding company and its shareholders are to discharge the director's or officer's duties in good faith and with the diligence, care, judgment and skill as provided in subsection (2). Under Miss.	Under the MGCL, a corporation may include in its articles of incorporation a provision that limits or eliminates the personal liability of directors and officers to the corporation and its stockholders for monetary damages, subject to the exceptions described in the following paragraph. The Sunshine Articles include such a provision. However, a corporation may not limit or eliminate the personal liability of a director or officer for: actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment as material to the cause of action. Under the Sunshine Articles, an officer or director shall not be liable to Sunshine or its stockholders for money damages, except (1) to the extent that it is proved that the person actually received an improper benefit or profit in money, property or services for the amount of the

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Code Ann. § 81-5-105(2), a director or officer of a bank or bank holding company cannot be held personally liable for money damages to a corporation or its shareholder unless the officer or director acts in a grossly negligent manner or engages in conduct that demonstrates a greater disregard of the duty of care than gross negligence. In addition, Miss. Code Ann. § 81-5-105(4) provides that the provisions of Miss. Code Ann. § 81-5-105 are the sole and exclusive law governing the relation and liability of directors and officers to their bank or bank holding company, or their successor, or to the shareholders thereof, or to any other person or entity. If the MBCA were applicable in defining the fiduciary duties of officers and directors, Miss. Code Ann. § 79-4-8.31 provides that a director is not liable to a corporation or its shareholders for any decision to take or not take action, or any failure to take any action, as a director, unless the party asserting liability proves certain matters. The party must show that (1) the director was a party to or had a direct or indirect financial interest in a transaction, which transaction was not otherwise approved in accordance with the MBCA, and (2) the challenged conduct consisted or was a result of (a) action not in good faith; (b) a decision which the director did not reasonably believe to be in the best interests of the corporation or as to which the director was not appropriately informed; (c) a lack of objectivity, due to familial, financial or business relationships, or a lack of independence, due to the	benefit or profit in money, property or services actually received; (2) to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding; or (3) to the extent otherwise provided by the MGCL. The Sunshine Articles also provide that if the MGCL is amended to further eliminate or limit the personal liability of officers and directors, then the liability of Sunshine's officers and directors shall be eliminated or limited to the fullest extent permitted by the MGCL, as so amended.

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	director's domination or control by another interested person, where such relationship, domination or control could reasonably be expected to have affected the director's judgment respecting the challenged conduct in a manner adverse to the corporation, and after a reasonable expectation to such effect has been established, the director cannot demonstrate that he reasonably believed the challenged conduct to be in the best interests of the corporation; (d) the director's sustained failure to stay informed about the corporation's business and affairs or otherwise discharge his oversight functions; or (e) receipt of a financial benefit to which the director was not entitled or any other breach of the director's duty to deal fairly with the corporation and its shareholders that is actionable under law.	
Dividends	The MBCA prohibits a Mississippi corporation from making any distributions to its shareholders, including the payment of cash dividends that would render the corporation unable to pay its debts as they become due in the usual course of business. Also prohibited is any distribution that would result in the corporation's total assets being less than the sum of its total liabilities plus the amount that would be needed, if it were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.	Under Maryland law, Sunshine is permitted to pay dividends or make other distributions unless after the distribution: (1) Sunshine would not be able to pay its debts as they become due in the usual course of business; or (2) Sunshine's total assets would be less than the sum of its total liabilities, plus, unless the Sunshine Articles permit otherwise, the amount that would be needed, if Sunshine were dissolved at the time of the distribution, to satisfy preferential rights of stockholders whose preferential rights are superior to those receiving the distribution.

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Appraisal/Dissenters' Rights	Under Section 79-4-13.02 of the MBCA, appraisal rights are available only in connection with specific transactions. However, appraisal rights are not available for shareholders if the shares are (i) listed on the New York Stock Exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc.; or (ii) not so listed or designated, but has at least two thousand (2,000) shareholders and the outstanding shares of such class or series has a market value of at least Twenty Million Dollars ($20,000,000.00) (exclusive of the value of such shares held by its subsidiaries, senior executives, directors and beneficial shareholders owning more than ten percent (10%) of such shares).	The MGCL provides that appraisal rights are available to dissenting stockholders in connection with certain mergers, consolidations, share exchanges, transfers of assets, amendments to the corporation's articles of incorporation, business combinations and conversions. However, the MGCL does not provide for appraisal rights if the shares of the corporation are listed on a national securities exchange, the stock is that of a successor in a merger (unless the merger alters the contract rights of the stock or converts it into something other than stock, cash or other interests), the stock is not entitled to be voted on the transaction or the stockholder did not hold the stock as of the applicable record date or the articles of incorporation provide that holders of the stock are not entitled to exercise appraisal rights. The holders of Sunshine common stock are entitled to appraisal rights, a description of which can be found under the caption "The Merger — Dissenters' Rights," beginning on page 76 of the proxy statement/prospectus.

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LEGAL MATTERS

The validity of the First Bancshares common stock to be issued in connection with the merger will be passed upon for First Bancshares by Alston & Bird LLP (Atlanta, Georgia). Certain U.S. federal income tax consequences relating to the merger will also be passed upon for First Bancshares and Sunshine by Alston & Bird LLP (Atlanta, Georgia) and Silver, Freedman, Taff & Tiernan LLP (Washington, District of Columbia), respectively.

EXPERTS

First Bancshares

The consolidated financial statements of First Bancshares and its subsidiary as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2016, included in First Bancshares' Annual Report on Form 10-K for the year ended December 31, 2016, incorporated by reference herein, have been incorporated by reference herein in reliance upon the reports of T.E. Lott & Company, an independent registered public accounting firm, included in First Bancshares' Annual Report on Form 10-K for the year ended December 31, 2016, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

Sunshine

The consolidated financial statements of Sunshine as of December 31, 2016 and 2015 for each of the two years in the period ended December 31, 2016, have been audited by Hacker, Johnson & Smith, P.A., an independent registered public accounting firm, as set forth in their report, included herein. Such consolidated financial statements are incorporated herein in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Southwest

The consolidated balance sheets of Sunshine as of December 31, 2016 and December 31, 2015 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended and the consolidated balance sheets as of December 31, 2015 and December 31, 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended have been audited by Mauldin & Jenkins, LLC, independent public accountants, as set forth in their report, which has been incorporated herein. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

First Bancshares has filed a registration statement on Form S-4 under the Securities Act of 1933 with the SEC with respect to the First Bancshares common stock to be issued to stockholders of Sunshine in the merger. This proxy statement/prospectus constitutes the prospectus of First Bancshares filed as part of the registration statement. This proxy statement/prospectus does not contain all of the information set forth in the registration statement because certain parts of the registration statement are omitted in accordance with the rules and regulations of the SEC. The registration statement and its exhibits are available for inspection and copying as set forth below.

In addition, First Bancshares (File No. 000-22507) and Sunshine (File No. 000-54280) each files annual, quarterly and special reports, proxy statements and other business and financial information with the SEC. You may read and copy any materials that First Bancshares and Sunshine files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Please call the SEC at (800) SEC-0330 for further information on the public reference room. In addition, First Bancshares and Sunshine each files reports and other business and financial information with the SEC electronically, and the SEC maintains a website that contains First Bancshares' and Sunshine's SEC filings as well as reports, proxy and information statements, and other information issuers file electronically with

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the SEC at www.sec.gov. You will also be able to obtain these documents, free of charge, from First Bancshares' website at www.thefirstbank.com under the "Investor Relations" link and then under the "SEC Filings" heading, and from Sunshine's website at www.banksunshine.com under the "Investor Relations" link and then under the "SEC Filings" heading, respectively. The website addresses for the SEC and First Bancshares and Sunshine are inactive textual references and except as specifically incorporated by reference into this proxy statement/prospectus, information on those websites is not part of this proxy statement/ prospectus.

The SEC allows First Bancshares to "incorporate by reference" information in this proxy statement/ prospectus. This means that First Bancshares can disclose important business and financial information to you by referring you to another document filed separately with the SEC. The information that First Bancshares incorporates by reference is considered to be part of this proxy statement/prospectus, and later information that First Bancshares files with the SEC will automatically update and supersede the information First Bancshares included in this proxy statement/prospectus. This document incorporates by reference the documents that are listed below that First Bancshares has previously filed with the SEC, except to the extent that any information contained in such filings is deemed "furnished" in connection with SEC rules.

- Annual Report on Form 10-K for the year ended December 31, 2016, filed on March 16, 2017;

- Definitive Proxy Statement on Schedule 14A for the 2017 Annual Meeting, filed on April 12, 2017;

- Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017, filed on May 10, 2017, August 9, 2017 and November 9, 2017, respectively;

- Current Reports on Form 8-K or Form 8-K/A, as applicable, filed on January 4, 2017, February 6, 2017, March 16, 2017, April 24, 2017, May 4, 2017, May 30, 2017, July 24, 2017, October 24, 2017, October 31, 2017 and December 6, 2017; and

- The description of our common stock contained in our Registration Statement filed with the SEC pursuant to Section 12 of the Securities Exchange Act of 1934, or the Exchange Act, including any amendment or report filed for purposes of updating such description.

First Bancshares also incorporates by reference any future filings they make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement/prospectus and the date of the Sunshine special meeting. Any statement contained in this proxy statement/prospectus or in a document incorporated or deemed to be incorporated by reference in this proxy statement/prospectus is deemed to be modified or superseded to the extent that a statement contained herein or in any subsequently filed document that also is, or is deemed to be, incorporated by reference herein modified or superseded such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this proxy statement/prospectus.

In addition, attached as Annex D and Annex E to this proxy statement/prospectus is Sunshine's Annual Report on Form 10-K for the year ended December 31, 2016 and Sunshine's Quarterly Report on Form 10-Q for the nine months ended September 30, 2017, respectively, which is included as a part of this proxy statement/prospectus.

Documents incorporated by reference are available from First Bancshares without charge (except for exhibits to the documents unless the exhibits are specifically incorporated in the document by reference). You may obtain documents incorporated by reference in this document by requesting them in writing or by telephone from First Bancshares at the following address:

The First Bancshares, Inc.
6480 U.S. Highway 98 West

Hattiesburg, Mississippi 39402
Attention: Secretary
Telephone: (601) 268-8998

To obtain timely delivery, you must make a written or oral request for a copy of such information by March 20, 2017. You will not be charged for any of these documents that you request. If you request any incorporated documents from First Bancshares, First Bancshares will mail them to you by first class mail, or another equally prompt means, within one business day after receiving your request.

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You should rely only on the information contained in this proxy statement/prospectus. Neither First Bancshares nor Sunshine has authorized anyone to provide you with different information. Therefore, if anyone gives you different or additional information, you should not rely on it. The information contained in this proxy statement/prospectus is correct as of its date. It may not continue to be correct after this date. Sunshine has supplied all of the information about Sunshine and its subsidiaries contained in this proxy statement/prospectus and First Bancshares has supplied all of the information contained in this proxy statement/prospectus about First Bancshares and its subsidiaries. Each of us is relying on the correctness of the information supplied by the other.

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this proxy statement/prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction.

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(Dollars in Thousands, Except Per Share Amounts)

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Assets		
Cash and due from banks	$ 6,258	$ 5,868
Interest bearing deposits in banks	1,554	680
Federal funds sold	6,578	9,774
Cash and cash equivalents	14,390	16,322
Available for sale securities	78,956	67,789
Restricted equity securities	941	1,123
Loans held for sale	424	1,299
Loans	285,068	277,033
Less allowance for loan losses	3,451	3,092
Loans, net	281,617	273,941
Premises and equipment, net	7,235	7,466
Other real estate owned	298	485
Accrued interest receivable	1,159	1,214
Cash surrender value of life insurance	5,816	5,930
Other assets	759	959
Total assets	$ 391,595	$ 376,528
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits		
Noninterest-bearing	$ 67,173	$ 56,934
Interest-bearing	277,902	270,745
Total deposits	345,075	327,679
Other borrowings	6,858	12,558
Accrued interest payable	131	163
Accrued expenses and other liabilities	2,712	2,503
Total liabilities	354,776	342,903
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $.10 par value; 3,000,000 shares authorized; 71,317 shares issued and outstanding	7	7
Additional paid-in capital	2,075	2,075
Retained earnings	34,694	32,806

Accumulated other comprehensive income (loss)	43	(1,263)
Total stockholders' equity	36,819	33,625
Total liabilities and stockholders' equity	$ 391,595	$ 376,528

See Notes to Consolidated Financial Statements.

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF INCOME
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Loans, including fees	$ 3,567	$ 3,328	$ 10,498	$ 9,765
Taxable investment securities	245	249	694	808
Nontaxable investment securities	218	195	640	567
Federal funds sold	29	5	105	14
Deposits in banks	5	1	13	3
Total interest income	4,064	3,778	11,950	11,157
Interest expense:				
Deposits	430	381	1,248	1,073
Other borrowings	39	92	213	276
Total interest expense	469	473	1,461	1,349
Net interest income	3,595	3,305	10,489	9,808
Provision for loan losses	128	—	383	303
Net interest income after provision for loan losses	3,467	3,305	10,106	9,505
Non-interest income:				
Service charges on deposit accounts	333	348	967	963
Net realized gains on sales of securities	—	176	2	203
Mortgage loan origination income	189	174	504	353
Other income	304	362	894	898
Total non-interest income	826	1,060	2,367	2,417
Non-interest expenses:				
Salaries and employee benefits	1,734	1,768	5,294	5,138
Occupancy and equipment expenses	406	436	1,258	1,234
Other expenses	911	965	2,783	2,811
Total non-interest expenses	3,051	3,169	9,335	9,183
Income before income tax expense	1,242	1,196	3,138	2,739
Income tax expense	48	50	144	108
Net income	$ 1,194	$ 1,146	$ 2,994	$ 2,631
Basic net earnings per common share	$ 16.74	$ 16.08	$ 41.98	$ 36.91
Diluted net earnings per common share	$ 16.73	$ 16.07	$ 41.95	$ 36.88
Dividends per common share	$ 4.20	$ 5.00	$ 15.50	$ 13.00

See Notes to Consolidated Financial Statements.

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 1,194	$ 1,146	$ 2,994	$ 2,631
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale arising during the period, net of tax (benefit) of $(11) and $90 for the three and nine months ended September 30, 2017, respectively, and $(2) and $76 for the three and nine months ended September 30, 2016, respectively	(161)	(25)	1,308	1,094
Reclassification adjustment for gains realized in net income, net of tax of $0 and $0 for the three and nine months ended September 30, 2017, respectively, and $11 and $13 for the three and nine months ended September 30, 2016, respectively	—	(165)	(2)	(190)
Other comprehensive income (loss)	(161)	(190)	1,306	904
Comprehensive income	$ 1,033	$ 956	$ 4,300	$ 3,535

See Notes to Consolidated Financial Statements.

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

	2017	2016
OPERATING ACTIVITIES		
Net income	$ 2,994	$ 2,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	383	303
Net amortization of securities	419	395
Depreciation	441	430
Net realized gains on sales of securities	(2)	(203)
Net (gain) loss on sale of other real estate owned	(21)	9
Write downs of other real estate owned	5	64
Net decrease (increase) in loans held for sale	875	(1,096)
Increase in cash surrender value of life insurance	(138)	(123)
Decrease in interest receivable	55	122
Increase (decrease) in interest payable	(32)	5
Net other operating activities	319	525
Net cash provided by operating activities	5,298	3,062
INVESTING ACTIVITIES		
Purchase of available for sale securities	(14,749)	(18,698)
Proceeds from sales of available for sale securities	—	12,011
Proceeds from calls, prepayments and maturities of available for sale securities	4,561	8,328
Net redemption of restricted equity securities	182	230
Net increase in loans	(8,299)	(28,361)
Proceeds from life insurance policies	252	—
Purchase of premises and equipment	(210)	(606)
Proceeds from sale of other real estate owned	443	712
Net cash used in investing activities	(17,820)	(26,384)
FINANCING ACTIVITIES		
Net increase in deposits	17,396	24,508
Net increase in federal funds purchased	—	3,950
Repayment of other borrowings	(5,700)	(5,700)
Dividends paid	(1,106)	(925)
Net cash provided by financing activities	10,590	21,833
Net decrease in cash and cash equivalents	(1,932)	(1,489)
Cash and cash equivalents at beginning of year	16,322	8,518
Cash and cash equivalents at end of period	$ 14,390	$ 7,029

SUPPLEMENTAL DISCLOSURE		
Cash paid during the period for:		
Interest	$ 1,493	$ 1,344
Income taxes	$ 148	$ 63
NONCASH TRANSACTIONS		
Loans transferred to other real estate owned	$ 240	$ 216

See Notes to Consolidated Financial Statements.

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Basis of Presentation

Southwest Banc Shares, Inc. (the "Company") is a bank holding company whose business is conducted by its wholly-owned subsidiary, First Community Bank (the "Bank"). The Bank is a commercial bank headquartered in Chatom, Alabama with its executive offices located in Mobile, Alabama. The Bank operates offices throughout the Southwest Alabama region. The Bank provides a full range of banking services in its primary market area of Southwest Alabama.

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2017, are not necessarily indicative of the results that may be expected for the full year ended December 31, 2017. It is suggested that these interim consolidated financial statements and notes be read in conjunction with the audited financial statements and notes included elsewhere in this Form S-4.

Critical Accounting Policies and Accounting Estimates

The most significant accounting policies are presented in the notes to the audited consolidated financial statements presented elsewhere in this joint proxy statement/prospectus. Certain accounting policies require management to make significant estimates and assumptions that have a material effect on the carrying value of certain assets and liabilities, and these are considered to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on the results of operations for the reporting periods.

Income Taxes

The Company has elected to be taxed as an S corporation for federal income tax purposes. Under the provisions of the Internal Revenue Code, an S corporation generally is not subject to federal income tax because its taxable income or loss accrues to the individual stockholder. Consequently, the Company does not recognize income tax expense or any deferred income taxes for federal purposes.

The Company continues to be subject to state income tax in the form of financial institution excise tax in the State of Alabama, as this state does not recognize financial institutions as S corporations for income tax purposes. As a result, income tax expense consists of state income taxes. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net income by the sum of the weighted average number of shares of common stock outstanding and potential common shares using the treasury stock method. Potential common shares consist of unvested restricted stock. As of September 30, 2017, December 31, 2016 and September 30, 2016, there were 94, 48 and 79 shares of unvested restricted stock, respectively.

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Earnings Per Share — (continued)

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations is presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted-average common shares outstanding	71,317	71,286	71,317	71,287
Net income	$ 1,194	$ 1,146	$ 2,994	$ 2,631
Basic earnings per share	$ 16.74	$ 16.08	$ 41.98	$ 36.91
Weighted-average common shares outstanding	71,317	71,286	71,317	71,287
Dilutive effects of assumed conversions of potential common shares	68	38	55	51
Weighted-average common and dilutive potential common shares outstanding	71,385	71,324	71,372	71,338
Net income	$ 1,194	$ 1,146	$ 2,994	$ 2,631
Diluted earnings per share	$ 16.73	$ 16.07	$ 41.95	$ 36.88

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
September 30, 2017:				
U.S. Government sponsored agency securities	$ 19,629	$ 55	$ (243)	$ 19,441
State and municipal securities	38,293	565	(296)	38,562
Mortgage-backed securities	20,989	62	(98)	20,953
	$ 78,911	$ 682	$ (637)	$ 78,956
December 31, 2016:				
U.S. Government sponsored agency securities	$ 17,880	$ 8	$ (438)	$ 17,450
State and municipal securities	35,807	190	(854)	35,143
Mortgage-backed securities	15,452	48	(304)	15,196
	$ 69,139	$ 246	$ (1,596)	$ 67,789

At September 30, 2017 and December 31, 2016, securities with carrying values of $37,947 and $38,623, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.
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Securities — (continued)

The amortized cost and fair value of securities as of September 30, 2017 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included by maturity class in the following summary:

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due from one to five years	8,138	8,169
Due from five to ten years	14,620	14,635
Due after ten years	35,164	35,199
Mortgage-backed securities	20,989	20,953
	$ 78,911	$ 78,956

The following table shows the gross unrealized losses and fair value of the Company's securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2017 and December 31, 2016.
Securities that have been in a continuous unrealized loss position are as follows:

	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
September 30, 2017:					
U.S Government sponsored agency securities	$ (235)	$ 12,924	$ (8)	$ 974	$ (243)
State and municipal securities	(13)	2,550	(283)	5,907	(296)
Mortgage-backed securities	(46)	7,151	(52)	2,515	(98)
Total securities	$ (294)	$ 22,625	$ (343)	$ 9,396	$ (637)
December 31, 2016:					
U.S Government sponsored agency securities	$ (415)	$ 15,654	$ (23)	$ 992	$ (438)
State and municipal securities	(854)	20,862	—	—	(854)
Mortgage-backed securities	(303)	10,823	(1)	1,724	(304)
Total securities	$ (1,572)	$ 47,339	$ (24)	$ 2,716	$ (1,596)

The unrealized loss on the above thirty-seven securities as of September 30, 2017 was caused by interest rate changes and other temporary market influences. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2017.

Upon acquisition of a security, the Company evaluates for impairment under the accounting guidance for investments in debt and equity securities. The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has

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Securities — (continued)

occurred. Inputs included in the evaluation process may include geographic concentrations, credit ratings, and other performance indicators of the underlying asset. There were no impairment charges recognized on securities for the nine months ended September 30, 2017 and 2016, or during the year ended December 31, 2016.

Loans

Portfolio Segments and Classes

The composition of loans, excluding loans held for sale, is summarized as follows:

	September 30, 2017	December 31, 2016
Real estate mortgages:		
Construction and land development	$ 33,936	$ 29,724
1 – 4 family	50,036	48,792
Home equity lines of credit	14,974	14,690
Commercial	105,714	104,459
Other	17,537	12,902
Commercial	50,058	53,615
Consumer and other	12,813	12,851
	285,068	277,033
Allowance for loan losses	(3,451)	(3,092)
Loans, net	$ 281,617	$ 273,941

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, 1-4 family, home equity lines of credit, commercial, and other. The portfolio segments of non-real estate commercial loans and consumer loans have not been further segregated by class.

The following describe risk characteristics relevant to each of the portfolio segments:

Real Estate — As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and land development loans are repaid through cash flow related to the operation, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- 1 – 4 family loans and home equity lines of credit are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

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Loans — (continued)

- Commercial loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the business. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

- Other real estate mortgage loans include real estate loans secured by farmland, multi-family housing and other real estate. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

Commercial — The non-real estate commercial loan portfolio segment includes commercial, financial, and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.
Consumer — The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.
Credit Risk Management
Credit Administration and the Special Assets Officer are both involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios. The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Board approved Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.
Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. Loan Review and Credit Administration establish a timely schedule and scope for loan reviews to include new and renewed loans, all loans that are 15 days or greater past due and all adversely classified and nonaccrual loans. These reviews ensure such loans have proper risk ratings and accrual status, and if necessary, ensure loans are transferred to the Special Assets Officer.
Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports by product, collateral, accrual status, etc., are reviewed by the Chief Credit Officer and the Directors Loan Committee.

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Loans — (continued)

The following categories are utilized by management to analyze and manage the credit quality and risk of the loan portfolio:

- Pass — includes obligations where the probability of default is considered low.

- Special Mention — includes obligations that exhibit potential credit weaknesses or downward trends deserving management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects or credit position at a future date. These loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

- Substandard — includes obligations with defined weaknesses that jeopardize the orderly liquidation of debt. A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

- Doubtful — includes obligations with all the weaknesses found in substandard loans with the added provision that the weaknesses make collection of debt in full, based on currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the loan, the loans' classification as loss is deferred until a more exact status may be determined.

- Loss — includes obligations incapable of repayment or unsecured debt. Such loans are considered uncollectible and of such little value, that continuance as an active asset is not warranted. Loans determined to be a loss are charged-off at the date of loss determination. Consequently, there are no loans with a loss rating in the Company's portfolio as of September 30, 2017 and December 31, 2016.

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Loans — (continued)

The following tables present credit quality indicators as described above for the loan portfolio segments and classes as of September 30, 2017 and December 31, 2016.

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2017					
Real estate mortgages:					
Construction and land development	$ 32,336	$ 727	$ 873	$ —	$ 33,936
1 – 4 family	48,331	1,055	650	—	50,036
Home equity lines of credit	14,237	416	321	—	14,974
Commercial	101,985	811	2,918	—	105,714
Other	17,130	267	140	—	17,537
Commercial	43,941	3,393	2,724	—	50,058
Consumer and other	12,495	21	297	—	12,813
Total:	$ 270,455	$ 6,690	$ 7,923	$ —	$ 285,068
December 31, 2016					
Real estate mortgages:					
Construction and land development	$ 28,388	$ 271	$ 1,065	$ —	$ 29,724
1 – 4 family	46,155	1,547	1,090	—	48,792
Home equity lines of credit	13,755	473	402	60	14,690
Commercial	98,815	2,313	3,331	—	104,459
Other	12,834	—	68	—	12,902
Commercial	46,981	4,392	2,242	—	53,615
Consumer and other	12,521	8	322	—	12,851
Total:	$ 259,449	$ 9,004	$ 8,520	$ 60	$ 277,033

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Loans — (continued)

Past Due Loans
A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans by portfolio segment and class as of September 30, 2017 and December 31, 2016:

	Past Due Status (Accruing Loans)					
	Current	30 – 59 Days	60 – 89 Days	90+ Days	Total Past Due	Nonaccrual	Total
September 30, 2017							
Real estate mortgages:							
Construction and land development	$ 33,747	$ 189	$ —	$ —	$ 189	$ —	$ 33,936
1 – 4 family	49,420	38	—	—	38	578	50,036
Home equity lines of credit	14,768	—	—	—	—	206	14,974
Commercial	104,236	54	—	34	88	1,390	105,714
Other	17,516	—	—	—	—	21	17,537
Commercial	47,957	96	—	—	96	2,005	50,058
Consumer and other	12,509	—	35	—	35	269	12,813
Total:	$ 280,153	$ 377	$ 35	$ 34	$ 446	$ 4,469	$ 285,068
December 31, 2016							
Real estate mortgages:							
Construction and land development	$ 29,724	$ —	$ —	$ —	$ —	$ —	$ 29,724
1 – 4 family	47,739	159	28	—	187	866	48,792
Home equity lines of credit	14,345	—	—	—	—	345	14,690
Commercial	102,385	—	—	53	53	2,021	104,459
Other	12,863	—	—	—	—	39	12,902
Commercial	51,368	65	20	—	85	2,162	53,615
Consumer and other	12,526	27	—	6	33	292	12,851
Total:	$ 270,950	$ 251	$ 48	$ 59	$ 358	$ 5,725	$ 277,033

Allowance for Loan Losses
The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the

uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation

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does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. In support of collateral values, the Company obtains updated valuations on impaired loans generally on an annual basis. The general component covers non-impaired loans. In determining the appropriate level of allowance, management uses information to disaggregate the loan portfolio segments into loan pools with common risk characteristics.

The Company’s loan pools include construction and land development loans, commercial real estate loans, residential real estate loans, other real estate loans, commercial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) changes in the experience of lending personnel; (7) effectiveness of the Company’s loan policies, procedures and internal controls and (8) the regulatory environment. The total allowance established for each loan pool represents the product of the historical loss ratio, adjusted for qualitative risk factors, and the total dollar amount of the loans in the pool.

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The following tables further detail the change in the allowance for loan losses for the nine months ended September 30, 2017 and the year ended December 31, 2016 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real Estate	Commercial	Consumer	Total
September 30, 2017				
Allowance for loan losses:				
Balance, beginning of year	$ 1,859	$ 1,036	$ 197	$ 3,092
Provision for loan losses	560	(139)	(38)	383
Loans charged off	(46)	—	(52)	(98)
Recoveries of loans previously charged off	54	—	20	74
Balance, end of year	$ 2,427	$ 897	$ 127	$ 3,451
Ending balance: individually evaluated for impairment	$ 1,012	$ 690	$ 59	$ 1,761
Ending balance: collectively evaluated for impairment	1,415	207	68	1,690
Total ending balance	$ 2,427	$ 897	$ 127	$ 3,451
Loans:				
Ending balance: individually evaluated for impairment	$ 4,707	$ 2,022	$ 298	$ 7,027
Ending balance: collectively evaluated for impairment	217,490	48,036	12,515	278,041
Total ending balance	$ 222,197	$ 50,058	$ 12,813	$ 285,068
December 31, 2016				
Allowance for loan losses:				
Balance, beginning of year	$ 1,859	$ 1,023	$ 82	$ 2,964
Provision for loan losses	48	84	171	303
Loans charged off	(102)	(71)	(82)	(255)
Recoveries of loans previously charged off	54	—	26	80
Balance, end of year	$ 1,859	$ 1,036	$ 197	$ 3,092
Ending balance: individually evaluated for impairment	$ 751	$ 695	$ 31	$ 1,477
Ending balance: collectively evaluated for impairment	1,108	341	166	1,615
Total ending balance	$ 1,859	$ 1,036	$ 197	$ 3,092
Loans:				
Ending balance: individually evaluated for impairment	$ 4,986	$ 2,716	$ 459	$ 8,161
Ending balance: collectively evaluated for impairment	205,581	50,899	12,392	268,872
Total ending balance	$ 210,567	$ 53,615	$ 12,851	$ 277,033

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Impaired Loans
A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail the Company's impaired loans, by portfolio segment and class as of September 30, 2017 and December 31, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
September 30, 2017					
With no related allowance recorded:					
Real estate mortgages:					
Construction and land development	$ 842	$ 842	$ —	$ 857	$ 39
1 – 4 family	567	567	—	582	5
Home equity lines of credit	114	114	—	116	—
Commercial	1,748	1,748	—	1,805	33
Other	6	6	—	7	—
Commercial	—	—	—	—	—
Consumer and other	—	—	—	—	—
Total with no allowance recorded:	3,277	3,277	—	3,367	77
With an allowance recorded:					
Real estate mortgages:					
Construction and land development	31	31	23	114	8
1 – 4 family	83	83	26	84	—
Home equity lines of credit	—	—	—	—	—
Commercial	1,209	1,209	856	1,218	23
Other	107	107	107	114	—
Commercial	2,022	2,022	690	2,072	1
Consumer and other	298	298	59	305	—
Total with an allowance recorded:	3,750	3,750	1,761	3,907	32
Total Impaired Loans:	$ 7,027	$ 7,027	$ 1,761	$ 7,274	$ 109
December 31, 2016					
With no related allowance recorded:					
Real estate mortgages:					
Construction and land development	$ 784	$ 784	$ —	$ 794	$ 46

1 – 4 family	427	427	—	414	9
Home equity lines of credit	61	61	—	64	—
Commercial	1,459	1,459	—	1,442	18
Other	8	8	—	9	—
Commercial	467	467	—	455	19
Consumer and other	428	428	—	444	—
Total with no allowance recorded:	3,634	3,634	—	3,622	92
With an allowance recorded:					

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	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
Real estate mortgages:					
Construction and land development	281	281	26	299	19
1 – 4 family	526	526	81	549	2
Home equity lines of credit	285	285	40	190	2
Commercial	1,124	1,124	573	1,094	28
Other	31	31	31	36	—
Commercial	2,249	2,249	695	2,334	2
Consumer and other	31	31	31	33	—
Total with an allowance recorded:	4,527	4,527	1,477	4,535	53
Total Impaired Loans:	$ 8,161	$ 8,161	$ 1,477	$ 8,157	$ 145

Among other loans, the Bank individually evaluates for impairment all nonaccrual loans and troubled debt restructured loans. A loan is considered impaired when, based on current events and circumstances it is probable that all amounts due according to the contractual terms of the loan will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loans' observable market price, or the fair value of the collateral if the loan is collateral dependent. Management may also elect to apply an additional collective reserve to groups of impaired loans based on current economic or market factors. Interest payments received on impaired loans are generally applied as a reduction of the outstanding principal balance.

All other loans are deemed to be unimpaired and are grouped into various homogeneous risk pools utilizing regulatory reporting classifications. Southwest's historical loss factors are calculated for each of these risk pools based on the net losses experienced as a percentage of the average loans outstanding. The time periods utilized in these historical loss factor calculations are subjective and vary according to management's estimate of the impact of current economic cycles. As every loan has a risk of loss, minimum loss factors are estimated based on long term trends for Southwest, the banking industry, and the economy. The greater of the calculated historical loss factors or the minimum loss factors are applied to the unimpaired loan amounts currently outstanding for the risk pool and included in the analysis of the allowance for loan losses. In addition, certain qualitative adjustments may be included by management as additional loss factors applied to the unimpaired loan risk pools. The loss allocations for specifically impaired loans, smaller impaired loans not specifically measured for impairment, and unimpaired loans are totaled to determine the total required allowance for loan losses. This total is compared to the current allowance on the Southwest's books and adjustments made accordingly by a charge or credit to the provision for loan losses.

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The following table presents impaired loans by class of loans as of September 30, 2017.

Nonaccruing Impaired Loans	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Real estate mortgages:				
Construction and land development	—	$ —	$ —	$ —
1 – 4 family	578	495	83	26
Home equity lines of credit	114	114	—	—
Commercial	1,391	935	456	338
Other	21	6	15	15
Commercial	2,005	—	2,005	672
Consumer and other	269	—	269	31
Total	4,378	$ 1,550	$ 2,828	$ 1,082

Accruing Impaired Loans	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Real estate mortgages:				
Construction and land development	873	$ 842	$ 31	$ 23
1 – 4 family	72	72	—	—
Home equity lines of credit	—	—	—	—
Commercial	1,566	813	753	518
Other	92	—	92	92
Commercial	17	—	17	18
Consumer and other	29	—	29	28
Total	2,649	$ 1,727	$ 922	$ 679

Total Impaired Loans	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Real estate mortgages:				
Construction and land development	873	$ 842	$ 31	$ 23
1 – 4 family	650	567	83	26

Home equity lines of credit	114	114	—	—
Commercial	2,957	1,748	1,209	856
Other	113	6	107	107
Commercial	2,022	—	2,022	690
Consumer and other	298	—	298	59
Total	7,027	$ 3,277	$ 3,750	$ 1,761

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The following table presents impaired loans by class of loans as of December 31, 2016.

Nonaccruing Impaired Loans	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Real estate mortgages:				
Construction and land development	—	$ —	$ —	$ —
1 – 4 family	729	203	526	81
Home equity lines of credit	346	61	285	40
Commercial	1,941	1,228	713	238
Other	39	8	31	31
Commercial	2,317	88	2,229	674
Consumer and other	428	428	—	—
Total	5,800	$ 2,016	$ 3,784	$ 1,064

Accruing Impaired Loans	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Real estate mortgages:				
Construction and land development	1,065	$ 784	$ 281	$ 26
1 – 4 family	224	224	—	—
Home equity lines of credit	—	—	—	—
Commercial	642	231	411	336
Other	—	—	—	—
Commercial	399	379	20	20
Consumer and other	31	—	31	31
Total	2,361	$ 1,618	$ 743	$ 413

Total Impaired Loans	Total Impaired Loans	Impaired Loans With No Allowance	Impaired Loans With Allowance	Allowance for Loan Losses
Real estate mortgages:				
Construction and land development	1,065	$ 784	$ 281	$ 26
1 – 4 family	953	427	526	81

Home equity lines of credit	346	61	285	40
Commercial	2,583	1,459	1,124	574
Other	39	8	31	31
Commercial	2,716	467	2,249	694
Consumer and other	459	428	31	31
Total	8,161	$ 3,634	$ 4,527	$ 1,477

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The following table presents the average recorded investment in impaired loans and the interest income recognized on impaired loans in the nine months ended September 30, 2017 and 2016 by loan category.

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Average Recorded Investment	Ending Recorded Investment	Interest Income	Average Recorded Investment	Ending Recorded Investment	Interest Income
Real estate mortgages						
Construction and land development	$ 971	$ 873	$ 47	$ 1,102	$ 1,091	$ 46
1 – 4 family	666	650	5	1,164	1,143	7
Home equity lines of credit	116	114	—	123	122	—
Commercial	3,023	2,957	56	3,256	3,272	50
Other	121	113	—	47	44	—
Commercial	2,072	2,022	1	2,330	2,291	1
Consumer and other	305	298	—	340	334	—
Total	$ 7,274	$ 7,027	$ 109	$ 8,362	$ 8,297	$ 104

Troubled Debt Restructurings

At September 30, 2017 and December 31, 2016, impaired loans included loans that were classified as Troubled Debt Restructurings (TDRs). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession.

As of September 30, 2017 and December 31, 2016, the Company had $1,345 and $1,072, respectively, in loans considered TDRs that are not on nonaccrual status. Of the nonaccrual loans at September 30, 2017 and December 31, 2016, $1,969 and $2,126 were classified as TDRs, respectively. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the restructured loan agreement.

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The following tables summarize the loans that were modified as a TDR during the nine months ended September 30, 2017 and the year ended December 31, 2016 and were in compliance with the modified terms:

	Troubled Debt Restructurings			
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Impact on the Allowance for Loan Losses
September 30, 2017				
Real estate mortgages:				
Construction and land development	—	$ —	$ —	$ —
1 – 4 family	—	—	—	—
Home equity lines of credit	—	—	—	—
Commercial	2	562	562	—
Other	1	92	92	—
Commercial	—	—	—	—
Consumer and other	—	—	—	—
Total	3	$ 654	$ 654	$ —
December 31, 2016				
Real estate mortgages:				
Construction and land development	—	$ —	$ —	$ —
1 – 4 family	1	73	73	—
Home equity lines of credit	—	—	—	—
Commercial	—	—	—	—
Other	—	—	—	—
Commercial	—	—	—	—
Consumer and other	—	—	—	—
Total	1	$ 73	$ 73	$ —

During 2017, one commercial real estate loan totaling $210 subsequently defaulted from its modified terms. During 2016, no troubled debt restructurings subsequently defaulted from their modified terms.

Regulatory Capital and Dividend Restrictions

Federal and state banking regulations place certain restrictions on the payment of dividends by the Bank to the Company. The total amount of dividends which may be paid by the Bank in any calendar year shall not exceed the total of its net earnings (as defined by state banking regulations) of that year combined with its retained net earnings of the preceding two years. For 2017, the Bank will have $4,947 of net retained earnings from the previous two years

plus the current year to date available for dividend payments to the Company plus its net earnings for the remainder of 2017.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies under the Basel III capital framework. Failure to meet minimum capital requirements can initiate

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Regulatory Capital and Dividend Restrictions — (continued)

certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Regulatory capital rules include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer must be composed entirely of Common Equity Tier 1 capital (CET1). When fully phased-in on January 1, 2019, the capital conservation buffer of 2.5% will be added on top of each of the minimum risk-based capital ratios. The implementation of the capital conservation buffer began phasing in on January 1, 2016 at the rate of 0.625% per year and will be phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) as presented in the chart below. Banking institutions with risk-based capital ratios above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The minimum capital ratios (as established in 2015 under Basel III), including the phase-in of the capital conservation buffer through January 1, 2019, for capital adequacy purposes are as follows:

Year	Total Capital to Risk-Weighted Assets	Tier 1 Capital to Risk-Weighted Assets	CET1 Capital to Risk-Weighted Assets	Tier 1 Capital to Average Total Assets
2015	8.000%	6.000%	4.500%	4.000%
2016	8.625%	6.625%	5.125%	4.000%
2017	9.250%	7.250%	5.750%	4.000%
2018	9.875%	7.875%	6.375%	4.000%
2019	10.500%	8.500%	7.000%	4.000%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted assets, as defined, and of Tier 1 capital to average total assets (leverage ratio), as defined. Management believes, as of September 30, 2017 and December 31, 2016, the Bank met all capital adequacy requirements to which it is subject.

As of September 30, 2017, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table and not be subject to any formal enforcement action. There are no conditions or event since that notification that management believes have changed the Bank's category.

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Regulatory Capital and Dividend Restrictions — (continued)

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes(1)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2017:						
Total Capital to Risk-Weighted Assets	$ 41,786	14.534%	$ 26,593	9.250%	$ 28,750	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 38,336	13.334%	$ 20,844	7.250%	$ 23,000	8.000%
CET1 Capital to Risk-Weighted Assets	$ 38,336	13.334%	$ 16,531	5.750%	$ 18,687	6.500%
Tier 1 Capital to Average Total Assets	$ 38,336	9.798%	$ 15,651	4.000%	$ 19,564	5.000%
As of December 31, 2016:						
Total Capital to Risk-Weighted Assets	$ 40,234	14.159%	$ 24,509	8.625%	$ 28,416	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 37,143	13.071%	$ 18,826	6.625%	$ 22,733	8.000%
CET1 Capital to Risk-Weighted Assets	$ 37,143	13.071%	$ 14,563	5.125%	$ 18,470	6.500%
Tier 1 Capital to Average Total Assets	$ 37,143	10.080%	$ 14,739	4.000%	$ 18,424	5.000%

(1)
Includes the phase-in percentages for the capital conservation buffer.

Fair Value of Assets and Liabilities
Determination of Fair Value
The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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Fair Value of Assets and Liabilities — (continued)

Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.

Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and Cash Equivalents: The carrying amount of these short-term instruments approximates fair value.

Securities: Where quoted prices are available in an active market, management classifies the securities within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include U.S. Government sponsored agency securities, state and municipal securities and corporate securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, those securities are classified in level 3.

Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value based on the redemption provisions of the issuers which is cost.

Loans Held for Sale: The carrying amounts of loans held for sale approximates their fair value.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair values of fixed rate loans is estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Deposits: The carrying amounts of demand deposits, savings deposits, variable-rate certificates of deposit approximate their fair values. The fair value of fixed-rate certificates of deposit is based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

Fair Value of Assets and Liabilities — (continued)

Other Borrowings: The fair value of fixed-rate other borrowings is based on discounted contractual cash flows using interest rates currently being offered for borrowings of similar maturities. The fair values of the Company's variable-rate other borrowings approximate their carrying values.

Interest Receivable and Interest Payable: The carrying amounts of interest receivable and interest payable approximate their fair value.

Off-Balance Sheet Instruments: The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance sheet financial instruments is based on fees charged to enter into such agreements.

Assets Measured at Fair Value on a Recurring Basis

The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at September 30, 2017 and December 31, 2016, for which a recurring change in fair value has been recorded:

		Fair Value Measurements Using		
	Assets Measured at Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017:				
Available for sale securities	$ 78,956	$ —	$ 78,956	$ —
December 31, 2016:				
Available for sale securities	$ 67,789	$ —	$ 67,789	$ —

Assets Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances management makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at September 30, 2017 and December 31, 2016, for which a nonrecurring change in fair value has been recorded:

	Carrying Value at September 30, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Impaired loans	$ 1,989	$ —	$ —	$ 1,989
Other real estate owned	111	—	—	111
	$ 2,100	$ —	$ —	$ 2,100

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Fair Value of Assets and Liabilities — (continued)

	Carrying Value at December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,250	$ —	$ —	$ 3,250
Other real estate owned	160	—	—	160
	$ 3,410	$ —	$ —	$ 3,410

Impaired Loans

Loans considered impaired under ASC 310-10-35, Receivables, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company generally determines the value of real estate collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for estimated costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Other Real Estate Owned

Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at the lower of the loan's carrying amount or the fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less estimated costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis at September 30, 2017 or December 31, 2016.

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Fair Value of Assets and Liabilities — (continued)

For Level 3 assets measured at fair value on a non-recurring basis as of September 30, 2017, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 1,989	Appraisal	Appraisal discounts (%)	10 – 15%
Other real estate owned	111	Appraisal	Appraisal discounts (%)	5 – 10%

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2016, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 3,250	Appraisal	Appraisal discounts (%)	15 – 20%
Other real estate owned	160	Appraisal	Appraisal discounts (%)	5 – 10%

Fair Value of Financial Instruments

The carrying amount and estimated fair value of the Company’s financial instruments, by level within the fair value hierarchy, were as follows:

	September 30, 2017			December 31, 2016		
	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and cash equivalents	$ 14,390	$ 14,390	Level 1	$ 16,320	$ 16,322	Level 1
Available for sale securities	78,956	78,956	Level 2	67,789	67,789	Level 2
Restricted equity securities	941	941	Level 3	1,123	1,123	Level 3
Loans held for sale	424	424	Level 3	1,299	1,299	Level 3
Loans, net	281,617	279,881	Level 3	273,941	272,696	Level 3
Interest receivable	1,159	1,159	Level 2	1,214	1,214	Level 2
Financial liabilities:						
Deposits	$ 345,075	$ 344,743	Level 3	$ 327,679	$ 327,493	Level 3
Other borrowings	6,858	6,881	Level 3	12,558	12,667	Level 3
Interest payable	131	131	Level 2	163	163	Level 2

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Business Combination

On October 24, 2017, the Company entered into a definitive agreement with The First Bancshares, Inc. and its subsidiary, The First, A National Banking Association, Hattiesburg, Mississippi (collectively “The First”), whereby the Company will merge with and into The First. Under the terms of the Agreement and Plan of Merger, The First will pay shareholders of the Company $60 million in transaction value with approximately 60% in stock and 40% in cash. The merger is subject to various terms and customary conditions, including stockholder and regulatory approvals and is expected to close by the end of the first quarter 2018.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Banc Shares, Inc.
Chatom, Alabama

We have audited the accompanying consolidated financial statements of Southwest Banc Shares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Banc Shares, Inc. and Subsidiary as of December 31, 2016 and 2015, 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.

Birmingham, Alabama
February 27, 2017

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SOUTHWEST BANC SHARES, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
Assets		
Cash and due from banks	$ 5,867,686	$ 3,971,717
Interest-bearing deposits in banks	680,318	563,319
Federal funds sold	9,773,453	3,982,988
Total cash and cash equivalents	16,321,457	8,518,024
Available for sale securities	67,789,254	74,091,445
Restricted equity securities	1,123,200	1,352,900
Loans held for sale	1,299,013	416,712
Loans	277,032,661	245,617,502
Less allowance for loan losses	3,092,153	2,964,262
Loans, net	273,940,508	242,653,240
Premises and equipment, net	7,466,416	7,429,956
Other real estate owned	485,100	972,452
Accrued interest receivable	1,214,380	1,181,448
Cash surrender value of life insurance	5,929,988	5,767,043
Other assets	958,560	776,384
Total assets	$ 376,527,876	$ 343,159,604
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 56,933,839	$ 53,821,221
Interest-bearing	270,745,523	235,898,481
Total deposits	327,679,362	289,719,702
Other borrowings	12,558,334	18,258,334
Accrued interest payable	163,015	151,257
Accrued expenses and other liabilities	2,502,639	2,187,679
Total liabilities	342,903,350	310,316,972
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $.10 par value; 3,000,000 shares authorized; 71,317 and 71,288 shares issued and outstanding, respectively	7,132	7,129
Additional paid-in capital	2,075,032	2,061,907
Retained earnings	32,804,883	30,371,922
Accumulated other comprehensive income (loss)	(1,262,521)	401,674
Total stockholders’ equity	33,624,526	32,842,632

Total liabilities and stockholders' equity	$ 376,527,876	$ 343,159,604

See Notes to Consolidated Financial Statements.
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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Interest and dividend income:		
Loans, including fees	$ 13,166,807	$ 12,443,617
Taxable investment securities	1,009,709	1,194,907
Nontaxable investment securities	780,000	735,200
Federal funds sold	19,257	15,062
Deposits in banks	3,472	692
Total interest and dividend income	14,979,245	14,389,478
Interest expense:		
Deposits	1,458,751	1,270,142
Other borrowings	363,744	381,554
Total interest expense	1,822,495	1,651,696
Net interest income	13,156,750	12,737,782
Provision for loan losses	303,342	396,000
Net interest income after provision for loan losses	12,853,408	12,341,782
Non-interest income:		
Service charges on deposit accounts	1,305,390	1,333,672
Net realized gains on sales of securities	205,149	117,671
Mortgage loan origination income	488,092	277,956
Other income	1,160,787	1,031,350
Total non-interest income	3,159,418	2,760,649
Non-interest expenses:		
Salaries and employee benefits	6,872,060	6,494,817
Occupancy and equipment expenses	1,657,718	1,692,961
Net other real estate owned losses and expenses	157,487	144,823
Other expenses	3,516,860	3,639,483
Total non-interest expenses	12,204,125	11,972,084
Income before income taxes	3,808,701	3,130,347
Income tax expense	163,862	97,205
Net income	$ 3,644,839	$ 3,033,142

See Notes to Consolidated Financial Statements.
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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Net income	$ 3,644,839	$ 3,033,142
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale arising during the period, net of tax (benefit) of $(102,358) and $40,444, respectively	(1,472,381)	581,766
Reclassification adjustment for gains realized in net income, net of tax of $13,335 and $7,649, respectively	(191,814)	(110,022)
Other comprehensive income (loss)	(1,664,195)	471,744
Comprehensive income	$ 1,980,644	$ 3,504,886

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2014	$ 7,129	$ 2,061,907	$ 28,213,484	$ (70,070)	$ 30,212,450
Net income	—	—	3,033,142	—	3,033,142
Other comprehensive income	—	—	—	471,744	471,744
Distributions to stockholders	—	—	(874,704)	—	(874,704)
Balance, December 31, 2015	7,129	2,061,907	30,371,922	401,674	32,842,632
Net income	—	—	3,644,839	—	3,644,839
Issuance of common stock	3	13,135	—	—	13,138
Repurchase and retirement of common stock	—	(10)	—	—	(10)
Other comprehensive loss	—	—	—	(1,664,195)	(1,664,195)
Distributions to stockholders	—	—	(1,211,878)	—	(1,211,878)
Balance, December 31, 2016	$ 7,132	$ 2,075,032	$ 32,804,883	$ (1,262,521)	$ 33,624,526

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
Net income	$ 3,644,839	$ 3,033,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	303,342	396,000
Net amortization of securities	539,659	366,520
Depreciation	589,974	531,253
Deferred income taxes	1,643	30,045
Net realized gains on sales of securities	(205,149)	(117,671)
Net loss on sales of other real estate owned	13,785	25,232
Write downs of other real estate owned	63,632	26,286
Net increase in loans held for sale	(882,301)	(416,712)
Increase in cash surrender value of life insurance	(162,945)	(158,532)
Increase in interest receivable	(32,932)	(83,591)
Increase (decrease) in interest payable	11,758	(12,947)
Net other operating activities	259,971	(160,995)
Net cash provided by operating activities	4,145,276	3,458,030
INVESTING ACTIVITIES		
Purchase of available for sale securities	(18,697,699)	(20,196,493)
Proceeds from sales of available for sale securities	13,013,226	7,309,198
Proceeds from calls, prepayments and maturities of available for sale securities	9,872,267	7,302,814
Proceeds from calls, prepayments and maturities of held to maturity securities	—	349,399
Net (purchases) redemption of restricted equity securities	229,700	(8,300)
Net increase in loans	(31,966,110)	(15,965,878)
Purchase of premises and equipment	(626,434)	(490,871)
Capitalized improvements to other real estate owned	(2,193)	(192,193)
Proceeds from sale of other real estate owned	787,628	763,975
Net cash used in investing activities	(27,389,615)	(21,128,349)
FINANCING ACTIVITIES		
Net increase in deposits	37,959,660	20,655,091
Proceeds from other borrowings	—	5,000,000
Repayment of other borrowings	(5,700,000)	(5,700,000)
Repurchase and retirement of common stock	(10)	—
Distributions to stockholders	(1,211,878)	(874,704)

Net cash provided by financing activities	31,047,772	19,080,387
Net increase in cash and cash equivalents	7,803,433	1,410,068
Cash and cash equivalents at beginning of year	8,518,024	7,107,956
Cash and cash equivalents at end of year	$ 16,321,457	$ 8,518,024
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	$ 1,810,737	$ 1,664,643
Income taxes	$ 63,353	$ 118,349
NONCASH TRANSACTIONS		
Loans transferred to other real estate owned	$ 375,500	$ 1,194,929
Common stock issued in connection with executive compensation plan	$ 13,138	$ —

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SOUTHWEST BANC SHARES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of Operations
Southwest Banc Shares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, First Community Bank (the "Bank"). The Bank is a commercial bank headquartered in Chatom, Alabama with its executive offices located in Mobile, Alabama. The Bank operates branch offices throughout the Southwest Alabama region. The Bank provides a full range of banking services in its primary market area of Southwest Alabama.
Basis of Presentation and Accounting Estimates
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, First Community Bank, and its wholly-owned subsidiary, West Alabama Insurance Market, Inc. Significant intercompany transactions and balances are eliminated in consolidation.
In preparing the consolidated financial statements in accordance 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 and the disclosure of contingent assets and liabilities as of the balance sheet date and the 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 debt securities and financial instruments, impaired loans, other real estate owned, and deferred income tax assets.
The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.
While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.
The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through February 27, 2017, the date these financial statements were available to be issued and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.
Cash, Cash Equivalents and Cash Flows
For purposes of reporting consolidated cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in banks and federal funds sold. Cash flows from loans held for sale, loans, deposits and restricted equity securities are reported net.
The Bank maintains amounts due from banks which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

The Bank is required to maintain reserve balances in cash or on deposit with a correspondent bank for the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was approximately $2,777,000 and $2,713,000 at December 31, 2016 and 2015, respectively.

Securities

All debt securities are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless there is a credit loss that has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security, if any, in earnings and the remaining portion in other comprehensive income (loss).

Restricted Equity Securities

The Company as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based upon its assets or outstanding advances. The Company has also purchased stock in First National Banker’s Bankshares, Inc. (FNBB), its primary correspondent bank, and Central Alabama Title Center, LLC. The securities are carried at cost as no readily available market exists. Management reviews for impairment based on the ultimate recoverability of the cost basis in these securities.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees and certain direct origination costs are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and is outside the normal terms of that type of credit, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not generally classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings (TDRs) when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the borrower is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the borrower has declared or is in the process of declaring bankruptcy and (iv) the borrower's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company would generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan.

TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's

SOUTHWEST BANC SHARES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

current and future capacity and willingness to pay. Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

Loans structured as a TDR are reported as such for financial reporting purposes until the loan has paid off or is renewed at market terms and the borrower proves financial strength.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. In support of collateral values, the Company obtains updated valuations on impaired loans generally on an annual basis. The general component covers non-impaired loans. In determining the appropriate level of allowance, management uses information to disaggregate the loan portfolio segments into loan pools with common risk characteristics.

The Company's loan pools include construction and land development loans, commercial real estate loans, residential real estate loans, other real estate loans, commercial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) changes in the experience of lending personnel and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each loan pool represents the product of the historical loss ratio, adjusted for qualitative risk factors, and the total dollar amount of the loans in the pool.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

value less estimated cost to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and any subsequent adjustments to the carrying value are expensed. Any gains and losses realized at the time of disposal are reflected in income.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter as shown in the table below. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in income.

	Years
Buildings	15 – 40
Furniture and equipment	3 – 10

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company has elected to be taxed as an S corporation for federal income tax purposes. Under the provisions of the Internal Revenue Code, an S corporation generally is not subject to federal income tax because its taxable income or loss accrues to the individual stockholder. Consequently, the Company does not recognize income tax expense or any deferred income taxes for federal purposes. At December 31, 2016 and 2015, the Company's federal tax basis exceeded its net assets by approximately $3,457,000 and $3,482,000, respectively.

The Company continues to be subject to state income tax in the form of financial institution excise tax in the State of Alabama, as this state does not recognize financial institutions as S corporations for income tax purposes. Consequently, income tax expense consists of state income taxes. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although 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 balance sheet, such items, along with net income, are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 2. SECURITIES

The amortized cost and fair value of securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale December 31, 2016:				
U.S. Government sponsored agency securities	$ 17,880,182	$ 7,310	$ (437,761)	$ 17,449,731
State and municipal securities	35,807,068	190,766	(854,526)	35,143,308
Mortgage-backed securities	15,452,294	47,898	(303,977)	15,196,215
	$ 69,139,544	$ 245,974	$ (1,596,264)	$ 67,789,254
December 31, 2015:				
U.S. Government sponsored agency securities	$ 22,318,493	$ 58,104	$ (251,374)	$ 22,125,223
State and municipal securities	32,671,501	766,752	(7,208)	33,431,045
Corporate securities	1,000,000	—	(13,181)	986,819
Mortgage-backed securities	17,671,853	72,919	(196,414)	17,548,358
	$ 73,661,847	$ 897,775	$ (468,177)	$ 74,091,445

At December 31, 2016 and 2015, securities with carrying values of approximately $38,623,000 and $24,580,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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NOTE 2. SECURITIES — (continued)

The amortized cost and fair value of securities as of December 31, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included by maturity class in the following summary:

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 90,000	$ 90,002
Due from one to five years	1,414,271	1,408,190
Due from five to ten years	14,258,390	14,042,217
Due after ten years	37,924,589	37,052,630
Mortgage-backed securities	15,452,294	15,196,215
	$ 69,139,544	$ 67,789,254

Gains and losses on sales of securities available for sale consist of the following:

	Years Ended December 31,	
	2016	2015
Gross gains on sales	$ 205,149	$ 149,690
Gross losses on sales	—	(32,019)
Net realized gains	$ 205,149	$ 117,671

Restricted equity securities are reported at cost and consist of the following:

	December 31,	
	2016	2015
Federal Home Loan Bank of Atlanta	$ 733,900	$ 963,600
First National Banker’s Bankshares, Inc.	364,300	364,300
Central Alabama Title Center, LLC	25,000	25,000
	$ 1,123,200	$ 1,352,900

Temporarily Impaired Securities
The following table shows the gross unrealized losses and fair value of the Company’s securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2016 and 2015.
Securities that have been in a continuous unrealized loss position are as follows:

	Less Than Twelve Months		Twelve Months or More		Total
	Gross Unrealized	Fair Value	Gross Unrealized	Fair Value	Unrealized Losses

	Losses		Losses		
December 31, 2016:					
U.S Government sponsored agency securities	$ (414,549)	$ 15,653,824	$ (23,212)	$ 991,971	$ (437,761)
State and municipal securities	(854,526)	20,862,260	—	—	(854,526)
Mortgage-backed securities	(302,694)	10,823,361	(1,283)	1,723,609	(303,977)
Total securities	$ (1,571,769)	$ 47,339,445	$ (24,495)	$ 2,715,580	$ (1,596,264)

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NOTE 2. SECURITIES — (continued)

	Less Than Twelve Months		Twelve Months or More		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
December 31, 2015:					
U.S Government sponsored agency securities	$ (76,011)	$ 4,418,165	$ (175,363)	$ 10,747,659	$ (251,374)
State and municipal securities	(7,208)	496,575	—	—	(7,208)
Corporate securities	(13,181)	986,819	—	—	(13,181)
Mortgage-backed securities	(96,762)	10,422,269	(99,652)	3,678,808	(196,414)
Total securities	$ (193,162)	$ 16,323,828	$ (275,015)	$ 14,426,467	$ (468,177)

The unrealized loss on the above sixty-three securities as of December 31, 2016 was caused by interest rate changes and other temporary market influences. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2016.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company evaluates for impairment under the accounting guidance for investments in debt and equity securities. The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Inputs included in the evaluation process may include geographic concentrations, credit ratings, and other performance indicators of the underlying asset. There were no impairment charges recognized on securities for the years ended December 31, 2016 and 2015.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segments and Classes

The composition of loans, excluding loans held for sale, is summarized as follows:

	December 31,	
	2016	2015
Real estate mortgages:		
Construction and land development	$ 29,723,564	$ 24,031,789
1 – 4 family	48,792,278	47,227,873
Home equity lines of credit	14,689,869	13,607,309
Commercial	104,458,852	96,585,696
Other	12,902,056	13,748,909
Commercial	53,614,585	39,227,075
Consumer and other	12,851,457	11,188,851
	277,032,661	245,617,502

Allowance for loan losses	(3,092,153)	(2,964,262)
Loans, net	$ 273,940,508	$ 242,653,240

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, 1 – 4 family, home equity lines of credit, commercial, and other. The portfolio segments of non-real estate commercial loans and consumer loans have not been further segregated by class.

The following describe risk characteristics relevant to each of the portfolio segments:

Real Estate — As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and land development loans are repaid through cash flow related to the operation, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- 1 – 4 family loans and home equity lines of credit are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

- Commercial loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the business. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

- Other real estate mortgage loans include real estate loans secured by farmland, multi-family housing and other real estate. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

Commercial — The non-real estate commercial loan portfolio segment includes commercial, financial, and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

Consumer — The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Credit Risk Management

Credit Administration and the Special Assets Officer are both involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios.
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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Board approved Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. Loan Review and Credit Administration establish a timely schedule and scope for loan reviews to include new and renewed loans, all loans that are 15 days or greater past due and all adversely classified and nonaccrual loans. These reviews ensure such loans have proper risk ratings and accrual status, and if necessary, ensure loans are transferred to the Special Assets Officer.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports by product, collateral, accrual status, etc., are reviewed by the Chief Credit Officer and the Directors Loan Committee. The following categories are utilized by management to analyze and manage the credit quality and risk of the loan portfolio:

- Pass — includes obligations where the probability of default is considered low.

- Special Mention — includes obligations that exhibit potential credit weaknesses or downward trends deserving management’s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects or credit position at a future date. These loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

- Substandard — includes obligations with defined weaknesses that jeopardize the orderly liquidation of debt. A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

- Doubtful — includes obligations with all the weaknesses found in substandard loans with the added provision that the weaknesses make collection of debt in full, based on currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the loan, the loans’ classification as loss is deferred until a more exact status may be determined.

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Loss — includes obligations incapable of repayment or unsecured debt. Such loans are considered uncollectible and of such little value, that continuance as an active asset is not warranted. Loans determined to be a loss are charged-off at the date of loss determination. Consequently, there are no loans with a loss rating in the Company's portfolio as of December 31, 2016 and 2015.

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

The following tables present credit quality indicators as described above for the loan portfolio segments and classes as of December 31, 2016 and 2015.

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in Thousands)				
December 31, 2016					
Real estate mortgages:					
Construction and land development	$ 28,388	$ 271	$ 1,065	$ —	$ 29,724
1 – 4 family	46,155	1,547	1,090	—	48,792
Home equity lines of credit	13,755	473	402	60	14,690
Commercial	98,815	2,313	3,331	—	104,459
Other	12,834	—	68	—	12,902
Commercial	46,981	4,392	2,242	—	53,615
Consumer and other	12,521	8	322	—	12,851
Total:	$ 259,449	$ 9,004	$ 8,520	$ 60	$ 277,033
December 31, 2015					
Real estate mortgages:					
Construction and land development	$ 22,439	$ 92	$ 1,501	$ —	$ 24,032
1 – 4 family	44,245	1,573	1,410	—	47,228
Home equity lines of credit	12,938	327	279	63	13,607
Commercial	90,473	2,994	3,118	—	96,585
Other	13,506	156	87	—	13,749
Commercial	33,682	33	5,512	—	39,227
Consumer and other	10,778	49	362	—	11,189
Total:	$ 228,061	$ 5,224	$ 12,269	$ 63	$ 245,617

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans by portfolio segment and class as of December 31, 2016 and 2015:

	Past Due Status (Accruing Loans)					
Current	30 – 59 Days	60 – 89 Days	90+ Days	Total Past Due	Nonaccrual	Total
(Dollars in Thousands)						

December 31, 2016							
Real estate mortgages:							
Construction and land development	$ 29,724	$ —	$ —	$ —	$ —	$ —	$ 29,724
1 – 4 family	47,739	159	28	—	187	866	48,792
Home equity lines of credit	14,345	—	—	—	—	345	14,690
Commercial	102,385	—	—	53	53	2,021	104,459
Other	12,863	—	—	—	—	39	12,902
Commercial	51,368	65	20	—	85	2,162	53,615
Consumer and other	12,526	27	—	6	33	292	12,851
Total:	$ 270,950	$ 251	$ 48	$ 59	$ 358	$ 5,725	$ 277,033

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

		Past Due Status (Accruing Loans)					
	Current	30 – 59 Days	60 – 89 Days	90+ Days	Total Past Due	Nonaccrual	Total
	(Dollars in Thousands)						
December 31, 2015							
Real estate mortgages:							
Construction and land development	$ 23,661	$ 111	$ —	$ 33	$ 144	$ 227	$ 24,032
1 – 4 family	45,705	433	153	37	623	900	47,228
Home equity lines of credit	13,318	37	—	—	37	252	13,607
Commercial	94,845	—	47	—	47	1,693	96,585
Other	13,662	—	31	—	31	56	13,749
Commercial	36,661	24	—	53	77	2,489	39,227
Consumer and other	10,743	110	3	—	113	333	11,189
Total:	$ 238,595	$ 715	$ 234	$ 123	$ 1,072	$ 5,950	$ 245,617

Allowance for Loan Losses
Activity in the allowance for loan losses is summarized below:

	Years Ended December 31,	
	2016	2015
Balance, beginning of year	$ 2,964,262	$ 2,871,961
Provision for loan loss	303,342	396,000
Loans charged off	(255,317)	(442,726)
Recoveries of loans previously charged off	79,866	139,027
Balance, end of year	$ 3,092,153	$ 2,964,262

The following tables further detail the change in the allowance for loan losses for the years ended December 31, 2016 and 2015 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real Estate	Commercial	Consumer	Total
	(Dollars in Thousands)			
December 31, 2016				
Allowance for loan losses:				
Balance, beginning of year	$ 1,859	$ 1,023	$ 82	$ 2,964
Provision for loan losses	48	84	171	303

Loans charged off	(102)	(71)	(82)	(255)
Recoveries of loans previously charged off	54	—	26	80
Balance, end of year	$ 1,859	$ 1,036	$ 197	$ 3,092
Ending balance: individually evaluated for impairment	$ 751	$ 695	$ 31	$ 1,477
Ending balance: collectively evaluated for impairment	1,108	341	166	1,615
Total ending balance	$ 1,859	$ 1,036	$ 197	$ 3,092

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

	Real Estate	Commercial	Consumer	Total
	(Dollars in Thousands)			
Loans:				
Ending balance: individually evaluated for impairment	$ 4,986	$ 2,716	$ 459	$ 8,161
Ending balance: collectively evaluated for impairment	205,581	50,899	12,392	268,872
Total ending balance	$ 210,567	$ 53,615	$ 12,851	$ 277,033
December 31, 2015				
Allowance for loan losses:				
Balance, beginning of year	$ 1,969	$ 794	$ 109	$ 2,872
Provision for loan losses	191	182	23	396
Loans charged off	(352)	(12)	(79)	(443)
Recoveries of loans previously charged off	51	59	29	139
Balance, end of year	$ 1,859	$ 1,023	$ 82	$ 2,964
Ending balance: individually evaluated for impairment	$ 795	$ 761	$ 40	$ 1,596
Ending balance: collectively evaluated for impairment	1,064	262	42	1,368
Total ending balance	$ 1,859	$ 1,023	$ 82	$ 2,964
Loans:				
Ending balance: individually evaluated for impairment	$ 6,052	$ 2,489	$ 354	$ 8,895
Ending balance: collectively evaluated for impairment	189,149	36,738	10,835	236,722
Total ending balance	$ 195,201	$ 39,227	$ 11,189	$ 245,617

Impaired Loans
A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail the Company’s impaired loans, by portfolio segment and class as of December 31, 2016 and 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
	(Dollars in Thousands)				
December 31, 2016					
With no related allowance recorded:					
Real estate mortgages:					

Construction and land development	$ 784	$ 784	$ —	$ 794	$ 46
1 – 4 family	427	427	—	414	9
Home equity lines of credit	61	61	—	64	—
Commercial	1,459	1,459	—	1,442	18
Other	8	8	—	9	—
Commercial	467	467	—	455	19
Consumer and other	428	428	—	444	—
Total with no allowance recorded:	3,634	3,634	—	3,622	92

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
	(Dollars in Thousands)				
With an allowance recorded:					
Real estate mortgages:					
Construction and land development	281	281	26	299	19
1 – 4 family	526	526	81	549	2
Home equity lines of credit	285	285	40	190	2
Commercial	1,124	1,124	573	1,094	28
Other	31	31	31	36	—
Commercial	2,249	2,249	695	2,334	2
Consumer and other	31	31	31	33	—
Total with an allowance recorded:	4,527	4,527	1,477	4,535	53
Total Impaired Loans:	$ 8,161	$ 8,161	$ 1,477	$ 8,157	$ 145
December 31, 2015					
With no related allowance recorded:					
Real estate mortgages:					
Construction and land development	$ 813	$ 813	$ —	$ 1,702	$ 10
1 – 4 family	772	772	—	670	6
Home equity lines of credit	—	—	—	30	—
Commercial	1,815	1,815	—	1,238	29
Other	—	—	—	151	—
Commercial	—	—	—	101	—
Consumer and other	33	33	—	25	—
Total with no allowance recorded:	3,433	3,433	—	3,917	45
With an allowance recorded:					
Real estate mortgages:					
Construction and land development	655	655	297	664	33
1 – 4 family	626	626	132	902	30
Home equity lines of credit	184	184	73	160	7
Commercial	1,187	1,187	293	1,274	30
Other	—	—	—	86	—
Commercial	2,489	2,489	761	2,877	—

Consumer and other	321	321	40	333	—
Total with an allowance recorded:	5,462	5,462	1,596	6,296	100
Total Impaired Loans:	$ 8,895	$ 8,895	$ 1,596	$ 10,213	$ 145

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

Troubled Debt Restructurings
At December 31, 2016 and 2015, impaired loans included loans that were classified as Troubled Debt Restructurings (TDRs). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession.
As of December 31, 2016 and 2015, the Company had $1,092,537 and $1,188,156, respectively, in loans considered TDRs that are not already on nonaccrual status. Of the nonaccrual loans at December 31, 2016 and 2015, $2,105,164 and $2,402,495 met the criteria for TDRs, respectively. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Company will be able to collect all amounts due (both principal and interest) according to the terms of the restructured loan agreement.
The following tables summarize the loans that were modified as a TDR during the years ended December 31, 2016 and 2015 and were in compliance with the modified terms:

	Troubled Debt Restructurings			
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Impact on the Allowance for Loan Losses
	(Dollars in Thousands)			
December 31, 2016				
Real estate mortgages:				
Construction and land development	—	$ —	$ —	$ —
1 – 4 family	1	73	73	—
Home equity lines of credit	—	—	—	—
Commercial	—	—	—	—
Other	—	—	—	—
Commercial	—	—	—	—
Consumer and other		—	—	—
Total	1	$ 73	$ 73	$ —
December 31, 2015				
Real estate mortgages:				
Construction and land development	1	$ 115	$ 115	$ 48
1 – 4 family	—	—	—	—
Home equity lines of credit	—	—	—	—
Commercial	1	336	336	47
Other	—	—	—	—
Commercial	—	—	—	—
Consumer and other	1	5	5	2

Total	3	$ 456	$ 456	$ 97

During 2016 and 2015, no troubled debt restructurings subsequently defaulted from their modified terms.

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

Related Party Loans
In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the year ended December 31, 2016 is as follows:

Balance, beginning of year	$ 2,630,285
Advances	1,475,332
Repayments	(2,270,150)
Balance, end of year	$ 1,835,467

NOTE 4. OTHER REAL ESTATE OWNED
A summary of other real estate owned is presented as follows:

	Years Ended December 31,	
	2016	2015
Balance, beginning of year	$ 972,452	$ 400,823
Transfers in from loans	375,500	1,194,929
Capitalized improvements	2,193	192,193
Sales proceeds	(787,628)	(763,975)
Net loss on sales of other real estate	(13,785)	(25,232)
Direct write-down for valuation losses	(63,632)	(26,286)
Balance, end of year	$ 485,100	$ 972,452

Other real estate owned by type is as follows:

	December 31,	
	2016	2015
Construction and land development real estate	$ 115,500	$ 249,543
Residential real estate	209,600	233,877
Commercial real estate	160,000	489,032
	$ 485,100	$ 972,452

Expenses related to other real estate owned include the following:

	Years Ended December 31,	
	2016	2015
Net loss on sales of other real estate	$ 13,785	$ 25,232
Direct write down for valuation losses	63,632	26,286

Operating expenses, net of rental income	80,070	93,305
	$ 157,487	$ 144,823

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NOTE 5. PREMISES AND EQUIPMENT
A summary of premises and equipment is as follows:

	December 31, 2016	2015
Land	$ 2,136,642	$ 2,136,642
Buildings and improvements	8,993,094	8,907,049
Furniture, fixtures, and equipment	4,554,551	3,993,662
Automobiles	114,091	114,091
Construction in process	—	198,370
	15,798,378	15,349,814
Accumulated depreciation	(8,331,962)	(7,919,858)
	$ 7,466,416	$ 7,429,956

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to $589,974 and $531,253, respectively.
Leases
The Company leases two banking facilities under an operating lease with one expiring in March 2019 and the other expiring in April 2026. Management has reviewed the terms of the leases and determined that the leases qualify as operating leases. Lease expense, net of rental income, as well as other month-to-month leases, totaled $208,157 and $203,663 for the years ended December 31, 2016 and 2015, respectively.
Future minimum rental payments required under operating leases, as adjusted for the accretion of deferred rent, as of December 31, 2016 are as follows:

2017	$ 214,674
2018	214,674
2019	200,461
2020	195,724
2021	195,724
Thereafter	842,701
	$ 1,863,958

NOTE 6. DEPOSITS
The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2016 and 2015 was $20,117,522 and $11,607,928, respectively. Brokered deposits totaled $5,812,980 and $5,033,064 as of December 31, 2016 and 2015 respectively. The scheduled maturities of time deposits at December 31, 2016 are as follows:

2017	$ 45,968,765
2018	22,078,935
2019	16,163,071
2020	4,819,982
2021	10,432,763

$ 99,463,516

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NOTE 6. DEPOSITS — (continued)

At December 31, 2016 and 2015, overdraft demand and savings deposits reclassified to loans totaled $68,021 and $48,089, respectively.

NOTE 7. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31, 2016	2015
Advances from Federal Home Loan Bank with interest at 9 variable rates (ranging from 2.34% to 3.04% at December 31, 2016) due at various dates during 2017 to 2018	$ 10,000,000	$ 15,000,000
Note payable to a commercial bank with a variable rate of interest; interest is payable quarterly and principal is paid annually	2,558,334	3,258,334
	$ 12,558,334	$ 18,258,334

The advances from the Federal Home Loan Bank of Atlanta are secured by a blanket floating lien on qualifying residential first mortgages of approximately $29,392,000 as of December 31, 2016. The Company has total available advances of approximately $19,392,000 as a result of the excess collateral position under the above arrangements as of December 31, 2016.

The note payable has been advanced under two separate lines of credit both of which mature on September 9, 2020. The first line in the original amount of $2,500,000 is to be repaid in ten equal annual installments beginning in September 2011 and bears interest at the 30-day LIBOR plus 170 basis points (2.42% as of December 31, 2016). The second line in the original amount of $4,500,000 is to be repaid in ten equal annual installments beginning in September 2011 and bears interest at the Prime rate less 50 basis points (3.25% as of December 31, 2016). The note payable is secured by 80,000 shares of the Bank’s common stock and all real and personal property of the Company and its subsidiary. The Company is subject to financial covenants, of which they were in compliance at December 31, 2016.

At December 31, 2016, the scheduled maturities of other borrowings are as follows:

2017	$ 5,700,000
2018	5,700,000
2019	700,000
2020	458,334
	$ 12,558,334

At December 31, 2016, the Company has accommodations which allow the purchase of federal funds from several correspondent banks on an overnight basis at prevailing overnight market rates. These accommodations are subject to various restrictions as to their term and availability, and in most cases, must be repaid in less than a month. At December 31, 2016 and 2015, the Company had no amounts outstanding under these arrangements. The Company may borrow up to $23,600,000 under these arrangements as of December 31, 2016.

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NOTE 8. INCOME TAXES

Income tax expense consists of the following:

	Years Ended December 31,	
	2016	2015
Current	$ 162,219	$ 67,160
Deferred	1,643	30,045
Income tax expense	$ 163,862	$ 97,205

Income tax differs from the amounts computed by applying the State of Alabama financial institutions excise tax statutory rate to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2016	2015
Income tax expense at state statutory rate	$ 247,566	$ 203,473
Nondeductible expenses, sales tax credits and other	(83,704)	(106,268)
Income tax expense	$ 163,862	$ 97,205

Components of deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

	December 31,	
	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 200,990	$ 192,678
Other real estate owned	—	372
Deferred retirement plan	73,565	69,859
Deferred rent	10,004	10,358
Available for sale securities	87,769	—
	372,328	273,267
Deferred tax liabilities:		
Depreciation	(59,856)	(46,920)
Available for sale securities	—	(27,924)
	(59,856)	(74,844)
Net deferred tax assets	$ 312,472	$ 198,423

The federal and state income tax returns of the Company for 2013, 2014, and 2015 are subject to examination, generally for three years after they were filed.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to 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, commitments under credit card arrangements, commercial letters of credit, and standby letters of credit.

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NOTE 9. COMMITMENTS AND CONTINGENCIES — (continued)

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

	December 31,	
	2016	2015
Commitments to extend credit	$ 40,280,000	$ 38,503,000
Standby letters of credit	1,270,000	749,000
	$ 41,550,000	$ 39,252,000

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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2016, the carrying amount of liabilities related to the Company's obligation to perform under financial standby letters of credit was insignificant. The Company has not been required to perform on any financial standby letters of credit, and the Company has not incurred any losses on standby letters of credit for the years ended December 31, 2016 and 2015.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 10. EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Profit Sharing Plan

The Company has a 401(k) profit sharing plan with two components. The first is the 401(k) component whereby substantially all employees participate in the plan, subject to certain eligibility requirements. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Company matches 100% of the first 3% contributed and 50% of the next 2% contributed by the employee to the Plan. The second is the profit sharing component in which the Company may make discretionary contributions that are set prior to the end of the plan year. Charges to operations for the Plan totaled $168,176 and $152,515 for the years ended December 31, 2016 and 2015, respectively.

Supplemental Executive Benefits and Retirement Agreements

The Company has an Supplemental Executive Retirement Plan (the SERP) that is a nonqualified, executive benefit plan, which provides certain designated directors and former officers additional benefits in

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NOTE 10. EMPLOYEE AND DIRECTOR BENEFIT PLANS — (continued)

the future, usually at retirement, in return for continued satisfactory performance. The plan is funded through life insurance policies which are more fully described below. The Company has recorded a liability as of December 31, 2016 and 2015, amounting to $1,003,035 and $957,594, respectively, for the present value of the future benefits to be paid under the SERP. The expense charged to operations related to the SERP totaled $62,620 and $62,174 in 2016 and 2015, respectively.

Cash Surrender Value of Life Insurance

Investments in bank-owned life insurance programs are recorded at their respective cash surrender values. These life insurance programs include endorsement split-dollar life insurance arrangements wherein the Company owns and controls the insurance policies. The Company has an agreement with the insured to split the policy benefits between the Bank and the insured designated beneficiary. The Company recognizes a liability and related compensation costs for endorsement split-dollar arrangements that provide a benefit to an employee that extends to postretirement periods. Future benefits are recognized as expense when incurred. The Company has accrued a liability of $103,801 and $106,631, which is included in other liabilities on the consolidated balance sheets at December 31, 2016 and 2015, respectively, for the split-dollar arrangements. The cash surrender value and net interest earned on the related policies amounted to $5,929,988 and $162,945, respectively, as of and for the year ended December 31, 2016, and $5,767,043 and $158,532, respectively, as of and for the year ended December 31, 2015.

Incentive Plans

The Company provides various incentive plans to its employees at all levels of the organization. Under the Company's employee plan, all employees, with the exception of executive and senior officers, mortgage loan originators and commercial lenders, are eligible to receive a certain percentage of their base compensation in the form of a short-term cash incentive. Quarterly cash payouts under this plan are based upon the Bank's overall annual profitability for the quarter as compared to quarterly budget projections. The expense recognized by the Company for this plan was $209,493 and $187,648, respectively, for the years ended December 31, 2016 and 2015.

In 2016, the Company implemented a new cash incentive plan for its commercial lending officers. These officers are eligible to receive short-term cash incentives based on their individual lending performance. Payouts under this plan are tied to the volume and timing of achieving certain levels of their annual loan production goals and are calculated using tiered percentages of the non-interest loan fee revenues generated. With the exception of certain recognition payments for superior performance at mid-year and at the end of the third quarter, payouts under this plan are made on an annual basis. This plan also provides for reductions in the payouts to the commercial lenders if certain credit quality standards are not maintained within their portfolio during the year. In 2015, commercial lending officers received short-term cash incentives based solely on a certain percentage of the non-interest loan fee revenues generated with payouts made on a quarterly basis. The expense recognized by the Company for this plan was $133,422 and $55,076, respectively, for the years ended December 31, 2016 and 2015.

In 2016, the Company implemented a new short-term cash incentive plan for its senior officers. Under this plan, senior officers are eligible to receive a certain percentage of their base salary that is determined annually based upon achieving certain key performance metrics for the year. This plan also provides for reductions in payouts to the senior officers if certain performance standards are not met during the year. In 2015, the Senior Officers participated in the employee plan described above. Annual short-term cash incentive payouts to the senior officers under that plan were based solely on the actual annual profitability as compared to the year-to-date budget projections. The expense recognized by the Company for this plan was $74,237 and $60,750, respectively, for the years ended December 31, 2016 and 2015.

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NOTE 10. EMPLOYEE AND DIRECTOR BENEFIT PLANS — (continued)

The Company also provides a short-term and long-term incentive plan for its chief executive officer. The short-term incentive component is a cash bonus plan and is determined annually based upon whether certain key performance metrics were met for that year. For the years ended December 31, 2016 and 2015, $20,684 and $64,897, respectively, was expensed to operations related to the short-term incentive plan. The long-term incentive component is a combination of stock appreciation rights in the form of "phantom" stock and equity-based awards in the form of restricted stock whereby the executive may receive such awards based upon whether certain key performance metrics were met for that year. For the year ended December 31, 2016, $21,688 and $10,536 was awarded in restricted stock and phantom stock, respectively, related to the long-term incentives. For the year ended December 31, 2015, $22,114 and $10,870 was awarded in restricted stock and phantom stock, respectively, related to the long-term incentives. These awards vest at the end of the two-year period following the year (also known as the "performance period") for which the awards were granted and are being expensed over the vesting period. The expense recognized by the Company for the long-term incentive plan was $27,547 and $10,536, respectively, for the years ended December 31, 2016 and 2015.

NOTE 11. CONCENTRATIONS OF CREDIT RISK

The Company originates primarily commercial, residential, and consumer loans to customers in its primary market areas. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas. Seventy-six percent of the Company's loan portfolio is secured by real estate, of which a substantial portion is secured by real estate in the Company's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined by banking regulations, or approximately $8,047,000 or on an unsecured basis in excess of 10% of capital, as defined by banking regulations, or approximately $4,024,000.

NOTE 12. REGULATORY MATTERS

State banking regulations place certain restrictions on the payment of dividends by the Bank to the Company. The total amount of dividends which may be paid by the Bank in any calendar year shall not exceed the total of its net earnings (as defined by banking regulations) of that year combined with its retained net earnings of the preceding two years. For 2017, the Bank will have approximately $3,394,000 of net retained earnings from the previous two years available for dividend payments to the Company plus its net earnings for 2017.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies under the Basel III capital framework. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Regulatory capital rules include a capital conservation buffer designed to absorb losses during periods of economic stress. The capital conservation buffer must be composed entirely of Common Equity Tier 1 capital (CET1). When fully phased-in on January 1, 2019, the capital conservation buffer of 2.5% will be added on top of each of the minimum risk-based capital ratios. The implementation of the capital conservation buffer began phasing in on January 1, 2016 at the rate of 0.625% per year and will be

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NOTE 12. REGULATORY MATTERS — (continued)

phased-in over a three-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) as presented in the chart below. Banking institutions with risk-based capital ratios above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The minimum capital ratios (as established in 2015 under Basel III), including the phase-in of the capital conservation buffer through January 1, 2019, for capital adequacy purposes are as follows:

Year	Total Capital to Risk-Weighted Assets	Tier 1 Capital to Risk-Weighted Assets	CET1 Capital to Risk-Weighted Assets	Tier 1 Capital to Average Total Assets
2015	8.000%	6.000%	4.500%	4.000%
2016	8.625%	6.625%	5.125%	4.000%
2017	9.250%	7.250%	5.750%	4.000%
2018	9.875%	7.875%	6.375%	4.000%
2019	10.500%	8.500%	7.000%	4.000%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted assets, as defined, and of Tier 1 capital to average total assets (leverage ratio), as defined. Management believes, as of December 31, 2016 and 2015, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table and not be subject to any formal enforcement action. There are no conditions or event since that notification that management believes have changed the Bank’s category.

The Bank’s actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes(1)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
As of December 31, 2016:						
Total Capital to Risk-Weighted Assets	$ 40,234	14.159%	$ 24,509	8.625%	$ 28,416	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 37,143	13.071%	$ 18,826	6.625%	$ 22,733	8.000%
CET1 Capital to Risk-Weighted Assets	$ 37,143	13.071%	$ 14,563	5.125%	$ 18,470	6.500%

Tier 1 Capital to Average Total Assets	$ 37,143	10.080%	$ 14,739	4.000%	$ 18,424	5.000%
As of December 31, 2015:						
Total Capital to Risk-Weighted Assets	$ 38,389	15.360%	$ 19,991	8.000%	$ 24,988	10.000%
Tier 1 Capital to Risk-Weighted Assets	$ 35,426	14.180%	$ 14,993	6.000%	$ 19,991	8.000%
CET1 Capital to Risk-Weighted Assets	$ 35,426	14.180%	$ 11,245	4.500%	$ 16,242	6.500%
Tier 1 Capital to Average Total Assets	$ 35,426	10.390%	$ 13,643	4.000%	$ 17,054	5.000%

(1)
Includes the phase-in percentages for the capital conservation buffer.

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.

Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and Cash Equivalents: The carrying amount of these short-term instruments approximates fair value.

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

Securities: Where quoted prices are available in an active market, management classifies the securities within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include U.S. Government sponsored agency securities, state and municipal securities and corporate securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, those securities are classified in level 3.

Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value based on the redemption provisions of the issuers which is cost.

Loans Held for Sale: The carrying amounts of loans held for sale approximates their fair value.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair values of fixed rate loans is estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Deposits: The carrying amounts of demand deposits, savings deposits, variable-rate certificates of deposit approximate their fair values. The fair value of fixed-rate certificates of deposit is based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

Other Borrowings: The fair value of fixed-rate other borrowings is based on discounted contractual cash flows using interest rates currently being offered for borrowings of similar maturities. The fair values of the Company's variable-rate other borrowings approximate their carrying values.

Interest Receivable and Interest Payable: The carrying amounts of interest receivable and interest payable approximate their fair value.

Off-Balance Sheet Instruments: The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance sheet financial instruments is based on fees charged to enter into such agreements.

Assets Measured at Fair Value on a Recurring Basis

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

		Fair Value Measurements at December 31, 2016 Using		
	Assets Measured at Fair Value	Quoted Prices In Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 67,789,254	$ —	$ 67,789,254	$ —

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

		Fair Value Measurements at December 31, 2015 Using		
	Assets Measured at Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 74,091,445	$ —	$ 74,091,445	$ —

Assets Measured at Fair Value on a Nonrecurring Basis
Under certain circumstances management makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2016 and 2015, for which a nonrecurring change in fair value has been recorded:

	Carrying Value at December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,249,653	$ —	$ —	$ 3,249,653
Other real estate owned	160,000	—	—	160,000
	$ 3,409,653	$ —	$ —	$ 3,409,653

	Carrying Value at December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Impaired loans	$ 4,678,836	$ —	$ —	$ 4,678,836
Other real estate owned	223,100	—	—	223,100
	$ 4,901,936	$ —	$ —	$ 4,901,936

Impaired Loans

Loans considered impaired under ASC 310-10-35, Receivables, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company generally determines the value of real estate collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for estimated costs to sell and may be discounted further based on management's historical knowledge, changes

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

As of December 31, 2016 and 2015, impaired loans had a carrying amount of $8,161,257 and $8,894,739, respectively, with a specific valuation allowance of $1,476,987 and $1,595,742. Of the $8,161,257 and $8,894,739 impaired loan portfolio at December 31, 2016 and 2015, respectively, $4,726,640 and $6,274,578 was carried at fair value as a result of charge-offs and specific valuation allowances that resulted in a net carrying value of $3,249,653 and $4,678,836. The remaining $3,434,617 and $2,620,161 was carried at cost, as the fair value of the collateral on these impaired loans exceeded the book value for each individual credit at December 31, 2016 and 2015, respectively. Charge-offs and changes in specific valuation allowances during 2016 and 2015 on impaired loans carried at fair value resulted in additional provision for loan losses of $237,239 and $256,898, respectively.

Other Real Estate Owned

Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at the lower of the loan's carrying amount or the fair value less estimated costs to sell upon transfer of the loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less estimated costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2016 or 2015.

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2016, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 3,249,653	Appraisal	Appraisal discounts (%)	15 – 20%
Other real estate owned	160,000	Appraisal	Appraisal discounts (%)	5 – 10%

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2015, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 4,678,836	Appraisal	Appraisal discounts (%)	15 – 20%
Other real estate owned	223,100	Appraisal	Appraisal discounts (%)	5 – 10%

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

Fair Value of Financial Instruments
The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	$ 16,321	$ 16,321	$ 8,518	$ 8,518
Available for sale securities	67,789	67,789	74,091	74,091
Restricted equity securities	1,123	1,123	1,353	1,353
Loans held for sale	1,299	1,299	417	417
Loans, net	273,941	272,696	242,653	242,759
Interest receivable	1,214	1,214	1,181	1,181
Financial liabilities:				
Deposits	327,679	327,493	289,720	289,940
Other borrowings	12,558	12,667	18,258	18,258
Interest payable	163	163	151	151

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION
The following information presents the condensed balance sheets and statements of income and cash flows of Southwest Banc Shares, Inc. as of December 31, 2016 and 2015, and for the years then ended:
CONDENSED BALANCE SHEETS

	2016	2015
Assets		
Cash	$ 299,933	$ 271,501
Investment in subsidiary	35,880,455	35,827,285
Income tax receivable	8,272	8,680
Total assets	$ 36,188,660	$ 36,107,466
Liabilities and stockholders' equity		
Note payable	$ 2,558,334	$ 3,258,334
Interest payable	5,800	6,500
Stockholders' equity	33,624,526	32,842,632
Total liabilities and stockholders' equity	$ 36,188,660	$ 36,107,466

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION — (continued)

CONDENSED STATEMENTS OF INCOME

	2016	2015
Income		
Dividends from subsidiary	$ 2,059,595	1,688,176
Interest income	15	61
	2,059,610	1,688,237
Expenses		
Interest expense	82,984	85,162
Salaries and benefits	1,079	380
Other operating expenses	43,207	48,065
	127,270	133,607
Income before income tax benefit and equity in undistributed income of subsidiary	1,932,340	1,554,630
Income tax benefit	8,272	8,680
Income before equity in undistributed income of subsidiary	1,940,612	1,563,310
Equity in undistributed income of subsidiary	1,704,227	1,469,832
Net income	$ 3,644,839	$ 3,033,142

CONDENSED STATEMENTS OF CASH FLOWS

	2016	2015
OPERATING ACTIVITIES		
Net income	$ 3,644,839	$ 3,033,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiary	(1,704,227)	(1,469,832)
Net other operating activities	(292)	4,603
Net cash provided by operating activities	1,940,320	1,567,913
FINANCING ACTIVITIES		
Repayment of note payable	(700,000)	(700,000)
Repurchase and retirement of common stock	(10)	—
Distributions to stockholders	(1,211,878)	(874,704)
Net cash used in financing activities	(1,911,888)	(1,574,704)
Net increase (decrease) in cash	28,432	(6,791)
Cash at beginning of year	271,501	278,292
Cash at end of year	$ 299,933	$ 271,501

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Banc Shares, Inc.
Chatom, Alabama

We have audited the accompanying consolidated financial statements of Southwest Banc Shares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Banc Shares, Inc. and Subsidiary as of December 31, 2015 and 2014, 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.

Birmingham, Alabama
February 22, 2016

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
Assets		
Cash and due from banks	$ 3,971,717	$ 5,485,232
Interest-bearing deposits in banks	563,319	168,724
Federal funds sold	3,982,988	1,454,000
Total cash and cash equivalents	8,518,024	7,107,956
Available for sale securities	74,091,445	68,251,274
Held to maturity securities	—	349,399
Restricted equity securities	1,352,900	1,344,600
Loans held for sale	416,712	—
Loans	245,617,502	231,150,252
Less allowance for loan losses	2,964,262	2,871,961
Loans, net	242,653,240	228,278,291
Premises and equipment, net	7,429,956	7,470,338
Other real estate owned	972,452	400,823
Accrued interest receivable	1,181,448	1,097,857
Cash surrender value of life insurance	5,767,043	5,608,511
Other assets	776,384	694,909
Total assets	$ 343,159,604	$ 320,603,958
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 53,821,221	$ 52,204,114
Interest-bearing	235,898,481	216,860,497
Total deposits	289,719,702	269,064,611
Other borrowings	18,258,334	18,958,334
Accrued interest payable	151,257	164,204
Accrued expenses and other liabilities	2,187,679	2,204,359
Total liabilities	310,316,972	290,391,508
Commitments and contingencies		
Stockholders’ equity:		
Common stock, $.10 par value; 3,000,000 shares authorized; 71,288 and 71,288 shares issued and outstanding, respectively	7,129	7,129
Additional paid-in capital	2,061,907	2,061,907
Retained earnings	30,371,922	28,213,484
Accumulated other comprehensive income (loss)	401,674	(70,070)

Total stockholders' equity	32,842,632	30,212,450
Total liabilities and stockholders' equity	$ 343,159,604	$ 320,603,958

See Notes to Consolidated Financial Statements.
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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Interest and dividend income:		
Loans, including fees	$ 12,443,617	$ 11,924,484
Taxable investment securities	1,194,907	1,388,581
Nontaxable investment securities	735,200	690,955
Federal funds sold	15,062	7,124
Deposits in banks	692	183
Total interest income	14,389,478	14,011,327
Interest expense:		
Deposits	1,270,142	1,183,171
Other borrowings	381,554	406,757
Total interest expense	1,651,696	1,589,928
Net interest income	12,737,782	12,421,399
Provision for loan losses	396,000	100,000
Net interest income after provision for loan losses	12,341,782	12,321,399
Non-interest income:		
Service charges on deposit accounts	1,333,672	1,349,063
Net realized gains on sales of securities	117,671	23,339
Mortgage loan origination income	277,956	—
Other income	1,031,350	953,392
Total non-interest income	2,760,649	2,325,794
Non-interest expenses:		
Salaries and employee benefits	6,494,817	6,254,648
Occupancy and equipment expenses	1,692,961	1,508,216
Net other real estate owned losses and expenses	144,823	221,525
Other expenses	3,639,483	3,663,952
Total non-interest expenses	11,972,084	11,648,341
Income before income taxes	3,130,347	2,998,852
Income tax expense	97,205	128,213
Net income	$ 3,033,142	$ 2,870,639

See Notes to Consolidated Financial Statements.

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Net income	$ 3,033,142	$ 2,870,639
Other comprehensive income:		
Unrealized holding gains on securities available for sale arising during the period, net of tax of $40,444 and $236,546, respectively	581,766	3,402,619
Reclassification adjustment for gains realized in net income, net of tax of $7,649 and $1,517, respectively	(110,022)	(21,822)
Other comprehensive income	471,744	3,380,797
Comprehensive income	$ 3,504,886	$ 6,251,436

See Notes to Consolidated Financial Statements.
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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2013	$ 7,129	$ 2,061,887	$ 25,841,851	$ (3,450,867)	$ 24,460,000
Net income	—	—	2,870,639	—	2,870,639
Common stock issuance	—	20	—	—	20
Other comprehensive income	—	—	—	3,380,797	3,380,797
Distributions to stockholders	—	—	(499,006)	—	(499,006)
Balance, December 31, 2014	7,129	2,061,907	28,213,484	(70,070)	30,212,450
Net income	—	—	3,033,142	—	3,033,142
Other comprehensive income	—	—	—	471,744	471,744
Distributions to stockholders	—	—	(874,704)	—	(874,704)
Balance, December 31, 2015	$ 7,129	$ 2,061,907	$ 30,371,922	$ 401,674	$ 32,842,632

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SOUTHWEST BANC SHARES, INC.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING ACTIVITIES		
Net income	$ 3,033,142	$ 2,870,639
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	396,000	100,000
Net amortization of securities	366,520	336,932
Depreciation	531,253	486,799
Deferred income taxes	30,045	9,484
Net realized gains on sales of securities	(117,671)	(23,339)
Gain on disposal of premise and equipment	—	(74,605)
Net (gain) loss on sales of other real estate owned	25,232	(69,948)
Write downs of other real estate owned	26,286	215,746
Net (increase) decrease in loans held for sale	(416,712)	119,387
Increase in cash surrender value of life insurance	(158,532)	(159,602)
(Increase) decrease in interest receivable	(83,591)	13,068
Increase (decrease) in interest payable	(12,947)	7,745
Net other operating activities	(160,995)	329,073
Net cash provided by operating activities	3,458,030	4,161,379
INVESTING ACTIVITIES		
Purchase of available for sale securities	(20,196,493)	(13,245,193)
Proceeds from sales of available for sale securities	7,309,198	19,641,793
Proceeds from calls, prepayments and maturities of available for sale securities	7,302,814	4,541,942
Proceeds from calls, prepayments and maturities of held to maturity securities	349,399	21,855
Net purchases of restricted equity securities	(8,300)	(125,400)
Net increase in loans	(15,965,878)	(18,668,475)
Purchase of premises and equipment	(490,871)	(450,665)
Proceeds from sale of premises and equipment	—	683,958
Capitalized improvements to other real estate owned	(192,193)	—
Proceeds from sale of other real estate owned	763,975	926,111
Net cash used in investing activities	(21,128,349)	(6,674,074)
FINANCING ACTIVITIES		
Net increase in deposits	20,655,091	5,340,368
Net decrease in federal funds purchased	—	(6,150,000)
Proceeds from other borrowings	5,000,000	5,000,000

Repayment of other borrowings	(5,700,000)	(941,666)
Proceeds from issuance of common stock	—	20
Distributions to stockholders	(874,704)	(499,006)
Net cash provided by financing activities	19,080,387	2,749,716
Net increase in cash and cash equivalents	1,410,068	237,021
Cash and cash equivalents at beginning of year	7,107,956	6,870,935
Cash and cash equivalents at end of year	$ 8,518,024	$ 7,107,956
SUPPLEMENTAL DISCLOSURES		
Cash paid (received) during the year for:		
Interest	$ 1,664,643	$ 1,582,183
Income taxes	$ 118,349	$ (71,068)
NONCASH TRANSACTIONS		
Loans transferred to other real estate owned	$ 1,194,929	$ 239,436
Internally financed sales of other real estate owned	$ —	$ 114,986

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Nature of Operations
Southwest Banc Shares, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, First Community Bank (the "Bank"). The Bank is a commercial bank headquartered in Chatom, Alabama with its executive offices located in Mobile, Alabama. The Bank operates branch offices throughout the Southwest Alabama region. The Bank provides a full range of banking services in its primary market area of Southwest Alabama.
Basis of Presentation and Accounting Estimates
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, First Community Bank, and its wholly-owned subsidiary, West Alabama Insurance Market, Inc. Significant intercompany transactions and balances are eliminated in consolidation.
In preparing the consolidated financial statements in accordance 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 and the disclosure of contingent assets and liabilities as of the balance sheet date and the 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 debt securities, impaired loans, other real estate owned, and deferred income tax assets.
The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.
While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.
The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through February 22, 2016, the date these financial statements were available to be issued and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.
Cash, Cash Equivalents and Cash Flows
For purposes of reporting consolidated cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in banks and federal funds sold. Cash flows from loans held for sale, loans, deposits and federal funds purchased are reported net.
The Bank maintains amounts due from banks which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

The Bank is required to maintain reserve balances in cash or on deposit with a correspondent bank for the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was approximately $2,713,000 and $3,191,000 at December 31, 2015 and 2014, respectively.

Securities

Certain 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 are classified as “available for sale” and 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. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

The Company evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporary impaired unless there is a credit loss that has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Restricted Equity Securities

The Company as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based upon its assets or outstanding advances. The Company has also purchased stock in First National Bankers Bankshares, Inc (FNBB), its primary correspondent bank, and Central Alabama Title Center, LLC. The securities are carried at cost as no readily available market exists. Management reviews for impairment based on the ultimate recoverability of the cost basis in these securities.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees and certain direct origination costs are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance, unless

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (continued)

management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and the loan has been performing according to the contractual terms generally for a period of not less than six months.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and is outside the normal terms of that type of credit, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due. Loans that experience insignificant payment delays and payment shortfalls are not generally classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings (TDRs) when for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the borrower is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the borrower has declared or is in the process of declaring bankruptcy and (iv) the borrower's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company would generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan.

TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and

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prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current and future capacity and willingness to pay. Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status. Loans structured as a TDR are reported as such for financial reporting purposes until the loan has paid off or is renewed at market terms and the borrower proves financial strength.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. In support of collateral values, the Company obtains updated valuations on impaired loans generally on an annual basis. The general component covers non-impaired loans. In determining the appropriate level of allowance, management uses information to disaggregate the loan portfolio segments into loan pools with common risk characteristics.

The Company's loan pools include construction and land development loans, commercial real estate loans, residential real estate loans, other real estate loans, commercial loans, and consumer loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) changes in the experience of lending personnel and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each loan pool represents the product of the historical loss ratio, adjusted for qualitative risk factors, and the total dollar amount of the loans in the pool.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair

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value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and any subsequent adjustments to the carrying value are expensed. Any gains and losses realized at the time of disposal are reflected in income.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter as shown in the table below. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in income.

	Years
Buildings	15 – 40
Furniture and equipment	3 – 10

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company — put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Company has elected to be taxed as an S corporation for federal income tax purposes. Under the provisions of the Internal Revenue Code, an S corporation generally is not subject to federal income tax because its taxable income or loss accrues to the individual stockholder. Consequently, the Company does not recognize income tax expense or any deferred income taxes for federal purposes. At December 31, 2015 and 2014, the Company's federal tax basis exceeded its net assets by approximately $3,482,000 and $3,944,000, respectively.

The Company continues to be subject to state income tax in the form of financial institution excise tax in the State of Alabama, as this state does not recognize financial institutions as S corporations for income tax purposes. Consequently, income tax expense consists of state income taxes. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than

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50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although 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 balance sheet, such items, along with net income, are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 2. SECURITIES

The amortized cost and fair value of securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2015:				
U.S. Government sponsored agency securities	$ 22,318,493	$ 58,104	$ (251,374)	$ 22,125,223
State and municipal securities	32,671,501	766,752	(7,208)	33,431,045
Corporate securities	1,000,000	—	(13,181)	986,819
Mortgage-backed securities	17,671,853	72,919	(196,414)	17,548,358
	$ 73,661,847	$ 897,775	$ (468,177)	$ 74,091,445
December 31, 2014:				
U.S. Government sponsored agency securities	$ 23,802,493	$ 58,412	$ (490,768)	$ 23,370,137
State and municipal securities	29,753,547	527,937	(225,571)	30,055,913
Corporate securities	1,000,000	19	—	1,000,019
Mortgage-backed securities	13,770,175	158,055	(103,025)	13,825,205
	$ 68,326,215	$ 744,423	$ (819,364)	$ 68,251,274
Securities Held to Maturity				
December 31, 2014:				
State and municipal securities	$ 349,399	$ —	$ —	$ 349,399

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At December 31, 2015 and 2014, securities with carrying values of approximately $24,580,000 and $18,950,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.
The amortized cost and fair value of securities as of December 31, 2015 by contractual maturity are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included by maturity class in the following summary:

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 180,000	$ 180,196
Due from one to five years	636,908	638,184
Due from five to ten years	17,440,173	17,506,189
Due after ten years	37,732,913	38,218,518
Mortgage-backed securities	17,671,853	17,548,358
	$ 73,661,847	$ 74,091,445

Gains and losses on sales of securities available for sale consist of the following:

	Years Ended December 31,	
	2015	2014
Gross gains on sales	$ 149,690	$ 224,587
Gross losses on sales	(32,019)	(201,248)
Net realized gains	$ 117,671	$ 23,339

Restricted equity securities are reported at cost and consist of the following:

	December 31,	
	2015	2014
Federal Home Loan Bank of Atlanta	$ 963,600	$ 955,300
First National Banker’s Bankshares, Inc.	364,300	364,300
Central Alabama Title Center, LLC	25,000	25,000
	$ 1,352,900	$ 1,344,600

Temporarily Impaired Securities
The following table shows the gross unrealized losses and fair value of the Company’s securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2015 and 2014.

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Securities that have been in a continuous unrealized loss position are as follows:

	Less Than Twelve Months		Twelve Months or More		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2015:					
U.S Government sponsored agency securities	$ (76,011)	$ 4,418,165	$ (175,363)	$ 10,747,659	$ (251,374)
State and municipal securities	(7,208)	496,575	—	—	(7,208)
Corporate securities	(13,181)	986,819	—	—	(13,181)
Mortgage-backed securities	(96,762)	10,422,269	(99,652)	3,678,808	(196,414)
Total securities	$ (193,162)	$ 16,323,828	$ (275,015)	$ 14,426,467	$ (468,177)
December 31, 2014:					
U.S Government sponsored agency securities	$ —	$ —	$ (490,768)	$ 19,910,039	$ (490,768)
State and municipal securities	(68,208)	3,998,405	(157,363)	4,553,947	(225,571)
Mortgage-backed securities	—	—	(103,025)	4,258,554	(103,025)
Total securities	$ (68,208)	$ 3,998,405	$ (751,156)	$ 28,722,540	$ (819,364)

The unrealized loss on the above twenty securities as of December 31, 2015 was caused by interest rate changes and other temporary market influences. Because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2015.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company evaluates for impairment under the accounting guidance for investments in debt and equity securities. The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Inputs included in the evaluation process may include geographic concentrations, credit ratings, and other performance indicators of the underlying asset. There were no impairment charges recognized on securities for the years ended December 31, 2015 and 2014.

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Portfolio Segments and Classes

The composition of loans, excluding loans held for sale, is summarized as follows:

	December 31,	
	2015	2014
Real estate mortgages:		
Construction and land development	$ 24,031,789	$ 22,729,873
1 – 4 family	47,227,873	48,180,961
Home equity lines of credit	13,607,309	13,790,605
Commercial	96,585,696	88,641,453
Other	13,748,909	13,501,726
Commercial	39,227,075	30,203,169
Consumer and other	11,188,851	14,102,465
	245,617,502	231,150,252
Allowance for loan losses	(2,964,262)	(2,871,961)
Loans, net	$ 242,653,240	$ 228,278,291

For purposes of the disclosures required pursuant to ASC 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three loan portfolio segments that include real estate, commercial, and consumer. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity’s method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land development, 1 – 4 family, home equity lines of credit, commercial, and other. The portfolio segments of non-real estate commercial loans and consumer loans have not been further segregated by class.

The following describe risk characteristics relevant to each of the portfolio segments:

Real Estate — As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and land development loans are repaid through cash flow related to the operation, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

- 1 – 4 family loans and home equity lines of credit are repaid by various means such as a borrower’s income, sale of the property, or rental income derived from the property.

- Commercial loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent

on the successful operation of the business. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

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Other real estate mortgage loans include real estate loans secured by farmland, multi-family housing and other. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

Commercial — The non-real estate commercial loan portfolio segment includes commercial, financial, and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.
Consumer — The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.
Credit Risk Management
Credit Administration and the Special Assets Officer are both involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio and the estimation of inherent credit losses in the loan portfolio. This comprehensive process also assists in the prompt identification of problem credits. The Company has taken a number of measures to manage the portfolios and reduce risk, particularly in the more problematic portfolios. The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Board approved Loan Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.
Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios. Loan Review and Credit Administration establish a timely schedule and scope for loan reviews to include new and renewed loans, all loans that are 15 days or greater past due and all adversely classified and nonaccrual loans. These reviews ensure such loans have proper risk ratings and accrual status, and if necessary, ensure loans are transferred to the Special Assets Officer.
Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports by product, collateral, accrual status, etc, are reviewed by the Chief Credit Officer and the Directors Loan Committee. The following categories are utilized by management to analyze and manage the credit quality and risk of the loan portfolio:
•
Pass — includes obligations where the probability of default is considered low.

•
Special Mention — includes obligations that exhibit potential credit weaknesses or downward trends deserving management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects or credit position at a future date. These loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

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- Substandard — includes obligations with defined weaknesses that jeopardize the orderly liquidation of debt. A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

- Doubtful — includes obligations with all the weaknesses found in substandard loans with the added provision that the weaknesses make collection of debt in full, based on currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the loan, the loans' classification as loss is deferred until a more exact status may be determined.

- Loss — includes obligations incapable of repayment or unsecured debt. Such loans are considered uncollectible and of such little value, that continuance as an active asset is not warranted. Loans determined to be a loss are charged-off at the date of loss determination. Consequently, there are no loans with a loss rating in the Company's portfolio as of December 31, 2015 and 2014.

The following tables present credit quality indicators as described above for the loan portfolio segments and classes as of December 31, 2015 and 2014.

	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in Thousands)				
December 31, 2015					
Real estate mortgages:					
Construction and land development	$ 22,439	$ 92	$ 1,501	$ —	$ 24,032
1 – 4 family	44,245	1,573	1,410	—	47,228
Home equity lines of credit	12,938	327	279	63	13,607
Commercial	90,473	2,994	3,118	—	96,585
Other	13,506	156	87	—	13,749
Commercial	33,682	33	5,512	—	39,227
Consumer and other	10,778	49	362	—	11,189
Total:	$ 228,061	$ 5,224	$ 12,269	$ 63	$ 245,617
December 31, 2014					
Real estate mortgages:					
Construction and land development	$ 18,626	$ 212	$ 3,892	$ —	$ 22,730

1 – 4 family	43,579	2,631	1,971	—	48,181
Home equity lines of credit	12,796	435	494	66	13,791
Commercial	82,609	3,390	2,642	—	88,641
Other	12,154	327	1,021	—	13,502
Commercial	23,735	3,236	3,232	—	30,203
Consumer and other	13,608	55	439	—	14,102
Total:	$ 207,107	$ 10,286	$ 13,691	$ 66	$ 231,150

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Past Due Loans
A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans by portfolio segment and class as of December 31, 2015 and 2014:

		Past Due Status (Accruing Loans)					
	Current	30 – 59 Days	60 – 89 Days	90+ Days	Total Past Due	Nonaccrual	Total
	(Dollars in Thousands)						
December 31, 2015							
Real estate mortgages:							
Construction and land development	$ 23,661	$ 111	$ —	$ 33	$ 144	$ 227	$ 24,032
1 – 4 family	45,705	433	153	37	623	900	47,228
Home equity lines of credit	13,318	37	—	—	37	252	13,607
Commercial	94,845	—	47	—	47	1,693	96,585
Other	13,662	—	31	—	31	56	13,749
Commercial	36,661	24	—	53	77	2,489	39,227
Consumer and other	10,743	110	3	—	113	333	11,189
Total:	$ 238,595	$ 715	$ 234	$ 123	$ 1,072	$ 5,950	$ 245,617
December 31, 2014							
Real estate mortgages:							
Construction and land development	$ 20,535	$ 40	$ —	$ —	$ 40	$ 2,155	$ 22,730
1 – 4 family	46,591	438	—	—	438	1,152	48,181
Home equity lines of credit	13,631	—	—	—	—	160	13,791
Commercial	87,010	—	60	—	60	1,571	88,641
Other	12,481	76	33	—	109	912	13,502
Commercial	30,040	15	—	14	29	134	30,203
Consumer and other	13,680	35	29	—	64	358	14,102
Total:	$ 223,968	$ 604	$ 122	$ 14	$ 740	$ 6,442	$ 231,150

Allowance for Loan Losses
Activity in the allowance for loan losses is summarized below:

	Years Ended December 31,	
	2015	2014

Balance, beginning of year	$ 2,871,961	$ 2,838,735
Provision for loan loss	396,000	100,000
Loans charged off	(442,726)	(123,776)
Recoveries of loans previously charged off	139,027	57,002
Balance, end of year	$ 2,964,262	$ 2,871,961

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The following tables further detail the change in the allowance for loan losses for the years ended December 31, 2015 and 2014 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real Estate	Commercial	Consumer	Total
	(Dollars in Thousands)			
December 31, 2015				
Allowance for loan losses:				
Balance, beginning of year	$ 1,969	$ 794	$ 109	$ 2,872
Provision for loan losses	191	182	23	396
Loans charged off	(352)	(12)	(79)	(443)
Recoveries of loans previously charged off	51	59	29	139
Balance, end of year	$ 1,859	$ 1,023	$ 82	$ 2,964
Ending balance: individually evaluated for impairment	$ 795	$ 761	$ 40	$ 1,596
Ending balance: collectively evaluated for impairment	1,064	262	42	1,368
Total ending balance	$ 1,859	$ 1,023	$ 82	$ 2,964
Loans:				
Ending balance: individually evaluated for impairment	$ 6,052	$ 2,489	$ 354	$ 8,895
Ending balance: collectively evaluated for impairment	189,149	36,738	10,835	236,722
Total ending balance	$ 195,201	$ 39,227	$ 11,189	$ 245,617
December 31, 2014				
Allowance for loan losses:				
Balance, beginning of year	$ 2,281	$ 450	$ 108	$ 2,839
Provision (credit) for loan losses	(260)	344	16	100
Loans charged off	(98)	—	(26)	(124)
Recoveries of loans previously charged off	46	—	11	57
Balance, end of year	$ 1,969	$ 794	$ 109	$ 2,872
Ending balance: individually evaluated for impairment	$ 869	$ 606	$ 87	$ 1,562
Ending balance: collectively evaluated for impairment	1,100	188	22	1,310
Total ending balance	$ 1,969	$ 794	$ 109	$ 2,872
Loans:				
Ending balance: individually evaluated for impairment	$ 8,479	$ 3,293	$ 393	$ 12,165
Ending balance: collectively evaluated for impairment	178,366	26,910	13,709	218,985
Total ending balance	$ 186,845	$ 30,203	$ 14,102	$ 231,150

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

Impaired Loans
A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The following tables detail the Company's impaired loans, by portfolio segment and class as of December 31, 2015 and 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
	(Dollars in Thousands)				
December 31, 2015					
With no related allowance recorded:					
Real estate mortgages:					
Construction and land development	$ 813	$ 813	$ —	$ 1,702	$ 10
1 – 4 family	772	772	—	670	6
Home equity lines of credit	—	—	—	30	—
Commercial	1,815	1,815	—	1,238	29
Other	—	—	—	151	—
Commercial	—	—	—	101	—
Consumer and other	33	33	—	25	—
Total with no allowance recorded:	3,433	3,433	—	3,917	45
With allowance recorded:					
Real estate mortgages:					
Construction and land development	655	655	297	664	33
1 – 4 family	626	626	132	902	30
Home equity lines of credit	184	184	73	160	7
Commercial	1,187	1,187	293	1,274	30
Other	—	—	—	86	—
Commercial	2,489	2,489	761	2,877	—
Consumer and other	321	321	40	333	—
Total with an allowance recorded:	5,462	5,462	1,596	6,296	100
Total Impaired Loans:	$ 8,895	$ 8,895	$ 1,596	$ 10,213	$ 145
December 31, 2014					
With no related allowance recorded:					
Real estate mortgages:					
Construction and land development	$ 2,381	$ 2,381	$ —	$ 2,451	$ 45

1 – 4 family	1,198	1,198	—	636	33
Home equity lines of credit	20	20	—	20	—
Commercial	1,386	1,386	—	1,209	47
Other	—	—	—	—	—
Commercial	100	100	—	1	8
Consumer and other	44	44	—	44	—
Total with no allowance recorded:	5,129	5,129	—	4,361	133

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized in Year
	(Dollars in Thousands)				
With allowance recorded:					
Real estate mortgages:					
Construction and land development	869	869	217	692	35
1 – 4 family	529	529	130	720	21
Home equity lines of credit	271	271	106	233	9
Commercial	836	836	189	771	30
Other	989	989	227	683	32
Commercial	3,193	3,193	606	1,048	212
Consumer and other	349	349	87	421	—
Total with an allowance recorded:	7,036	7,036	1,562	4,568	339
Total Impaired Loans:	$ 12,165	$ 12,165	$ 1,562	$ 8,929	$ 472

Troubled Debt Restructurings
At December 31, 2015 and 2014, impaired loans included loans that were classified as Troubled Debt Restructurings (TDRs). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the Company has granted a concession.
The following tables summarize the loans that were modified as a TDR during the years ended December 31, 2015 and 2014 and were in compliance with the modified terms:

	Troubled Debt Restructurings			
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification	Impact on the Allowance for Loan Losses
		(Dollars in Thousands)		
December 31, 2015				
Real estate mortgages:				
Construction and land development	1	$ 115	$ 115	$ 48
1 – 4 family	—	—	—	—
Home equity lines of credit	—	—	—	—
Commercial	1	336	336	47
Other	—	—	—	
Commercial	—	—	—	—

Consumer and other	1	5	5	2
Total	3	$ 456	$ 456	$ 97
December 31, 2014				
Real estate mortgages:				
Construction and land development	1	$ 88	$ 88	$ —
1 – 4 family	1	210	210	—
Home equity lines of credit	—	—	—	—
Commercial	3	881	881	90
Other	1	854	854	150
Commercial	1	22	22	—
Consumer and other	—	—	—	—
Total	7	$ 2,055	$ 2,055	$ 240

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NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES — (continued)

During 2015 and 2014, no troubled debt restructurings subsequently defaulted from their modified terms.

Related Party Loans

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the year ended December 31, 2015 is as follows:

Balance, beginning of year	$ 2,659,384
Advances	4,143,647
Repayments	(4,172,746)
Balance, end of year	$ 2,630,285

NOTE 4. OTHER REAL ESTATE OWNED

A summary of other real estate owned is presented as follows:

	Years Ended December 31,	
	2015	2014
Balance, beginning of year	$ 400,823	$ 1,348,282
Transfers in from loans	1,194,929	239,436
Capitalized improvements	192,193	—
Internally financed sales	—	(114,986)
Sales proceeds	(763,975)	(926,111)
Net gain (loss) on sales of other real estate	(25,232)	69,948
Direct write-down for valuation losses	(26,286)	(215,746)
Balance, end of year	$ 972,452	$ 400,823

Other real estate owned by type is as follows:

	December 31,	
	2015	2014
Construction and land development real estate	$ 249,543	$ 141,524
Residential real estate	233,877	259,299
Commercial real estate	489,032	—
	$ 972,452	$ 400,823

Expenses related to other real estate owned include the following:

	Years Ended December 31,	
	2015	2014
Net (gain) loss on sales of other real estate	$ 25,232	$ (69,948)

Direct write down for valuation losses	26,286	215,746
Operating expenses, net of rental income	93,305	75,727
	$ 144,823	$ 221,525

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NOTE 5. PREMISES AND EQUIPMENT
A summary of premises and equipment is as follows:

	December 31, 2015	2014
Land	$ 2,136,642	$ 2,136,642
Buildings and improvements	8,907,049	8,946,651
Furniture, fixtures, and equipment	3,993,662	4,323,933
Automobiles	114,091	114,091
Construction in process (substantially complete)	198,370	15,082
	15,349,814	15,536,399
Accumulated depreciation	(7,919,858)	(8,066,061)
	$ 7,429,956	$ 7,470,338

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to $531,253 and $486,799, respectively.
Leases
The Company leases a banking facility under an operating lease expiring in April 2026. Management has reviewed the terms of the lease and determined that the lease qualifies as an operating lease. Lease expense, net of rental income, as well as other month-to-month leases, totaled $195,724 and $185,085 for the years ended December 31, 2015 and 2014, respectively.
Future minimum rental payments required under operating leases as of December 31, 2015 are as follows:

2016	$ 195,724
2017	195,724
2018	195,724
2019	195,724
2020	195,724
Thereafter	1,040,451
	$ 2,019,071

NOTE 6. DEPOSITS
The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2015 and 2014 was $11,607,928 and $9,125,894, respectively. Brokered deposits totaled $5,033,064 and $4,002,879 as of December 31, 2015 and 2014 respectively. The scheduled maturities of time deposits at December 31, 2015 are as follows:

2016	$ 51,345,533
2017	13,263,969
2018	3,844,594
2019	13,274,849
2020	4,715,753
	$ 86,444,698

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NOTE 6. DEPOSITS — (continued)

At December 31, 2015 and 2014, overdraft demand and savings deposits reclassified to loans totaled $48,089 and $78,191, respectively.

NOTE 7. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31, 2015	2014
Advances from Federal Home Loan Bank with interest at fixed and variable rates (ranging from 0.45% to 3.05% at December 31, 2015) due at various dates during 2016 to 2018.	$ 15,000,000	$ 15,000,000
Note payable to a commercial bank with a variable rate of interest; interest is payable quarterly and principal is paid annually.	3,258,334	3,958,334
	$ 18,258,334	$ 18,958,334

The advances from the Federal Home Loan Bank of Atlanta are secured by a blanket floating lien on qualifying residential first mortgages of approximately $30,936,000 as of December 31, 2015. The Company has total available advances of approximately $15,936,000 as a result of the excess collateral position under the above arrangements as of December 31, 2015.

The note payable has been advanced under two separate lines of credit both of which mature on September 9, 2020. The first line in the original amount of $2,500,000 is to be repaid in ten equal annual installments beginning in September 2011 and bears interest at the 30-day LIBOR plus 170 basis points (1.94% as of December 31, 2015). The second line in the original amount of $4,500,000 is to be repaid in ten equal annual installments beginning in September 2011 and bears interest at the Prime rate less 50 basis points (3.00% as of December 31, 2015). The note payable is secured by 80,000 shares of the Bank’s common stock and all real and personal property of the Company and its subsidiary. The Company is subject to financial covenants, of which they were in compliance at December 31, 2015.

At December 31, 2015, the scheduled maturities of other borrowings are as follows:

2016	$ 5,700,000
2017	5,700,000
2018	5,700,000
2019	700,000
2020	458,334
	$ 18,258,334

At December 31, 2015, the Company has accommodations which allow the purchase of federal funds from several correspondent banks on an overnight basis at prevailing overnight market rates. These accommodations are subject to various restrictions as to their term and availability, and in most cases, must be repaid in less than a month. At December 31, 2015 and 2014, the Company had no amounts outstanding under these arrangements. The Company may borrow up to $23,600,000 under these arrangements as of December 31, 2015.

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NOTE 8. INCOME TAXES

Income tax expense consists of the following:

	Years Ended December 31,	
	2015	2014
Current	$ 67,160	$ 118,729
Deferred	30,045	9,484
Income tax expense	$ 97,205	$ 128,213

Income tax differs from the amounts computed by applying the State of Alabama financial institutions excise tax statutory rate to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2015	2014
Income tax expense at state statutory rate	$ 203,473	$ 194,925
Nondeductible expenses, sales tax credits and other	(106,268)	(66,712)
Income tax expense	$ 97,205	$ 128,213

Components of deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

	December 31,	
	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 192,678	$ 186,677
Other real estate owned	372	44,315
Deferred retirement plan	69,859	66,089
Deferred rent	10,358	9,864
Available for sale securities	—	4,871
	273,267	311,816
Deferred tax liabilities:		
Depreciation	(46,920)	(50,553)
Available for sale securities	(27,924)	—
	(74,844)	(50,553)
Net deferred tax assets	$ 198,423	$ 261,263

The federal and state income tax returns of the Company for 2012, 2013, and 2014 are subject to examination, generally for three years after they were filed.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to 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, commitments under credit card arrangements, commercial letters of credit, and standby letters of credit.

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NOTE 9. COMMITMENTS AND CONTINGENCIES — (continued)

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

	December 31,	
	2015	2014
Commitments to extend credit	$ 38,503,000	$ 29,961,000
Standby letters of credit	749,000	694,000
	$ 39,252,000	$ 30,655,000

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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2015, the carrying amount of liabilities related to the Company's obligation to perform under financial standby letters of credit was insignificant. The Company has not been required to perform on any financial standby letters of credit, and the Company has not incurred any losses on standby letters of credit for the years ended December 31, 2015 and 2014.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 10. EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Profit Sharing Plan

The Company has a 401(k) profit sharing plan with two components. The first is the 401(k) component whereby substantially all employees participate in the plan, subject to certain eligibility requirements. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Company matches 100% of the first 3% contributed and 50% of the next 2% contributed by the employee to the Plan. The second is the profit sharing component in which the Company may make discretionary contributions that are set prior to the end of the plan year. Charges to operations for the Plan totaled $152,515 and $147,032 for the years ended December 31, 2015 and 2014, respectively.

Supplemental Executive Benefits and Retirement Agreements

The Company has an Supplemental Executive Retirement Plan (the SERP) that is a nonqualified, executive benefit plan, which provides certain designated directors and former officers additional benefits in

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NOTE 10. EMPLOYEE AND DIRECTOR BENEFIT PLANS — (continued)

the future, usually at retirement, in return for continued satisfactory performance. The plan is funded through life insurance policies which are more fully described below. The Company has recorded a liability as of December 31, 2015 and 2014, amounting to $957,594 and $912,621, respectively, for the present value of the future benefits to be paid under the SERP. The expense charged to operations related to the SERP totaled $62,174 and $60,884 in 2015 and 2014, respectively.

Cash Surrender Value of Life Insurance

Investments in bank-owned life insurance programs are recorded at their respective cash surrender values. These life insurance programs include endorsement split-dollar life insurance arrangements wherein the Company owns and controls the insurance policies. The Company has an agreement with the insured to split the policy benefits between the Bank and the insured designated beneficiary. The Company recognizes a liability and related compensation costs for endorsement split-dollar arrangements that provide a benefit to an employee that extends to postretirement periods. Future benefits are recognized as expense when incurred. The Company has accrued a liability of $106,631 and $104,128, which is included in other liabilities on the consolidated balance sheets at December 31, 2015 and 2014, respectively, for the split-dollar arrangements. The cash surrender value and net interest earned on the related policies amounted to $5,767,043 and $158,532, respectively, as of and for the year ended December 31, 2015 and $5,608,511 and $159,602, respectively, as of and for the year ended December 31, 2014.

Short-term and Long-term Incentive Plan

The Company provides a short-term and long-term incentive plan for its chief executive officer. The short-term incentive component is a cash bonus plan and is determined annually based upon whether certain key performance metrics were met for that year. For the years ended December 31, 2015 and 2014, $64,897 and $30,765, respectively, was expensed to operations related to the short-term incentive plan. The long-term incentive component is a combination of stock appreciation rights in the form of "phantom" stock and equity-based awards in the form of restricted stock whereby the executive may receive such awards based upon whether certain key performance metrics were met for that year. For the year ended December 31, 2015, $22,114 and $10,870 was awarded in restricted stock and phantom stock, respectively, related to the long-term incentives. For the year ended December 31, 2014, $13,138 and $6,805 was awarded in restricted stock and phantom stock, respectively, related to the long-term incentives. These awards vest at the end of the two-year period following the year (also known as the "performance period") for which the awards were granted and are being expensed over the vesting period. The expense recognized by the Company for the above Plan was $10,536 and $0, respectively, for the years ended December 31, 2015 and 2014.

NOTE 11. CONCENTRATIONS OF CREDIT RISK

The Company originates primarily commercial, residential, and consumer loans to customers in its primary market areas. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas. Seventy-nine percent of the Company's loan portfolio is secured by real estate, of which a substantial portion is secured by real estate in the Company's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined by banking regulations, or approximately $7,678,000 or on an unsecured basis in excess of 10% of capital, as defined by banking regulations, or approximately $3,839,000.

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NOTE 12. REGULATORY MATTERS

State banking regulations place certain restrictions on the payment of dividends by the Bank to the Company. The total amount of dividends which may be paid by the Bank in any calendar year shall not exceed the total of its net earnings (as defined by banking regulations) of that year combined with its retained net earnings of the preceding two years. For 2016, the Bank will have approximately $3,146,000 of net retained earnings from the previous two years available for dividend payments to the Company plus its net earnings for 2016.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In December 2010, the Basel Committee on Bank Supervision (BCBS) finalized a set of international guidelines for determining regulatory capital known as "Basel III." In July 2013, the federal bank regulators approved final regulatory capital rules implementing BCBS's December 2010 capital framework as well as certain provisions of the Dodd-Frank Act. The new capital rules under Basel III substantially revised the risk-based capital requirements applicable to banking institutions as well as the components of capital, general risk-weighting of assets approach and addressed other issues affecting regulatory capital ratios. Basel III, among other things, introduced a new narrowly defined capital measure called "Common Equity Tier 1" (CET1). Basel III became effective for the Bank on January 1, 2015 (subject to a phase-in period for various components).

Basel III also introduced a capital conservation buffer designed to absorb losses during periods of economic stress. When fully phased-in on January 1, 2019, the capital conservation buffer of 2.5% will be added on top of each of the minimum risk-based capital ratios in effect for 2015. The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and will be phased-in over a three-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) as presented in the chart below. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Under Basel III, the minimum capital ratios, including the phase-in of the capital conservation buffer, for capital adequacy purposes are as follows:

Year	Total Capital to Risk-Weighted Assets	Tier 1 Capital to Risk-Weighted Assets	CET1 Capital to Risk-Weighted Assets	Tier 1 Capital to Average Total Assets
2015	8.000%	6.000%	4.500%	4.000%
2016	8.625%	6.625%	5.125%	4.000%
2017	9.250%	7.250%	5.750%	4.000%
2018	9.875%	7.875%	6.375%	4.000%
2019	10.500%	8.500%	7.000%	4.000%

In addition, Basel III changed the minimum regulatory capital ratios to be considered well capitalized under the regulatory framework for prompt corrective action. These new requirements are presented in the regulatory capital table below and were fully effective on January 1, 2015.

As discussed above, quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total, Tier 1 and CET1 capital to risk-weighted

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NOTE 12. REGULATORY MATTERS — (continued)

assets, as defined, and of Tier 1 capital to average total assets (leverage ratio), as defined. Management believes, as of December 31, 2015 and 2014, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total, Tier 1 and CET1 risk-based capital ratios and Tier 1 leverage capital ratios as set forth in the following table and not be subject to any formal enforcement action. There are no conditions or event since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
As of December 31, 2015 (under Basel III):						
Total Capital to Risk-Weighted Assets	$ 38,389	15.36%	$ 19,991	8.00%	$ 24,988	10.00%
Tier 1 Capital to Risk-Weighted Assets	$ 35,426	14.18%	$ 14,993	6.00%	$ 19,991	8.00%
CET1 Capital to Risk-Weighted Assets	$ 35,426	14.18%	$ 11,245	4.50%	$ 16,242	6.50%
Tier 1 Capital to Average Total Assets	$ 35,426	10.39%	$ 13,643	4.00%	$ 17,054	5.00%
As of December 31, 2014 (under Basel I):						
Total Capital to Risk-Weighted Assets	$ 36,822	16.05%	$ 18,348	8.00%	$ 22,935	10.00%
Tier 1 Capital to Risk-Weighted Assets	$ 33,956	14.81%	$ 9,174	4.00%	$ 13,761	6.00%
Tier 1 Capital to Average Total Assets	$ 33,956	10.48%	$ 12,957	4.00%	$ 16,196	5.00%

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates

using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

Fair Value Hierarchy
In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.
Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2 — Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 asset or liability.
Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.
A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.
The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:
Cash and Cash Equivalents: The carrying amount of these short-term instruments approximates fair value.
Securities: Where quoted prices are available in an active market, management classifies the securities within level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include U.S. Government sponsored agency securities, state and municipal securities and corporate securities. Mortgage-backed securities are included in level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in level 3.
Restricted Equity Securities: The carrying amount of restricted equity securities with no readily determinable fair value approximates fair value based on the redemption provisions of the issuers which is cost.
Loans Held for Sale: The carrying amounts of loans held for sale approximates their fair value.
Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair values of fixed rate loans is estimated based on discounted contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is based on discounted contractual cash flows or underlying collateral values, where applicable.

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NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

Deposits: The carrying amounts of demand deposits, savings deposits, variable-rate certificates of deposit approximate their fair values. The fair value of fixed-rate certificates of deposit is based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.
Other Borrowings: The fair values of the Company's other borrowings approximate their carrying values.
Interest Receivable and Interest Payable: The carrying amounts of interest receivable and interest payable approximate their fair value.
Off-Balance Sheet Instruments: The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance sheet financial instruments is based on fees charged to enter into such agreements.
Assets Measured at Fair Value on a Recurring Basis
Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at December 31, 2015 Using		
	Assets Measured at Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 74,091,445	$ —	$ 74,091,445	$ —

		Fair Value Measurements at December 31, 2014 Using		
	Assets Measured at Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 68,251,274	$ —	$ 68,251,274	$ —

Assets Measured at Fair Value on a Nonrecurring Basis
Under certain circumstances management makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2015 and 2014, for

which a nonrecurring change in fair value has been recorded:

	Carrying Value at December 31, 2015			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 4,678,836	$ —	$ —	$ 4,678,836
Other real estate owned	223,100	—	—	223,100
	$ 4,901,936	$ —	$ —	$ 4,901,936

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SOUTHWEST BANC SHARES, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

	Carrying Value at December 31, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 5,473,509	$ —	$ —	$ 5,473,509
Other real estate owned	213,804	—	—	213,804
	$ 5,687,313	$ —	$ —	$ 5,687,313

Impaired Loans

Loans considered impaired under ASC 310-10-35, Receivables, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent.

The fair value of impaired loans were primarily measured based on the value of the collateral securing these loans. Impaired loans are classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company generally determines the value of real estate collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

As of December 31, 2015 and 2014, impaired loans had a carrying amount of $8,894,739 and $12,164,916, respectively, with a specific valuation allowance of $1,595,742 and $1,562,773. Of the $8,894,739 and $12,164,916 impaired loan portfolio at December 31, 2015 and 2014, respectively, $6,274,578 and $7,036,282 was carried at fair value as a result of charge-offs and specific valuation allowances that resulted in a net carrying value of $4,678,836 and $5,473,509. The remaining $2,620,161 and $5,128,634 was carried at cost, as the fair value of the collateral on these impaired loans exceeded the book value for each individual credit at December 31, 2015 and 2014, respectively. Charge-offs and changes in specific valuation allowances during 2015 and 2014 on impaired loans carried at fair value resulted in additional provision for loan losses of $256,898 and $769,884, respectively.

Other Real Estate Owned

Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, are initially recorded at the lower of the loan's carrying amount or the fair value less estimated costs to sell upon transfer of the

loans to other real estate. Subsequently, other real estate is carried at the lower of carrying value or fair value less costs to sell. Fair values are generally based on third party appraisals of the property and are classified within Level 3 of the fair value hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, and/or changes in market conditions from the

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SOUTHWEST BANC SHARES, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES — (continued)

date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts are typically significant unobservable inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less estimated costs to sell, a loss is recognized in noninterest expense.

Quantitative Disclosures for Level 3 Fair Value Measurements

The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2015 or 2014.

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2015, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 4,678,836	Appraisal	Appraisal discounts (%)	15 – 20%
Other real estate owned	223,100	Appraisal	Appraisal discounts (%)	5 – 10%

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2014, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Impaired loans	$ 5,473,509	Appraisal	Appraisal discounts (%)	15 – 20%
Other real estate owned	213,804	Appraisal	Appraisal discounts (%)	10 – 20%

Fair Value of Financial Instruments

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	$ 8,518	$ 8,518	$ 7,108	$ 7,108
Available for sale securities	74,091	74,091	68,251	68,251
Held to maturity securities	—	—	349	349
Restricted equity securities	1,353	1,353	1,345	1,345
Loans held for sale	417	417	—	—
Loans, net	242,653	242,759	228,278	227,427
Interest receivable	1,181	1,181	1,098	1,098
Financial liabilities:				
Deposits	289,720	289,940	269,065	269,498
Other borrowings	18,258	18,258	18,958	18,958

Interest payable	151	151	164	164

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SOUTHWEST BANC SHARES, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following information presents the condensed balance sheets and statements of income and cash flows of Southwest Banc Shares, Inc. as of December 31, 2015 and 2014, and for the years then ended:

CONDENSED BALANCE SHEETS

	2015	2014
Assets		
Cash	$ 271,501	$ 278,292
Investment in subsidiary	35,827,285	33,885,708
Income tax receivable	8,680	15,923
Total assets	$ 36,107,466	$ 34,179,923
Liabilities and stockholders' equity		
Note payable	$ 3,258,334	$ 3,958,334
Interest payable	6,500	9,139
Stockholders' equity	32,842,632	30,212,450
Total liabilities and stockholders' equity	$ 36,107,466	$ 34,179,923

CONDENSED STATEMENTS OF INCOME

	2015	2014
Income		
Dividends from subsidiary	$ 1,688,176	$ 1,549,136
Interest income	61	399
	1,688,237	1,549,535
Expenses		
Interest expense	85,162	109,507
Salaries and benefits	380	—
Other operating expenses	48,065	135,855
	133,607	245,362
Income before income tax benefit and equity in undistributed income of subsidiary	1,554,630	1,304,173
Income tax benefit	8,680	15,923
Income before equity in undistributed income of subsidiary	1,563,310	1,320,096
Equity in undistributed income of subsidiary	1,469,832	1,550,543
Net income	$ 3,033,142	$ 2,870,639

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SOUTHWEST BANC SHARES, INC.
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION — (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	2015	2014
OPERATING ACTIVITIES		
Net income	$ 3,033,142	$ 2,870,639
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiary	(1,469,832)	(1,550,543)
Net other operating activities	4,603	(6,518)
Net cash provided by operating activities	1,567,913	1,313,578
FINANCING ACTIVITIES		
Repayment of note payable	(700,000)	(941,666)
Proceeds from issuance of common stock	—	20
Distributions to stockholders	(874,704)	(499,006)
Net cash used in financing activities	(1,574,704)	(1,440,652)
Net decrease in cash	(6,791)	(127,074)
Cash at beginning of year	278,292	405,366
Cash at end of year	$ 271,501	$ 278,292

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Annex A

AGREEMENT AND PLAN OF MERGER

by and between

THE FIRST BANCSHARES, INC.

and

SUNSHINE FINANCIAL, INC.

Dated as of December 6, 2017

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AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger (this "Agreement") is dated as of December 6, 2017, by and between The First Bancshares, Inc., a Mississippi corporation ("FBMS"), and Sunshine Financial, Inc., a Maryland corporation ("SSNF" and, together with FBMS, the "Parties" and each a "Party").

W I T N E S S E T H

WHEREAS, the boards of directors of the Parties have determined that it is in the best interests of their respective companies and their respective shareholders to consummate the business combination transaction provided for in this Agreement in which SSNF will, on the terms and subject to the conditions set forth in this Agreement, merge with and into FBMS (the "Merger"), with FBMS as the surviving company in the Merger (sometimes referred to in such capacity as the "Surviving Entity");

WHEREAS, as a condition to the willingness of FBMS to enter into this Agreement, certain directors and certain shareholders of SSNF have entered into voting agreements (each a "SSNF Voting Agreement" and collectively, the "SSNF Voting Agreements"), substantially in the form attached hereto as Exhibit A, dated as of the date hereof, with FBMS, pursuant to which each such director or shareholder has agreed, among other things, to vote certain of the SSNF Common Stock owned by such director or shareholder in favor of the approval of this Agreement and the transactions contemplated hereby, subject to the terms of the SSNF Voting Agreements;

WHEREAS, the Parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger; and

WHEREAS, for federal income tax purposes, it is intended that the Merger qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and this Agreement is intended to be and is adopted as a "plan of reorganization" for purposes of Sections 354 and 361 of the Code.

NOW, THEREFORE, in consideration of the mutual promises herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I

THE MERGER

Section 1.01 The Merger. Subject to the terms and conditions of this Agreement, in accordance with the Mississippi Business Corporation Act (the "MBCA") and the Maryland General Corporation Law (the "MGCL"), at the Effective Time, SSNF shall merge with and into FBMS pursuant to the terms of this Agreement. FBMS shall be the Surviving Entity in the Merger and shall continue its existence as a corporation under the laws of the State of Mississippi. As of the Effective Time, the separate corporate existence of SSNF shall cease.

Section 1.02 Articles of Incorporation and Bylaws. At the Effective Time, the articles of incorporation of FBMS in effect immediately prior to the Effective Time shall be the articles of incorporation of the Surviving Entity until thereafter amended in accordance with applicable Law. The bylaws of FBMS in effect immediately prior to the Effective Time shall be the bylaws of the Surviving Entity until thereafter amended in accordance with applicable Law and the terms of such bylaws.

Section 1.03 Bank Merger. Except as provided below, immediately following the Effective Time and sequentially but in effect simultaneously on the Closing Date, Sunshine Community Bank, a Florida state-chartered bank and a direct wholly owned subsidiary of SSNF ("Sunshine Bank"), shall be merged (the "Bank Merger") with and into The First, A National Banking Association, a national banking association and a direct wholly owned subsidiary of FBMS ("The First"), in accordance with the provisions of applicable federal and state banking laws and regulations, and The First shall be the surviving bank (the "Surviving Bank"). The Bank Merger shall have the effects as set forth under applicable federal and state banking laws and regulations, and the board of directors of the Parties shall cause the board of directors of The First and Sunshine Bank, respectively, to approve a separate merger agreement (the "Bank Plan of

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Merger") in substantially the form attached hereto as Exhibit B, and cause the Bank Plan of Merger to be executed and delivered as soon as practicable following the date of execution of this Agreement. Each of FBMS and SSNF shall also approve the Bank Plan of Merger in their capacities as sole shareholders of The First and Sunshine Bank, respectively. As provided in the Bank Plan of Merger, the Bank Merger may be abandoned at the election of The First at any time, whether before or after filings are made for regulatory approval of the Bank Merger, but if the Bank Merger is abandoned for any reason, Sunshine Bank shall continue to operate under its name; provided that prior to any such election, FBMS shall (a) reasonably consult with SSNF and its regulatory counsel and (b) reasonably determine in good faith that such election will not, and would not reasonably be expected to, prevent, delay or impair any Party's ability to consummate the Merger or the other transactions contemplated by this Agreement.

Section 1.04 Effective Time; Closing.

(a) Subject to the terms and conditions of this Agreement, the Parties will make all such filings as may be required to consummate the Merger and the Bank Merger by applicable Laws. The Merger shall become effective as set forth in the articles of merger (the "Articles of Merger") related to the Merger, which will include the plan of merger (the "Plan of Merger"), that shall be filed with the Secretary of State of the State of Mississippi and the Secretary of State of the State of Maryland, as provided in the MBCA and MGCL, on the Closing Date. The "Effective Time" of the Merger shall be the later of (i) the date and time of filing of the Articles of Merger, or (ii) the date and time when the Merger becomes effective as set forth in the Articles of Merger, which shall be no later than three (3) Business Days after all of the conditions to the Closing set forth in Article VI (other than conditions to be satisfied at the Closing, which shall be satisfied or waived at the Closing) have been satisfied or waived in accordance with the terms hereof.

(b) The closing of the transactions contemplated by this Agreement (the "Closing") shall take place beginning immediately prior to the Effective Time (such date, the "Closing Date") at the offices of Alston & Bird LLP, One Atlantic Center, 1201 West Peachtree Street, Atlanta, GA 30309, or such other place as the Parties may mutually agree. At the Closing, there shall be delivered to FBMS and SSNF the Articles of Merger and such other certificates and other documents required to be delivered under Article VI.

Section 1.05 Additional Actions. If, at any time after the Effective Time, any Party shall consider or be advised that any further deeds, documents, assignments or assurances in Law or any other acts are necessary or desirable to carry out the purposes of this Agreement (such Party, the "Requesting Party"), the other Party and its Subsidiaries and their respective officers and directors shall be deemed to have granted to the Requesting Party and its Subsidiaries, and each or any of them, an irrevocable power of attorney to execute and deliver, in such official corporate capacities, all such deeds, assignments or assurances in Law or any other acts as are necessary or desirable to carry out the purposes of this Agreement, and the officers and directors of the Requesting Party and its Subsidiaries, as applicable, are authorized in the name of the other Party and its Subsidiaries or otherwise to take any and all such action.

Section 1.06 Reservation of Right to Revise Structure. FBMS may at any time and without the approval of SSNF change the method of effecting the business combination contemplated by this Agreement if and to the extent that it reasonably deems such a change to be necessary; provided, however, that no such change shall (i) alter or change the amount of the consideration to be issued to (A) Holders as Merger Consideration or (B) holders of SSNF Stock Options as currently contemplated in this Agreement, (ii) reasonably be expected to materially impede or delay consummation of the Merger, (iii) adversely affect the federal income tax treatment of Holders in connection with the Merger, or (iv) require submission to or approval of SSNF's shareholders after the plan of merger set forth in this Agreement has been approved by SSNF's shareholders. In the event that FBMS elects to make such a change, the Parties agree to cooperate to execute appropriate documents to reflect the change.

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ARTICLE II

MERGER CONSIDERATION; EXCHANGE PROCEDURES

Section 2.01 Merger Consideration. Subject to the provisions of this Agreement, at the Effective Time, automatically by virtue of the Merger and without any action on the part of the Parties or any shareholder of SSNF:

(a) Each share of FBMS Common Stock that is issued and outstanding immediately prior to the Effective Time shall remain outstanding following the Effective Time and shall be unchanged by the Merger.

(b) Each share of SSNF Common Stock owned directly by FBMS, SSNF or any of their respective Subsidiaries (other than shares in trust accounts, managed accounts and the like for the benefit of customers or shares held as collateral for outstanding debt previously contracted) immediately prior to the Effective Time shall be cancelled and retired at the Effective Time without any conversion thereof, and no payment shall be made with respect thereto (the "SSNF Cancelled Shares").

(c) Notwithstanding anything in this Agreement to the contrary, all shares of SSNF Common Stock that are issued and outstanding immediately prior to the Effective Time and which are held by a shareholder who did not vote in favor of the Merger (or consent thereto in writing) and who is entitled to demand and properly demands the fair value of such shares pursuant to, and who complies in all respects with, the provisions of Title 3, Subtitle 2 of the MGCL, shall not be converted into or be exchangeable for the right to receive the Merger Consideration (the "Dissenting Shares"), but instead the holder of such Dissenting Shares (hereinafter called a "Dissenting Shareholder") shall be entitled to payment of the fair value of such shares in accordance with the applicable provisions of the MGCL (and at the Effective Time, such Dissenting Shares shall no longer be outstanding and shall automatically be cancelled and shall cease to exist and such holder shall cease to have any rights with respect thereto, except the rights provided for pursuant to the applicable provisions of the MGCL and this Section 2.01(c)), unless and until such Dissenting Shareholder shall have failed to perfect such holder's right to receive, or shall have effectively withdrawn or lost rights to demand or receive, the fair value of such shares of SSNF Common Stock under the applicable provisions of the MGCL. If any Dissenting Shareholder shall fail to perfect or effectively withdraw or lose such Holder's dissenter's rights under the applicable provisions of the MGCL, each such Dissenting Share shall be deemed to have been converted into and to have become exchangeable for, the right to receive the Merger Consideration, without any interest thereon, in accordance with the applicable provisions of this Agreement. SSNF shall give FBMS (i) prompt notice of any written notices to exercise dissenters' rights in respect of any shares of SSNF Common Stock, attempted withdrawals of such notices and any other instruments served pursuant to the MGCL and received by SSNF relating to dissenters' rights and (ii) the opportunity to participate in negotiations and proceedings with respect to demands for fair value under the MGCL. SSNF shall not, except with the prior written consent of FBMS, voluntarily make any payment with respect to, or settle, or offer or agree to settle, any such demand for payment. Any portion of the Merger Consideration made available to the Exchange Agent pursuant to this Article II to pay for shares of SSNF Common Stock for which dissenters' rights have been perfected shall be returned to FBMS upon demand. If the amount paid to a Dissenting Shareholder exceeds such Dissenting Shareholder's Merger Consideration, such excess amount shall not reduce the amount of Merger Consideration paid to other Holders.

(d) Subject to the allocation provisions of this Article II, each share of SSNF Stock (excluding Dissenting Shares and SSNF Cancelled Shares) issued and outstanding at the Effective Time shall cease to be outstanding and shall be converted, in accordance with the terms of this Article II, into and exchanged for the right to receive the following:

(i) a cash payment, without interest, in an amount equal to $27.00 (individually the "Per Share Cash Consideration"); or

(ii) 0.93 (the "Exchange Ratio") of a share of FBMS Common Stock, subject to adjustment as provided in Section 2.01(e) (the "Per Share Stock Consideration").

(e) If, between the date hereof and the Effective Time, the outstanding shares of SSNF Common Stock or FBMS Common Stock shall have been increased, decreased, changed into or exchanged for a different

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number or kind of shares or securities as a result of a reorganization, stock dividend, stock split, reverse stock split or similar change in capitalization, appropriate and proportionate adjustments shall be made to the Per Share Stock Consideration.

Section 2.02 Election Procedures.

(a) Election.

(i) Prior to the Effective Time, FBMS shall appoint an exchange agent (the "Exchange Agent"), which is acceptable to SSNF in its reasonable discretion, for the payment and exchange of the Merger Consideration.

(ii) Holders of record of SSNF Common Stock may elect to receive shares of FBMS Common Stock or cash in exchange for their shares of SSNF Common Stock, provided that the number of shares of SSNF Common Stock to be converted into Per Share Stock Consideration pursuant to this Section 2.02 shall be seventy five percent (75%) of the total Outstanding Shares Number (the "Stock Conversion Number").

(iii) An election form ("Election Form"), together with a Letter of Transmittal (as defined in Section 2.07), shall be mailed no less than twenty (20) Business Days prior to the Election Deadline (as defined below) or on such earlier date as FBMS and SSNF shall mutually agree (the "Mailing Date") to each Holder of record of SSNF Common Stock as of five (5) Business Days prior to the Mailing Date permitting such Holder, subject to the allocation and election procedures set forth in this Section 2.02, (1) to specify the number of shares of SSNF Common Stock owned by such Holder with respect to which such Holder desires to receive the Per Share Cash Consideration (a "Cash Election", and such shares subject to a Cash Election, the "Cash Election Shares"), in accordance with the provisions of Section 2.01(d)(i), (2) to specify the number of shares of SSNF Common Stock owned by such Holder with respect to which such Holder desires to receive the Per Share Stock Consideration (a "Stock Election" and such shares subject to a Stock Election, the "Stock Election Shares"), in accordance with the provisions of Section 2.01(d)(ii), or (3) to indicate that such record Holder has no preference as to the receipt of cash or FBMS Common Stock for such shares. Holders of record of shares of SSNF Common Stock who hold such shares as nominees, trustees or in other representative capacities (a "Representative") may submit multiple Election Forms, provided that each such Election Form covers all the shares of SSNF Common Stock held by each Representative for a particular beneficial owner. Any shares of SSNF Common Stock with respect to which the Holder thereof shall not, as of the Election Deadline (as defined in Section 2.02(a)(iv)), have made an election by submission to the Exchange Agent of an effective, properly completed Election Form shall be deemed "Non-Election Shares". FBMS shall make available one or more Election Forms as may reasonably be requested in writing from time to time by all Persons who become holders (or beneficial owners) of SSNF Common Stock between the record date for the initial mailing of Election Forms and the close of business on the Business Day prior to the Election Deadline, and SSNF shall provide to the Exchange Agent all information reasonably necessary for it to perform as specified herein.

(iv) The term "Election Deadline", as used below, shall mean 5:00 p.m., Eastern time, on the later of (i) the date of the SSNF Meeting and (ii) the date that FBMS and SSNF shall agree is as near as practicable to five (5) Business Days prior to the expected Closing Date. An election shall have been properly made only if the Exchange Agent shall have actually received a properly completed Election Form by the Election Deadline accompanied by one or more Certificates (or customary affidavits and indemnification regarding the loss or destruction of such certificates or the guaranteed delivery of such certificates) representing all the shares of SSNF Common Stock covered by such Election Form. Any Election Form may be revoked or changed by the Person submitting such Election Form to the Exchange Agent by written notice to the Exchange Agent only if such notice of revocation or change is actually received by the Exchange Agent at or prior to the Election Deadline. The Certificate or Certificates relating to any revoked Election Form shall be promptly returned without charge to the Person submitting the Election Form to the Exchange Agent. Shares of SSNF Common Stock held by holders who acquired such shares subsequent to the Election Deadline will be designated Non-Election Shares. In addition, if a Holder of SSNF Common Stock either (1) does not submit a properly completed Election Form in a timely fashion or (2) revokes its Election Form prior to the Election

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Deadline and fails to file a new properly completed Election Form before the deadline, such shares shall be designated Non-Election Shares. Subject to the terms of this Agreement and of the Election Form, the Exchange Agent shall have discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in the Election Forms, and any good faith decisions of the Exchange Agent regarding such matters shall be binding and conclusive. Neither FBMS nor the Exchange Agent shall be under any obligation to notify any Person of any defect in an Election Form.

(b) Allocation. No later than five (5) Business Days after the Effective Time, FBMS shall cause the Exchange Agent to effect the allocation among Holders of SSNF Common Stock of rights to receive the Per Share Cash Consideration and/or the Per Share Stock Consideration, which shall be effected by the Exchange Agent as follows:

(i) If the aggregate number of shares of SSNF Common Stock with respect to which Stock Elections shall have been made (the "Stock Election Number") exceeds the Stock Conversion Number, then all Cash Election Shares and all Non-Election Shares of each Holder thereof shall be converted into the right to receive the Per Share Cash Consideration, and the Stock Election Shares of each Holder thereof will be converted into the right to receive (A) the Per Share Stock Consideration in respect of that number of Stock Election Shares equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such Holder by (y) the fraction, the numerator of which is the Stock Conversion Number and the denominator of which is the Stock Election Number, and (B) the right to receive the Per Share Cash Consideration in respect of the remainder of such Holder's Stock Election Shares that were not converted into the right to receive the Per Share Stock Consideration pursuant to clause (A) above.

(ii) If the Stock Election Number is less than the Stock Conversion Number (the amount by which the Stock Conversion Number exceeds the Stock Election Number being referred to herein as the "Shortfall Number"), then all Stock Election Shares shall be converted into the right to receive the Per Share Stock Consideration and the Non-Election Shares and Cash Election Shares shall be treated in the following manner:

(1) If the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Per Share Cash Consideration and the Non-Election Shares of each Holder thereof shall be converted into the right to receive (A) the Per Share Stock Consideration in respect of that number of Non-Election Shares equal to the product obtained by multiplying (x) the number of Non-Election Shares held by such Holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the total number of Non-Election Shares, and (B) the right to receive the Per Share Cash Consideration in respect of the remainder of such Holder's Non-Election Shares that were not converted into the right to receive the Per Share Stock Consideration pursuant to clause (A) above; and

(2) If the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election Shares shall be converted into the right to receive the Per Share Stock Consideration and the Cash Election Shares of each Holder thereof shall be converted into the right to receive (A) the Per Share Stock Consideration in respect of that number of Cash Election Shares equal to the product obtained by multiplying (x) the number of Cash Election Shares held by such Holder by (y) a fraction, the numerator of which is the amount by which the Shortfall Number exceeds the total number of Non-Election Shares and the denominator of which is the total number of Cash Election Shares, and (B) the right to receive the Per Share Cash Consideration in respect of the remainder of such Holder's Cash Election Shares that were not converted into the right to receive the Per Share Stock Consideration pursuant to clause (A) above.

Section 2.03 SSNF Stock-Based Awards.

(a) Immediately prior to the Effective Time, each share of SSNF Common Stock subject to vesting restrictions granted under the SSNF Stock Plans (a "SSNF Restricted Share") that is outstanding immediately prior to the Effective Time shall become fully vested and nonforfeitable and shall be converted automatically into and shall thereafter represent the right to receive, at the election of the Holder, the Per

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Share Cash Consideration or the Per Share Stock Consideration, less the amount of any required withholding Tax, pursuant to Section 2.01(d).

(b) At the Effective Time, each option to purchase SSNF Common Stock granted under any SSNF Stock Plan (each a "SSNF Stock Option"), whether vested or unvested, that is outstanding immediately prior to the Effective Time shall be cancelled and the holder thereof shall be entitled to receive from SSNF immediately prior to the Effective Time an amount in cash, without interest, equal to the product of (i) the total number of shares of SSNF Common Stock subject to such SSNF Stock Option times (ii) the excess, if any, of the Per Share Cash Consideration over the exercise price per share of SSNF Common Stock under such SSNF Stock Option, less applicable Taxes required to be withheld with respect to such payment. No holder of an SSNF Stock Option that has an exercise price per share of SSNF Common Stock that is equal to or greater than the Per Share Cash Consideration shall be entitled to any payment with respect to such cancelled SSNF Stock Option before, on, or after the Effective Time.

(c) Prior to the Effective Time, the board of directors of SSNF (or, if appropriate, any committee thereof administering the SSNF Stock Plans) shall adopt such resolutions or take such other actions, including obtaining any necessary consents or amendments to the applicable award agreements and equity plans, as may be required to effectuate the provisions of this Section 2.03.

Section 2.04 Rights as Shareholders; Stock Transfers. At the Effective Time, all shares of SSNF Common Stock, when converted in accordance with Section 2.01, shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each Certificate or Book-Entry Share previously evidencing such shares shall thereafter represent only the right to receive for each such share of SSNF Common Stock, the Merger Consideration and any cash in lieu of fractional shares of FBMS Common Stock in accordance with this Article II. At the Effective Time, holders of SSNF Common Stock shall cease to be, and shall have no rights as, shareholders of SSNF, other than the right to receive the Merger Consideration and cash in lieu of fractional shares of FBMS Common Stock as provided under this Article II. At the Effective Time, the stock transfer books of SSNF shall be closed, and there shall be no registration of transfers on the stock transfer books of SSNF of shares of SSNF Common Stock.

Section 2.05 Fractional Shares. Notwithstanding any other provision hereof, no fractional shares of FBMS Common Stock and no certificates or scrip therefor, or other evidence of ownership thereof, will be issued in the Merger. In lieu thereof, FBMS shall pay or cause to be paid to each Holder of a fractional share of FBMS Common Stock, rounded to the nearest one hundredth of a share, an amount of cash (without interest and rounded to the nearest whole cent) determined by multiplying the fractional share interest in FBMS Common Stock to which such Holder would otherwise be entitled by the Per Share Cash Consideration.

Section 2.06 Plan of Reorganization. It is intended that the Merger and the Bank Merger shall each qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and that this Agreement shall constitute a "plan of reorganization" as that term is used in Sections 354 and 361 of the Code.

Section 2.07 Exchange Procedures. FBMS shall cause as promptly as practicable after the Effective Time, but in no event later than five (5) Business Days after the Closing Date, the Exchange Agent to mail or otherwise caused to be delivered to each Holder who has not previously surrendered such Certificate or Certificates or Book Entry Shares, appropriate and customary transmittal materials, which shall specify that delivery shall be effected, and risk of loss and title to the Certificates or Book-Entry Shares shall pass, only upon delivery of the Certificates or Book-Entry Shares to the Exchange Agent, as well as instructions for use in effecting the surrender of the Certificates or Book-Entry Shares in exchange for the Merger Consideration (including cash in lieu of fractional shares) as provided for in this Agreement (the "Letter of Transmittal"). The Letter of Transmittal shall be subject to the approval of SSNF, which approval shall not be unreasonably withheld, conditioned or delayed.

Section 2.08 Deposit and Delivery of Merger Consideration.

(a) Prior to the Effective Time, FBMS shall (i) deposit, or shall cause to be deposited, with the Exchange Agent stock certificates representing the number of shares of FBMS Common Stock and cash sufficient to deliver the Merger Consideration (together with, to the extent then determinable, any cash payable in lieu of fractional shares pursuant to Section 2.05, and if applicable, cash in an aggregate amount

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sufficient to make the appropriate payment to the Holders of Dissenting Shares) (collectively, the "Exchange Fund"), and (ii) instruct the Exchange Agent to pay such Merger Consideration and cash in lieu of fractional shares in accordance with this Agreement as promptly as practicable after the Effective Time and receipt of a properly completed Letter of Transmittal. The Exchange Agent and FBMS, as the case may be, shall not be obligated to deliver the Merger Consideration to a Holder to which such Holder would otherwise be entitled as a result of the Merger until such Holder surrenders the Certificates or Book-Entry Shares representing the shares of SSNF Common Stock for exchange as provided in this Article II, or, an appropriate affidavit of loss and indemnity agreement and/or a bond in such amount as may be reasonably required in each case by FBMS or the Exchange Agent.

(b) Any portion of the Exchange Fund that remains unclaimed by the shareholders of SSNF for one (1) year after the Effective Time (as well as any interest or proceeds from any investment thereof) shall be delivered by the Exchange Agent to FBMS. Any shareholders of SSNF who have not theretofore complied with this Section 2.08 shall thereafter look only to FBMS for the Merger Consideration, any cash in lieu of fractional shares of SSNF Common Stock to be issued or paid in consideration therefor, and any dividends or distributions to which such Holder is entitled in respect of each share of SSNF Common Stock such shareholder held as of immediately prior to the Effective Time, as determined pursuant to this Agreement, in each case without any interest thereon. If outstanding Certificates or Book-Entry Shares for shares of SSNF Common Stock are not surrendered or the payment for them is not claimed prior to the date on which such shares of FBMS Common Stock or cash would otherwise escheat to or become the property of any governmental unit or agency, the unclaimed items shall, to the extent permitted by the law of abandoned property and any other applicable Law, become the property of FBMS (and to the extent not in its possession shall be delivered to it), free and clear of all claims or interest of any Person previously entitled to such property. Neither the Exchange Agent nor any Party shall be liable to any Holder represented by any Certificate or Book-Entry Share for any amounts delivered to a public official pursuant to applicable abandoned property, escheat or similar Laws. FBMS and the Exchange Agent shall be entitled to rely upon the stock transfer books of SSNF to establish the identity of those Persons entitled to receive the Merger Consideration specified in this Agreement, which books shall be conclusive with respect thereto. In the event of a dispute with respect to ownership of any shares of SSNF Common Stock represented by any Certificate or Book-Entry Share, FBMS and the Exchange Agent shall be entitled to tender to the custody of any court of competent jurisdiction any Merger Consideration represented by such Certificate or Book-Entry Share and file legal proceedings interpleading all parties to such dispute, and will thereafter be relieved with respect to any claims thereto.

(c) FBMS or the Exchange Agent, as applicable, shall be entitled to deduct and withhold from any amounts otherwise payable pursuant to this Agreement to any Holder such amounts as FBMS is required to deduct and withhold under applicable Law. Any amounts so deducted and withheld shall be remitted to the appropriate Governmental Authority and upon such remittance shall be treated for all purposes of this Agreement as having been paid to the Holder in respect of which such deduction and withholding was made by FBMS or the Exchange Agent, as applicable.

Section 2.09 Rights of Certificate Holders after the Effective Time.

(a) All shares of FBMS Common Stock to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time and if ever a dividend or other distribution is declared by FBMS in respect of the FBMS Common Stock, the record date for which is at or after the Effective Time, that declaration shall include dividends or other distributions in respect of all shares of FBMS Common Stock issuable pursuant to this Agreement. No dividends or other distributions in respect of the FBMS Common Stock shall be paid to any Holder of any unsurrendered Certificate or Book-Entry Share until such Certificate or Book-Entry Share is surrendered for exchange in accordance with this Article II. Subject to the effect of applicable Laws, following surrender of any such Certificate or Book-Entry Share, there shall be issued and/or paid to the Holder of the certificates representing whole shares of FBMS Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the dividends or other distributions with a record date after the Effective Time theretofore payable with respect to such whole shares of FBMS Common Stock and not paid and (ii) at the appropriate payment date, the dividends or other distributions payable with respect to such whole shares of FBMS Common Stock with a record date after the Effective Time but with a payment date subsequent to surrender.

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(b) In the event of a transfer of ownership of a Certificate representing SSNF Common Stock that is not registered in the stock transfer records of SSNF, the proper amount of cash and/or shares of FBMS Common Stock shall be paid or issued in exchange therefor to a person other than the person in whose name the Certificate so surrendered is registered if the Certificate formerly representing such SSNF Common Stock shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment or issuance shall pay any transfer or other similar Taxes required by reason of the payment or issuance to a person other than the registered Holder of the Certificate or establish to the satisfaction of FBMS that the Tax has been paid or is not applicable.

Section 2.10 Anti-Dilution Provisions. If the number of shares of FBMS Common Stock or SSNF Common Stock issued and outstanding prior to the Effective Time shall be increased or decreased, or changed into or exchanged for a different number of kind of shares or securities, in any such case as a result of a stock split, reverse stock split, stock combination, stock dividend, recapitalization, reclassification, reorganization or similar transaction, or there shall be any extraordinary dividend or distribution with respect to such stock, and the record date therefor shall be prior to the Effective Time, an appropriate and proportionate adjustment shall be made to the Merger Consideration to give holders of SSNF Common Stock the same economic effect as contemplated by this Agreement prior to such event.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SSNF

Except as set forth in the disclosure schedule delivered by SSNF to FBMS prior to or concurrently with the execution of this Agreement with respect to each such Section below (the "SSNF Disclosure Schedule"); provided, that (a) the mere inclusion of an item in the SSNF Disclosure Schedule as an exception to a representation or warranty shall not be deemed an admission by SSNF that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect on SSNF and (b) any disclosures made with respect to a section of Article III shall be deemed to qualify (1) any other section of Article III specifically referenced or cross-referenced and (2) other sections of Article III to the extent it is reasonably apparent on its face (notwithstanding the absence of a specific cross reference) from a reading of the disclosure that such disclosure applies to such other sections, SSNF hereby represents and warrants to FBMS as follows:

Section 3.01 Organization and Standing. Each of SSNF and its Subsidiaries is (a) an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation and (b) is duly licensed or qualified to do business and in good standing in each jurisdiction where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so licensed or qualified has not had, and is not reasonably likely to have, a Material Adverse Effect with respect to SSNF. A complete and accurate list of all such jurisdictions described in (a) and (b) is set forth in SSNF Disclosure Schedule 3.01.

Section 3.02 Capital Stock.

(a) The authorized capital stock of SSNF consists of 6,000,000 shares of SSNF Common Stock and 1,000,000 shares of SSNF Preferred Stock. As of the date hereof, there are 1,027,599 SSNF Common Stock issued and outstanding and no shares of SSNF Preferred Stock issued and outstanding. As of the date hereof, there were SSNF Stock Options to acquire 80,000 shares of SSNF Common Stock outstanding. There are no shares of SSNF Common Stock held by any of SSNF's Subsidiaries. SSNF Disclosure Schedule 3.02(a) sets forth, as of the date hereof, the name and address, as reflected on the books and records of SSNF, of each Holder, and the number of shares of SSNF Common Stock held by each such Holder. The issued and outstanding shares of SSNF Common Stock are duly authorized, validly issued, fully paid, non-assessable and have not been issued in violation of nor are they subject to preemptive rights of any SSNF shareholder. All shares of SSNF's capital stock issued and outstanding have been issued in compliance with and not in violation of any applicable federal or state securities Laws.

(b) SSNF Disclosure Schedule 3.02(b) sets forth, as of the date hereof, for each grant or award of SSNF Restricted Shares or other outstanding Rights of SSNF the (i) name of the grantee, (ii) date of the grant, (iii) expiration date, (iv) vesting schedule, (v) number of shares of SSNF Common Stock, or any

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other security of SSNF, subject to such award, (vi) number of shares subject to such award that are exercisable or have vested as of the date of this Agreement, and (vii) name of the SSNF Stock Plan under which such award was granted, if applicable. Each SSNF Restricted Share and all other outstanding SSNF Rights complies with or is exempt from Section 409A of the Code and qualifies for the tax treatment afforded thereto in SSNF's Tax Returns. Each grant of SSNF Restricted Shares or other outstanding SSNF Rights was appropriately authorized by the board of directors of SSNF or the compensation committee thereof, was made in accordance with the terms of the SSNF Stock Plans and any applicable Law and regulatory rules or requirements and has a grant date identical to (or later than) the date on which it was actually granted or awarded by the board of directors of SSNF or the compensation committee thereof. There are no outstanding shares of capital stock of any class, or any options, warrants or other similar rights, convertible or exchangeable securities, "phantom stock" rights, stock appreciation rights, stock based performance units, agreements, arrangements, commitments or understandings to which SSNF or any of its Subsidiaries is a party, whether or not in writing, of any character relating to the issued or unissued capital stock or other securities of SSNF or any of SSNF's Subsidiaries or obligating SSNF or any of SSNF's Subsidiaries to issue (whether upon conversion, exchange or otherwise) or sell any share of capital stock of, or other equity interests in or other securities of, SSNF or any of SSNF's Subsidiaries other than those listed in SSNF Disclosure Schedule 3.02(b). There are no obligations, contingent or otherwise, of SSNF or any of SSNF's Subsidiaries to repurchase, redeem or otherwise acquire any shares of SSNF Common Stock or capital stock of any of SSNF's Subsidiaries or any other securities of SSNF or any of SSNF's Subsidiaries or to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any such Subsidiary or any other entity. Except for the SSNF Voting Agreements, there are no agreements, arrangements or other understandings with respect to the voting of SSNF's capital stock and there are no agreements or arrangements under which SSNF is obligated to register the sale of any of its securities under the Securities Act.

Section 3.03 Subsidiaries.

(a) SSNF Disclosure Schedule 3.03(a) sets forth a complete and accurate list of all Subsidiaries of SSNF, including the jurisdiction of organization and all jurisdictions in which any such entity is qualified to do business. Except as set forth in SSNF Disclosure Schedule 3.03(a), (i) SSNF owns, directly or indirectly, all of the issued and outstanding equity securities of each SSNF Subsidiary, (ii) no equity securities of any of SSNF's Subsidiaries are or may become required to be issued (other than to SSNF) by reason of any contractual right or otherwise, (iii) there are no contracts, commitments, understandings or arrangements by which any of such Subsidiaries is or may be bound to sell or otherwise transfer any of its equity securities (other than to SSNF or a wholly-owned Subsidiary of SSNF), (iv) there are no contracts, commitments, understandings or arrangements relating to SSNF's rights to vote or to dispose of such securities, (v) all of the equity securities of each such Subsidiary held by SSNF, directly or indirectly, are validly issued, fully paid, non-assessable and are not subject to preemptive or similar rights, and (vi) all of the equity securities of each Subsidiary that is owned, directly or indirectly, by SSNF or any Subsidiary thereof, are free and clear of all Liens, other than restrictions on transfer under applicable securities Laws. Neither SSNF nor any of its Subsidiaries has any trust preferred securities or other similar securities outstanding.

(b) Neither SSNF nor any of SSNF's Subsidiaries owns any stock or equity interest in any depository institution (as defined in 12 U.S.C. Section 1813(c)(1)) other than Sunshine Bank. Except as set forth in SSNF Disclosure Schedule 3.03(b), neither SSNF nor any of SSNF's Subsidiaries beneficially owns, directly or indirectly (other than in a bona fide fiduciary capacity or in satisfaction of a debt previously contracted), any equity securities or similar interests of any Person, or any interest in a partnership or joint venture of any kind.

Section 3.04 Corporate Power; Minute Books.

(a) SSNF and each of its Subsidiaries has the corporate or similar power and authority to carry on its business as it is now being conducted and to own all of its properties and assets; and SSNF has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby, subject to receipt of all necessary approvals of Governmental Authorities, the Regulatory Approvals and the Requisite SSNF Shareholder Approval.

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(b) SSNF has made available to FBMS a complete and correct copy of its articles of incorporation and bylaws or equivalent organizational documents, each as amended to date, of SSNF and each of its Subsidiaries, the minute books of SSNF and each of its Subsidiaries, and the stock ledgers and stock transfer books of SSNF and each of its Subsidiaries. Neither SSNF nor any of its Subsidiaries is in violation of any of the terms of its articles of incorporation, bylaws or equivalent organizational documents. The minute books of SSNF and each of its Subsidiaries contain records of all meetings held by, and all other corporate or similar actions of, their respective shareholders and boards of directors (including committees of their respective boards of directors) or other governing bodies, which records are complete and accurate in all material respects. The stock ledgers and the stock transfer books of SSNF and each of its Subsidiaries contain complete and accurate records of the ownership of the equity securities of SSNF and each of its Subsidiaries.

Section 3.05 Corporate Authority. Subject only to the receipt of the Requisite SSNF Shareholder Approval at the SSNF Meeting, this Agreement and the transactions contemplated hereby have been authorized by all necessary corporate action of SSNF and the board of directors of SSNF on or prior to the date hereof. The board of directors of SSNF has directed that this Agreement be submitted to SSNF's shareholders for approval at a meeting of the shareholders and, except for the receipt of the Requisite SSNF Shareholder Approval in accordance with the MGCL and SSNF's articles of incorporation and bylaws, no other vote or action of the shareholders of SSNF is required by Law, the articles of incorporation or bylaws of SSNF or otherwise to approve this Agreement and the transactions contemplated hereby. SSNF has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery by FBMS, this Agreement is a valid and legally binding obligation of SSNF, enforceable in accordance with its terms (except to the extent that validity and enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or similar Laws affecting the enforcement of creditors' rights generally or by general principles of equity or by principles of public policy (the "Enforceability Exception").

Section 3.06 Regulatory Approvals; No Defaults.

(a) No consents or approvals of, or waivers by, or filings or registrations with, any Governmental Authority are required to be made or obtained by SSNF or any of its Subsidiaries in connection with the execution, delivery or performance by SSNF of this Agreement or to consummate the transactions contemplated by this Agreement, except as may be required for (i) filings of applications and notices with, and receipt of consents, authorizations, approvals, exemptions or non-objections from the SEC, NASDAQ, state securities authorities, the Financial Industry Regulatory Authority, Inc., applicable securities, commodities and futures exchanges, and other industry self-regulatory organizations (each, an "SRO"), (ii) filings of applications or notices with, and consents, approvals or waivers by the FRB, the FDIC and applicable state banking agencies, the Office of the Comptroller of the Currency (the "OCC"), the Florida Office of Financial Regulation (the "FOFR") and other banking, regulatory, self-regulatory or enforcement authorities or any courts, administrative agencies or commissions or other Governmental Authorities and approval of or non-objection to such applications, filings and notices (taken together with the items listed in clause (i), the "Regulatory Approvals"), (iii) the filing with the SEC of the Proxy Statement-Prospectus and the Registration Statement and declaration of effectiveness of the Registration Statement, (iv) the filing of the Articles of Merger contemplated by Section 1.05(a) and the filing of documents with the FDIC, the OCC, applicable Governmental Authorities, and the Secretary of State of the State of Florida to cause the Bank Merger to become effective and (v) such filings and approvals as are required to be made or obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of the shares of FBMS Common Stock pursuant to this Agreement and approval of listing of such FBMS Common Stock on the NASDAQ. Subject to the receipt of the approvals referred to in the preceding sentence, the Requisite SSNF Shareholder Approval and as set forth on SSNF Disclosure Schedule 3.06(a), the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by SSNF do not and will not (1) constitute a breach or violation of, or a default under, the articles of incorporation, bylaws or similar governing documents of SSNF or any of its respective Subsidiaries, (2) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to SSNF or any of its Subsidiaries, or any of their respective properties or assets, (3) conflict with, result in a breach or violation of any provision of, or the loss of any benefit under, or a default (or an event which, with or without notice or lapse of time, or both, would constitute a default) under, result in the

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creation of any Lien under, result in a right of termination or the acceleration of any right or obligation (which, in each case, would have a material impact on SSNF or could reasonably be expected to result in a financial obligation or penalty in excess of $50,000) under any permit, license, credit agreement, indenture, loan, note, bond, mortgage, reciprocal easement agreement, lease, instrument, concession, contract, franchise, agreement or other instrument or obligation of SSNF or any of its Subsidiaries or to which SSNF or any of its Subsidiaries, or their respective properties or assets is subject or bound, or (4) require the consent or approval of any third party or Governmental Authority under any such Law, rule or regulation or any judgment, decree, order, permit, license, credit agreement, indenture, loan, note, bond, mortgage, reciprocal easement agreement, lease, instrument, concession, contract, franchise, agreement or other instrument or obligation that would have a material impact on SSNF or result in a material financial penalty.

(b) As of the date hereof, SSNF has no Knowledge of any reason (i) why the Regulatory Approvals referred to in Section 6.01(b) will not be received in customary time frames from the applicable Governmental Authorities having jurisdiction over the transactions contemplated by this Agreement or (ii) why any Burdensome Condition would be imposed.

Section 3.07 SEC Reports; Financial Statements; Internal Controls.

(a) SSNF has previously made available to FBMS an accurate and complete copy of each (a) final registration statement, prospectus, report, schedule and definitive proxy statement filed with or furnished to the SEC since January 1, 2014 by SSNF pursuant to the Securities Act, or the Exchange Act (the "SSNF Reports") and (b) communication mailed by SSNF to its shareholders since January 1, 2014, and no such SSNF Report, as of the date thereof (and, in the case of registration statements and proxy statements, on the dates of effectiveness and the dates of the relevant meetings, respectively), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading, except that information filed or furnished as of a later date (but before the date of this Agreement) shall be deemed to modify information as of an earlier date. Since January 1, 2014, as of their respective filing dates (or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing prior to the date hereof), all SSNF Reports filed under the Securities Act and the Exchange Act complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto. As of the date of this Agreement, no executive officer of SSNF has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). As of the date of this Agreement, there are no outstanding comments from or unresolved issues raised by the SEC with respect to any of the SSNF Reports.

(b) The financial statements of SSNF and its Subsidiaries included (or incorporated by reference) in the SSNF Reports (including the related notes, where applicable) (the "Financial Statements") (i) have been prepared from, and are in accordance with, the books and records of SSNF and its Subsidiaries, (ii) fairly present in all material respects in accordance with GAAP the consolidated results of operations, cash flows, changes in shareholders' equity and consolidated financial position of SSNF and its Subsidiaries for the respective fiscal periods or as of the respective dates therein set forth (subject in the case of unaudited statements to year-end audit adjustments normal in nature and amount and as permitted by the rules of the SEC), (iii) complied in all material respects, as of their respective dates of filing with the SEC, with the published rules and regulations of the SEC with respect thereto, and (iv) have been prepared in accordance with GAAP consistently applied during the periods involved, except, in each case, as indicated in such statements or in the notes thereto. The books and records of SSNF and its Subsidiaries have been, and are being, maintained in accordance with GAAP and any other applicable legal and accounting requirements, reflect only actual transactions and there are no material misstatements, omissions, inaccuracies or discrepancies contained or reflected therein. Hacker, Johnson & Smith PA has not resigned (or informed SSNF that it intends to resign) or been dismissed as independent public accountants of SSNF as a result of or in connection with any disagreements with SSNF on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(c) The records, systems, controls, data and information of SSNF and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic

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process, whether computerized or not) that are under the exclusive ownership and direct control of SSNF or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a Material Adverse Effect on SSNF. SSNF (x) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) to ensure that material information relating to SSNF, including its Subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer of SSNF by others within those entities as appropriate to allow timely decisions regarding required disclosures and to make the certifications required by the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), and (y) has disclosed, based on its most recent evaluation prior to the date hereof, to SSNF's outside auditors and the audit committee of SSNF's Board of Directors (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect SSNF's ability to record, process, summarize and report financial information, and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in SSNF's internal controls over financial reporting. These disclosures were made in writing by management to SSNF's auditors and audit committee and a copy has previously been made available to FBMS. There is no reason to believe that SSNF's outside auditors and its Chief Executive Officer and Chief Financial Officer will not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when next due.

(d) Since January 1, 2014, neither SSNF nor any of its Subsidiaries nor, to SSNF's Knowledge, any director, officer, employee, auditor, accountant or representative of SSNF or any of its Subsidiaries has received, or otherwise had or obtained Knowledge of, any material complaint, allegation, assertion or claim regarding the accounting or auditing practices, procedures, methodologies or methods of SSNF or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that SSNF or any of its Subsidiaries has engaged in questionable accounting or auditing practices.

Section 3.08 Regulatory Reports. Since January 1, 2014, SSNF and its Subsidiaries have timely filed with the SEC, FRB, the FDIC, any SRO and any other applicable Governmental Authority, in correct form, the material reports, registration statements and other documents required to be filed under applicable Laws and regulations and have paid all fees and assessments due and payable in connection therewith, and such reports were complete and accurate and in compliance in all material respects with the requirements of applicable Laws and regulations. Other than normal examinations conducted by a Governmental Authority in the Ordinary Course of Business, no Governmental Authority has notified SSNF or any of its Subsidiaries that it has initiated any proceeding or, to the Knowledge of SSNF, threatened an investigation into the business or operations of SSNF or any of its Subsidiaries since January 1, 2014. There is no material and unresolved violation, criticism, or exception by any Governmental Authority with respect to any report or statement relating to any examinations or inspections of SSNF or any of its Subsidiaries.

Section 3.09 Absence of Certain Changes or Events. Except as set forth in SSNF Disclosure Schedule 3.09, the SSNF Reports or as otherwise contemplated by this Agreement, since December 31, 2016, (a) SSNF and its Subsidiaries have carried on their respective businesses in all material respects in the Ordinary Course of Business, (b) there have been no events, changes or circumstances which have had, or are reasonable likely to have, individually or in the aggregate, a Material Adverse Effect with respect to SSNF, and (c) neither SSNF nor any of its Subsidiaries has taken any action or failed to take any action prior to the date of this Agreement which action or failure, if taken after the date of this Agreement, would constitute a material breach or violation of any of the covenants and agreements set forth in Section 5.01(a), Section 5.01(b), Section 5.01(c), Section 5.01(e), Section 5.01(g), Section 5.01(h), Section 5.01(j), Section 5.01(k), Section 5.01(u) or Section 5.01(w).

Section 3.10 Legal Proceedings.

(a) There are no material civil, criminal, administrative or regulatory actions, suits, demand letters, demands for indemnification, claims, hearings, notices of violation, arbitrations, investigations, orders to show cause, market conduct examinations, notices of non-compliance or other proceedings of any nature

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pending or, to the Knowledge of SSNF, threatened against SSNF or any of its Subsidiaries or to which SSNF or any of its Subsidiaries is a party, including without limitation, any such actions, suits, demand letters, demands for indemnification, claims, hearings, notices of violation, arbitrations, investigations, orders to show cause, market conduct examinations, notices of non-compliance or other proceedings of any nature that would challenge the validity or propriety of the transactions contemplated by this Agreement.

(b) There is no material injunction, order, judgment or decree imposed upon SSNF or any of its Subsidiaries, or the assets of SSNF or any of its Subsidiaries, and neither SSNF nor any of its Subsidiaries has been advised of the threat of any such action, other than any such injunction, order, judgement or decree that is generally applicable to all Persons in businesses similar to that of SSNF or any of SSNF's Subsidiaries.

Section 3.11 Compliance With Laws.

(a) SSNF and each of its Subsidiaries is, and have been since January 1, 2014, in compliance in all material respects with all applicable federal, state, local and foreign Laws, rules, judgments, orders or decrees applicable thereto or to the employees conducting such businesses, including, without limitation, Laws related to data protection or privacy, the USA PATRIOT Act, the Bank Secrecy Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Community Reinvestment Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Dodd-Frank Act, Sections 23A and 23B of the Federal Reserve Act, the Sarbanes-Oxley Act or the regulations implementing such statutes, all other applicable anti-money laundering Laws, fair lending Laws and other Laws relating to discriminatory lending, financing, leasing or business practices and all agency requirements relating to the origination, sale and servicing of mortgage loans. Neither SSNF nor any of its Subsidiaries has been advised of any supervisory concerns regarding their compliance with the Bank Secrecy Act or related state or federal anti-money laundering laws, regulations and guidelines, including without limitation those provisions of federal regulations requiring (i) the filing of reports, such as Currency Transaction Reports and Suspicious Activity Reports, (ii) the maintenance of records and (iii) the exercise of due diligence in identifying customers.

(b) SSNF and each of its Subsidiaries have all material permits, licenses, authorizations, orders and approvals of, and each has made all filings, applications and registrations with, all Governmental Authorities that are required in order to permit it to own or lease its properties and to conduct its business as presently conducted. All such permits, licenses, certificates of authority, orders and approvals are in full force and effect and, to SSNF's Knowledge, no suspension or cancellation of any of them is threatened.

(c) Neither SSNF nor any of its Subsidiaries has received, since January 1, 2014, written or, to SSNF's Knowledge, oral notification from any Governmental Authority (i) asserting that it is materially in non-compliance with any of the Laws which such Governmental Authority enforces or (ii) threatening to revoke any license, franchise, permit or governmental authorization.

Section 3.12 SSNF Material Contracts; Defaults.

(a) Other than the SSNF Benefit Plans, neither SSNF nor any of its Subsidiaries is a party to, bound by or subject to any agreement, contract, arrangement, commitment or understanding (whether written or oral) (i) which would entitle any present or former director, officer, employee, consultant or agent of SSNF or any of its Subsidiaries to indemnification from SSNF or any of its Subsidiaries; (ii) which grants any right of first refusal, right of first offer or similar right with respect to any assets or properties of SSNF or its respective Subsidiaries; (iii) related to the borrowing by SSNF or any of its Subsidiaries of money other than those entered into in the Ordinary Course of Business and any guaranty of any obligation for the borrowing of money, excluding endorsements made for collection, repurchase or resell agreements, letters of credit and guaranties made in the Ordinary Course of Business; (iv) which provides for payments to be made by SSNF or any of its Subsidiaries upon a change in control thereof; (v) relating to the lease of personal property having a value in excess of $50,000 individually or $100,000 in the aggregate; (vi) relating to any joint venture, partnership, limited liability company agreement or other similar agreement or arrangement; (vii) which relates to capital expenditures and involves future payments in excess of $100,000 individually or $250,000 in the aggregate; (viii) which relates to the disposition or acquisition of assets or any interest in any business enterprise outside the Ordinary Course of Business; (ix) which is not terminable

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on sixty (60) days or less notice and involving the payment of more than $100,000 per annum; (x) which contains a non-compete or client or customer non-solicit requirement or any other provision that materially restricts the conduct of any line of business by SSNF or any of its Affiliates or upon consummation of the Merger will materially restrict the ability of the Surviving Entity or any of its Affiliates to engage in any line of business or which grants any right of first refusal, right of first offer or similar right or that limits or purports to limit the ability of SSNF or any of its Subsidiaries (or, following consummation of the transactions contemplated hereby, FBMS or any of its Subsidiaries) to own, operate, sell, transfer, pledge or otherwise dispose of any assets or business; or (xi) pursuant to which SSNF or any of its Subsidiaries may become obligated to invest in or contribute capital to any entity. Each contract, arrangement, commitment or understanding of the type described in this Section 3.12(a) is set forth in SSNF Disclosure Schedule 3.12(a), and is referred to herein as a "SSNF Material Contract." SSNF has previously made available to FBMS true, complete and correct copies of each such SSNF Material Contract, including any and all amendments and modifications thereto.

(b) Each SSNF Material Contract is valid and binding on SSNF and any of its Subsidiaries to the extent such Subsidiary is a party thereto, as applicable, and is in full force and effect and enforceable in accordance with its terms (assuming the due execution by each other party thereto, provided that SSNF hereby represents and warrants that, to its Knowledge, each SSNF Material Contract is duly executed by all such parties), subject to the Enforceability Exception and except where the failure to be valid, binding, enforceable and in full force and effect, individually or in the aggregate, is not reasonably likely to have a Material Adverse Effect with respect to SSNF; and neither SSNF nor any of its Subsidiaries is in default under any SSNF Material Contract or other "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC), to which it is a party, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a material default. No power of attorney or similar authorization given directly or indirectly by SSNF or any of its Subsidiaries is currently outstanding.

(c) SSNF Disclosure Schedule 3.12(c) sets forth a true and complete list of all SSNF Material Contracts pursuant to which consents, waivers or notices are or may be required to be given thereunder, in each case, prior to the performance by SSNF of this Agreement and the consummation of the Merger, the Bank Merger and the other transactions contemplated hereby and thereby.

Section 3.13 Agreements with Regulatory Agencies. Neither SSNF nor any of its Subsidiaries is subject to any cease-and-desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is a recipient of any extraordinary supervisory letter from, or is subject to any order or directive by, or has adopted any board resolutions at the request of any Governmental Authority (each a "SSNF Regulatory Agreement") that restricts, or by its terms will in the future restrict, the conduct of SSNF's or any of its Subsidiaries' business or that in any manner relates to their capital adequacy, credit or risk management policies, dividend policies, management, business or operations, nor has SSNF or any of its Subsidiaries been advised by any Governmental Authority that it is considering issuing or requesting (or is considering the appropriateness of issuing or requesting) any SSNF Regulatory Agreement. To SSNF's Knowledge, there are no investigations relating to any regulatory matters pending before any Governmental Authority with respect to SSNF or any of its Subsidiaries.

Section 3.14 Brokers; Fairness Opinion. Neither SSNF nor any of its officers, directors or any of its Subsidiaries has employed any broker or finder or incurred, nor will it incur, any liability for any broker's fees, commissions or finder's fees in connection with any of the transactions contemplated by this Agreement, except that SSNF has engaged, and will pay a fee or commission to BSP Securities LLC ("BSP"), a subsidiary of Banks Street Partners, LLC ("SSNF Financial Advisor"), in accordance with the terms of a letter agreement between SSNF Financial Advisor and SSNF, a true, complete and correct copy of which has been previously delivered by SSNF to FBMS. SSNF has received the opinion of the SSNF Financial Advisor (and, when it is delivered in writing, a copy of such opinion will be promptly provided to FBMS) to the effect that, as of the date of this Agreement and based upon and subject to the qualifications and assumptions set forth therein, the Merger Consideration is fair, from a financial point of view, to the holders of shares of SSNF Common Stock, and, as of the date of this Agreement, such opinion has not been withdrawn, revoked or modified.

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Section 3.15 Employee Benefit Plans.

(a) SSNF Disclosure Schedule 3.15(a) sets forth a true and complete list of each SSNF Benefit Plan. For purposes of this Agreement, "SSNF Benefit Plans" means all benefit and compensation plans, contracts, policies or arrangements (i) covering current or former employees of SSNF, any of its Subsidiaries or any of SSNF's related organizations described in Code Sections 414(b), (c) or (m), or any entity which is considered one employer with SSNF, any of its Subsidiaries or Controlled Group Members under Section 4001 of ERISA or Section 414 of the Code ("ERISA Affiliates") (such current employees collectively, the "SSNF Employees"), (ii) covering current or former directors of SSNF, any of its Subsidiaries, or ERISA Affiliates, or (iii) with respect to which SSNF or any of its Subsidiaries has or may have any liability or contingent liability (including liability arising from ERISA Affiliates) including, but not limited to, "employee benefit plans" within the meaning of Section 3(3) of ERISA, health/welfare, change-of-control, fringe benefit, deferred compensation, defined benefit plan, defined contribution plan, stock option, stock purchase, stock appreciation rights, stock based, incentive, bonus plans, retirement plans and other policies, plans or arrangements whether or not subject to ERISA.

(b) With respect to each SSNF Benefit Plan, SSNF has provided to FBMS true and complete copies of such SSNF Benefit Plan, any trust instruments and insurance contracts forming a part of any SSNF Benefit Plans and all amendments thereto, summary plan descriptions and summary of material modifications, IRS Form 5500 (for the three (3) most recently completed plan years), the most recent IRS determination, opinion, notification and advisory letters, with respect thereto and any correspondence from any regulatory agency. In addition, with respect to the SSNF Benefit Plans for the three (3) most recently completed plan years, any plan financial statements and accompanying accounting reports, service contracts, fidelity bonds and employee and participant annual QDIA notice, safe harbor notice, or fee disclosures notices under 29 CFR 2550.404a-5 have been made available to FBMS.

(c) All SSNF Benefit Plans are in compliance in all material respects in form and operation with all applicable Laws, including ERISA and the Code. Each SSNF Benefit Plan which is intended to be qualified under Section 401(a) of the Code ("SSNF 401(a) Plan"), has received a favorable opinion, determination or advisory letter from the IRS, and to SSNF's Knowledge there is not any circumstance that could reasonably be expected to result in revocation of any such favorable determination, opinion, or advisory letter or the loss of the qualification of such SSNF 401(a) Plan under Section 401(a) of the Code, and nothing has occurred that would be expected to result in the SSNF 401(a) Plan ceasing to be qualified under Section 401(a) of the Code. All SSNF Benefit Plans have been administered in all material respects in accordance with their terms. There is no pending or, to SSNF's Knowledge, threatened litigation or regulatory action relating to the SSNF Benefit Plans. Neither SSNF nor any of its Subsidiaries has engaged in a transaction with respect to any SSNF Benefit Plan, including a SSNF 401(a) Plan that could subject SSNF or any of its Subsidiaries to a tax or penalty under any Law including, but not limited to, Section 4975 of the Code or Section 502(i) of ERISA. No SSNF 401(a) Plan has been submitted under or been the subject of an IRS voluntary compliance program submission that is still outstanding or that has not been fully corrected in accordance with a compliance statement issued by the IRS with respect to any applicable failures. There are no audits, inquiries or proceedings pending or, to SSNF's Knowledge, threatened by the IRS or the Department of Labor with respect to any SSNF Benefit Plan. To SSNF's Knowledge, there are no current, pending, or threatened investigations by the IRS or the Department of Labor with respect to any SSNF Benefit Plan.

(d) No liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by SSNF, any of its Subsidiaries or any ERISA Affiliates with respect to any ongoing, frozen or terminated "single employer plan," within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by SSNF, any of its Subsidiaries or any ERISA Affiliates. Neither SSNF nor any ERISA Affiliate has ever maintained a plan subject to Title IV of ERISA or Section 412 of the Code. None of SSNF or any ERISA Affiliate has contributed to (or been obligated to contribute to) a "multiemployer plan" within the meaning of Section 3(37) of ERISA or a "multiple employer plan" within the meaning of ERISA Sections 4063 or 4064 or Code Section 413(c) at any time. Neither SSNF, nor any of its Subsidiaries or ERISA Affiliates have incurred, and there are no circumstances under which they could reasonably be expected to incur, liability under Title IV of ERISA (regardless of whether based on contributions of an

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ERISA Affiliate). No notice of a "reportable event," within the meaning of Section 4043 of ERISA has been required to be filed for any SSNF Benefit Plan or by any ERISA Affiliate or will be required to be filed, in either case, in connection with the transactions contemplated by this Agreement.

(e) All contributions required to be made with respect to all SSNF Benefit Plans have been timely made. No SSNF Benefit Plan or single employer plan of an ERISA Affiliate has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 3012 of ERISA and no ERISA Affiliate has an outstanding funding waiver.

(f) Except as set forth in SSNF Disclosure Schedule 3.15(f), no SSNF Benefit Plan provides life insurance, medical or other employee welfare benefits to any SSNF Employee, or any of their affiliates, upon his or her retirement or termination of employment for any reason, except as may be required by Law.

(g) All SSNF Benefit Plans that are group health plans have been operated in all material respects in compliance with the group health plan continuation requirements of Section 4980B of the Code and all other applicable sections of ERISA and the Code. SSNF may amend or terminate any such SSNF Benefit Plan at any time without incurring any liability thereunder for future benefits coverage at any time after such termination.

(h) Except as otherwise provided for in this Agreement or as set forth in SSNF Disclosure Schedule 3.15(h), neither the execution of this Agreement, shareholder approval of this Agreement or consummation of any of the transactions contemplated by this Agreement (individually or in conjunction with any other event) will (i) entitle any SSNF Employee to severance pay or any increase in severance pay upon any termination of employment, (ii) accelerate the time of payment or vesting (except as required by Law) or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any of the SSNF Benefit Plans, (iii) result in any breach or violation of, or a default under, any of the SSNF Benefit Plans, (iv) result in any payment that would be an excess "parachute payment" to a "disqualified individual" as those terms are defined in Section 280G of the Code, or (v) limit or restrict the right of SSNF or, after the consummation of the transactions contemplated hereby, FBMS or any of its Subsidiaries, to merge, amend or terminate any of the SSNF Benefit Plans.

(i) Except as set forth in SSNF Disclosure Schedule 3.15(i), (i) each SSNF Benefit Plan that is a non-qualified deferred compensation plan or arrangement within the meaning of Section 409A of the Code, and any underlying award, is in compliance in all material respects with Section 409A of the Code and (ii) no payment or award that has been made to any participant under a SSNF Benefit Plan is subject to the interest and penalties specified in Section 409A(a)(1)(B) of the Code. Neither SSNF nor any of its Subsidiaries (x) has agreed to reimburse or indemnify any participant in a SSNF Benefit Plan for any of the interest and the penalties specified in Section 409A(a)(1)(B) of the Code that may be currently due or triggered in the future, or (y) except as set forth in SSNF Disclosure Schedule 3.15(i), has been required to report to any Government Authority any correction or taxes due as a result of a failure to comply with Section 409A of the Code.

(j) No SSNF Benefit Plan provides for the gross-up or reimbursement of any Taxes imposed by Section 4999 of the Code or otherwise.

(k) SSNF Disclosure Schedule 3.15(k) contains a schedule showing the monetary amounts payable as of the date specified in such schedule, whether individually or in the aggregate (including good faith estimates of all amounts not subject to precise quantification as of the date of this Agreement) under any employment, change-in-control, severance or similar contract, plan or arrangement with or which covers any present or former director, officer, employee or consultant of SSNF or any of its Subsidiaries who may be entitled to any such amount and identifying the types and estimated amounts of the in-kind benefits due under any SSNF Benefit Plans (other than a plan qualified under Section 401(a) of the Code) for each such Person, specifying the assumptions in such schedule and providing estimates of other required contributions to any trusts for any related fees or expenses.

(l) SSNF and its Subsidiaries have correctly classified all individuals who directly or indirectly perform services for SSNF or any of its Subsidiaries for purposes of each SSNF Benefit Plan, ERISA and the Code.

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Section 3.16 Labor Matters. Neither SSNF nor any of its Subsidiaries is a party to or bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization, nor is there any proceeding pending or, to SSNF's Knowledge threatened, asserting that SSNF or any of its Subsidiaries has committed an unfair labor practice (within the meaning of the National Labor Relations Act) or seeking to compel SSNF or any of its Subsidiaries to bargain with any labor organization as to wages or conditions of employment, nor is there any strike or other labor dispute against SSNF pending or, to SSNF's Knowledge, threatened, nor to SSNF's Knowledge is there any activity involving SSNF Employees seeking to certify a collective bargaining unit or engaging in other organizational activity. To its Knowledge SSNF and its Subsidiaries have correctly classified all individuals who directly or indirectly perform services for SSNF or any of its Subsidiaries for purposes of federal and state unemployment compensation Laws, workers' compensation Laws and the rules and regulations of the U.S. Department of Labor. To SSNF's Knowledge, no officer of SSNF or any of its Subsidiaries is in material violation of any employment contract, confidentiality, non-competition agreement or any other restrictive covenant.

Section 3.17 Environmental Matters. (a) To its Knowledge, SSNF and its Subsidiaries have been and are in material compliance with all applicable Environmental Laws, including obtaining, maintaining and complying with all permits required under Environmental Laws for the operation of their respective businesses, (b) there is no action or investigation by or before any Governmental Authority relating to or arising under any Environmental Laws that is pending or, to the Knowledge of SSNF threatened against SSNF or any of its Subsidiaries or any real property or facility presently owned, operated or leased by SSNF or any of its Subsidiaries or any predecessor (including in a fiduciary or agency capacity), (c) neither SSNF nor any of its Subsidiaries has received any notice of or is subject to any liability, order, settlement, judgment, injunction or decree involving uncompleted, outstanding or unresolved requirements relating to or arising under Environmental Laws, (d) to the Knowledge of SSNF, there have been no releases of Hazardous Substances at, on, under, or affecting any of the real properties or facilities presently owned, operated or leased by SSNF or any of its Subsidiaries or any predecessor (including in a fiduciary or agency capacity) in amount or condition that has resulted in or would reasonably be expected to result in liability to SSNF or any of its Subsidiaries relating to or arising under any Environmental Laws, and (e) to the Knowledge of SSNF, there are no underground storage tanks on, in or under any property currently owned, operated or leased by SSNF or any of its Subsidiaries.

Section 3.18 Tax Matters.

(a) Each of SSNF and its Subsidiaries has filed all material Tax Returns that it was required to file under applicable Laws, other than Tax Returns that are not yet due or for which a request for extension was timely filed consistent with requirements of applicable Law. All such Tax Returns were correct and complete in all material respects and have been prepared in compliance with all Applicable Laws in all material respects. All material Taxes due and owing by SSNF or any of its Subsidiaries (whether or not shown on any Tax Return) have been paid. Neither SSNF nor any of its Subsidiaries is currently the beneficiary of any extension of time within which to file any material Tax Return. Neither SSNF nor any of its Subsidiaries has ever received written notice of any claim by any Governmental Authority in a jurisdiction where SSNF or such Subsidiary does not file Tax Returns that it is or may be subject to Taxes by that jurisdiction. There are no material Liens for Taxes (other than Taxes not yet due and payable or that are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP) upon any of the assets of SSNF or any of its Subsidiaries.

(b) SSNF and each of its Subsidiaries have properly withheld and paid over to the appropriate Governmental Authority all material Taxes required to have been withheld and paid over in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder or other Person, and have complied in all material respects with all applicable reporting requirements related to Taxes.

(c) No foreign, federal, state, or local Tax audits or administrative or judicial Tax proceedings are currently being conducted or pending or threatened in writing, in each case, with respect to a material amount of Taxes of SSNF or any of its Subsidiaries. Neither SSNF nor any of its Subsidiaries has received from any foreign, federal, state, or local taxing authority (including jurisdictions where SSNF or any of its Subsidiaries have not filed Tax Returns) any

(i) notice indicating an intent to open an audit or other review

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with respect to Taxes or (ii) notice of deficiency or proposed adjustment for any amount of material Tax proposed, asserted, or assessed by any taxing authority against SSNF or any of its Subsidiaries which, in either case (i) or (ii), have not been fully paid or settled.

(d) SSNF has delivered or made available to FBMS true and complete copies of the material foreign, federal, state or local Tax Returns filed with respect to SSNF or any of its Subsidiaries, and of all material examination reports and statements of deficiencies assessed against or agreed to by SSNF, in each case with respect to income Taxes, for taxable periods ended on or after December 31, 2014.

(e) With respect to tax years open for audit as of the date hereof, neither SSNF nor any of its Subsidiaries has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(f) Neither SSNF nor any of its Subsidiaries has been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). Neither SSNF nor any of its Subsidiaries is a party to or is otherwise bound by any material Tax allocation or sharing agreement (other than such an agreement (i) exclusively between or among SSNF and its Subsidiaries, (ii) with customers, vendors, lessors or similar third parties entered into in the Ordinary Course of Business and not primarily related to Taxes or (iii) that will terminate as of the Closing Date without any further material payments being required to be made). SSNF (i) has not been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was SSNF), and (ii) has no liability for the Taxes of any Person (other than SSNF and its Subsidiaries) under Regulations Section 1.1502-6 (or any similar provision of foreign, state or local Law), as a transferee or successor, by contract, or otherwise.

(g) The most recent Financial Statements as of the date hereof reflect an adequate reserve, in accordance with GAAP, for all Taxes payable by SSNF and its Subsidiaries for all taxable periods through the date of such Financial Statements. Since December 31, 2016, neither SSNF nor any of its Subsidiaries has incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the Ordinary Course of Business.

(h) Neither SSNF nor any of its Subsidiaries will be required to include any material item of income in, or exclude any material item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Effective Time as a result of any: (i) change in method of accounting pursuant to Section 481 of the Code or any comparable provision under foreign, state or local Law for a taxable period ending on or prior to the Closing Date; (ii) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of foreign, state or local Law) executed on or prior to the Closing Date; (iii) intercompany transactions or any excess loss account described in Regulations under Code Section 1502 (or any corresponding or similar provision of foreign, state or local Law); (iv) installment sale or open transaction disposition made on or prior to the Closing Date; or (v) prepaid amount received on or prior to the Closing Date.

(i) Since January 1, 2014, neither SSNF nor any of its Subsidiaries has distributed stock of another Person nor had its stock distributed by another Person in a transaction that was intended to be nontaxable and governed in whole or in part by Section 355 or Section 361 of the Code.

(j) Neither SSNF nor any of its Subsidiaries has been a party to any "listed transaction," as defined in Section 6707A(c)(2) of the Code and Section 1.6011-4(b)(2) of the Regulations in any tax year for which the statute of limitations has not expired.

(k) Neither SSNF nor any of its Subsidiaries (i) is a "controlled foreign corporation" as defined in Section 957 of the Code, (ii) is a "passive foreign investment company" within the meaning of Section 1297 of the Code, or (iii) has a permanent establishment (within the meaning of an applicable Tax treaty) or otherwise has an office or fixed place of business in a country other than the country in which it is organized.

(l) Neither SSNF nor any of its Subsidiaries has taken or agreed to take any action, or is aware of any fact or circumstance, that would be reasonably likely to prevent the Merger or the Bank Merger from qualifying for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code.

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Section 3.19 Investment Securities. SSNF Disclosure Schedule 3.19 sets forth as of September 30, 2017, the SSNF Investment Securities, as well as any purchases or sales of SSNF Investment Securities between September 30, 2017 to and including November 30, 2017, reflecting with respect to all such securities, whenever purchased or sold, descriptions thereof, CUSIP numbers, designations as securities "available for sale" or securities "held to maturity" (as those terms are used in ASC 320), book values, fair values and coupon rates, and any gain or loss with respect to any SSNF Investment Securities sold during such time period between September 30, 2017 and November 30, 2017. Neither SSNF nor any of its Subsidiaries owns any of the outstanding equity of any savings bank, savings and loan association, savings and loan holding company, credit union, bank or bank holding company, insurance company, mortgage or loan broker or any other financial institution other than Sunshine Bank.

Section 3.20 Derivative Transactions. Neither SSNF nor any of its Subsidiaries is a party to or otherwise bound by any Derivative Transaction.

Section 3.21 Regulatory Capitalization. SSNF and Sunshine Bank are "well-capitalized," as such term is defined in the applicable state and federal rules and regulations.

Section 3.22 Loans; Nonperforming and Classified Assets.

(a) SSNF Disclosure Schedule 3.22(a), sets forth all (i) loan, loan agreement, note or borrowing arrangement and other extensions of credit (including, without limitation, leases, credit enhancements, commitments, guarantees and interest-bearing assets) (collectively, "Loans") in which SSNF or any of its Subsidiaries is a creditor which, as of September 30, 2017, was over sixty (60) days or more delinquent in payment of principal or interest, and (ii) Loans with any director, executive officer or 5% or greater shareholder of SSNF or any of its Subsidiaries, or to the Knowledge of SSNF, any affiliate of any of the foregoing. Set forth in SSNF Disclosure Schedule 3.22(a) is a true, correct and complete list of (A) all of the Loans of SSNF and its Subsidiaries that, as of September 30, 2017, were classified as "Special Mention," "Substandard," "Doubtful," "Loss," "Classified," "Criticized," "Credit Risk Assets," "Concern Loans," "Watch List" or words of similar import by Sunshine Bank, SSNF or any bank examiner, together with the principal amount of and accrued and unpaid interest on each such Loan and the identity of the borrower thereunder, together with the aggregate principal amount of such Loans by category of Loan (e.g., commercial, consumer, etc.), and (B) each Loan classified by Sunshine Bank as a Troubled Debt Restructuring as defined by GAAP.

(b) SSNF Disclosure Schedule 3.22(b) identifies each asset of SSNF or any of its Subsidiaries that as of September 30, 2017 was classified as other real estate owned ("OREO") and the book value thereof as of November 30, 2017 as well as any assets classified as OREO between December 31, 2016 and November 30, 2017 and any sales of OREO between December 31, 2016 and November 30, 2017, reflecting any gain or loss with respect to any OREO sold.

(c) Each Loan held in SSNF's or any of its Subsidiaries' loan portfolio (each a "SSNF Loan") (i) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (ii) to the extent secured, is and has been secured by valid Liens which have been perfected and (iii) is a legal, valid and binding obligation of the SSNF and the obligor named therein, and, assuming due authorization, execution and delivery thereof by such obligor or obligors, enforceable in accordance with its terms, subject the Enforceability Exception.

(d) All currently outstanding SSNF Loans were solicited, originated and currently exist in material compliance with all applicable requirements of Law and the notes or other credit or security documents with respect to each such outstanding SSNF Loan are complete and correct in all material respects. There are no oral modifications or amendments or additional agreements related to the SSNF Loans that are not reflected in the written records of SSNF or its Subsidiary, as applicable. All such SSNF Loans are owned by SSNF or its Subsidiary free and clear of any Liens other than a blanket lien on qualifying loans provided to the Federal Home Loan Bank of Atlanta. No claims of defense as to the enforcement of any SSNF Loan have been asserted in writing against SSNF or any of its Subsidiaries for which there is a reasonable possibility of a material adverse determination, and SSNF has no Knowledge of any acts or omissions which would give rise to any claim or right of rescission, set-off, counterclaim or defense for which there is a reasonable possibility of a material adverse determination to its Subsidiaries. Other than participation loans purchased by SSNF from third parties that are described on SSNF Disclosure Schedule 3.22(d), no SSNF

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Loans are presently serviced by third parties and there is no obligation which could result in any SSNF Loan becoming subject to any third party servicing.

(e) Neither SSNF nor any of its Subsidiaries is a party to any agreement or arrangement with (or otherwise obligated to) any Person which obligates SSNF or any of its Subsidiaries to repurchase from any such Person any Loan or other asset of SSNF or any of its Subsidiaries, unless there is a material breach of a representation or covenant by SSNF or any of its Subsidiaries, and none of the agreements pursuant to which SSNF or any of its Subsidiaries has sold Loans or pools of Loans or participations in Loans or pools of Loans contains any obligation to repurchase such Loans or interests therein solely on account of a payment default by the obligor on any such Loan.

(f) Neither SSNF nor any of its Subsidiaries is now nor has it ever been since January 1, 2014, subject to any fine, suspension, settlement or other contract or other administrative agreement or sanction by, or any reduction in any loan purchase commitment from, any Governmental Authority relating to the origination, sale or servicing of mortgage or consumer Loans.

Section 3.23 Allowance for Loan and Lease Losses. SSNF's allowance for loan and lease losses as reflected in each of (a) the latest balance sheet included in the Financial Statements and (b) in the balance sheet as of December 31, 2016 included in the Financial Statements, were, in the opinion of management, as of each of the dates thereof, in compliance in all material respects with SSNF's existing methodology for determining the adequacy of its allowance for loan and lease losses as well as the standards established by applicable Governmental Authority, the Financial Accounting Standards Board and GAAP.

Section 3.24 Trust Business; Administration of Fiduciary Accounts. Neither SSNF nor any of its Subsidiaries has offered or engaged in providing any individual or corporate trust services or administers any accounts for which it acts as a fiduciary, including, but not limited to, any accounts in which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor.

Section 3.25 Investment Management and Related Activities. Except as set forth in SSNF Disclosure Schedule 3.25, none of SSNF, any SSNF Subsidiary or any of their respective directors, officers or employees is required to be registered, licensed or authorized under the Laws of any Governmental Authority as an investment adviser, a broker or dealer, an insurance agency, a commodity trading adviser, a commodity pool operator, a futures commission merchant, an introducing broker, a registered representative or associated person, investment adviser, representative or solicitor, a counseling officer, an insurance agent, a sales person or in any similar capacity with a Governmental Authority.

Section 3.26 Repurchase Agreements. With respect to all agreements pursuant to which SSNF or any of its Subsidiaries has purchased securities subject to an agreement to resell, if any, SSNF or any of its Subsidiaries, as the case may be, has a valid, perfected first lien or security interest in the government securities or other collateral securing the repurchase agreement, and the value of such collateral equals or exceeds the amount of the debt secured thereby.

Section 3.27 Deposit Insurance. The deposits of Sunshine Bank are insured by the FDIC in accordance with the Federal Deposit Insurance Act ("FDIA") to the fullest extent permitted by Law, and Sunshine Bank has paid all premiums and assessments and filed all reports required by the FDIA. No proceedings for the revocation or termination of such deposit insurance are pending or, to SSNF's Knowledge, threatened.

Section 3.28 Community Reinvestment Act, Anti-money Laundering and Customer Information Security. Neither SSNF nor any of its Subsidiaries is a party to any agreement with any individual or group regarding Community Reinvestment Act matters and neither SSNF nor any of its Subsidiaries has Knowledge, that any facts or circumstances exist, which would cause SSNF or any of its Subsidiaries: (i) to be deemed not to be in satisfactory compliance with the Community Reinvestment Act, and the regulations promulgated thereunder, or to be assigned a rating for Community Reinvestment Act purposes by federal or state bank regulators of lower than "satisfactory"; or (ii) to be deemed to be operating in violation of the Bank Secrecy Act and its implementing regulations (31 C.F.R. Part 103), the USA PATRIOT Act, any order issued with respect to anti-money laundering by the U.S. Department of the Treasury's Office of Foreign Assets Control, or any other applicable anti-money laundering statute, rule or regulation; or (iii) to be deemed not to be in satisfactory compliance with the applicable privacy of customer information

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requirements contained in any federal and state privacy Laws and regulations, including, without limitation, in Title V of the Gramm-Leach-Bliley Act of 1999 and regulations promulgated thereunder. Furthermore, the boards of directors of SSNF and its Subsidiaries has implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that has not been deemed ineffective by any Governmental Authority and that meets the requirements of Sections 352 and 326 of the USA PATRIOT Act.

Section 3.29 Transactions with Affiliates. Except as set forth in SSNF Disclosure Schedule 3.29, there are no outstanding amounts payable to or receivable from, or advances by SSNF or any of its Subsidiaries to, and neither SSNF nor any of its Subsidiaries is otherwise a creditor or debtor to (a) any director, executive officer, five percent (5%) or greater shareholder of SSNF or any of its Subsidiaries or to any of their respective Affiliates or Associates, other than part of the normal and customary terms of such persons' employment or service as a director with SSNF or any of its Subsidiaries and other than deposits held by Sunshine Bank in the Ordinary Course of Business, or (b) any other Affiliate of SSNF or any of its Subsidiaries. Except as set forth in SSNF Disclosure Schedule 3.29, neither SSNF nor any of its Subsidiaries is a party to any transaction or agreement with any of its respective directors, executive officers or other Affiliates. All agreements between Sunshine Bank and any of its Affiliates (or any company treated as an affiliate for purposes of such Law) comply, to the extent applicable, with Sections 23A and 23B of the Federal Reserve Act and Regulation W of the FRB.

Section 3.30 Tangible Properties and Assets.

(a) SSNF Disclosure Schedule 3.30(a) sets forth a true, correct and complete list of all real property owned by SSNF and each of its Subsidiaries. Except as set forth in SSNF Disclosure Schedule 3.30(a), SSNF or its Subsidiaries has good and marketable title to, valid leasehold interests in or otherwise legally enforceable rights to use all of the real property, personal property and other assets (tangible or intangible), used, occupied and operated or held for use by it in connection with its business as presently conducted in each case, free and clear of any Lien, except for (i) statutory Liens for amounts not yet delinquent, and (ii) easements, rights of way, and other similar Liens that do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties. There is no pending or, to SSNF's Knowledge, threatened legal, administrative, arbitral or other proceeding, claim, action or governmental or regulatory investigation of any nature with respect to the real property that SSNF or any of its Subsidiaries owns, uses or occupies or has the right to use or occupy, now or in the future, including without limitation a pending or threatened taking of any of such real property by eminent domain. True and complete copies of all deeds or other documentation evidencing ownership of the real properties set forth in SSNF Disclosure Schedule 3.30(a), and complete copies of the title insurance policies and surveys for each property, together with any mortgages, deeds of trust and security agreements to which such property is subject have been furnished or made available to FBMS.

(b) SSNF Disclosure Schedule 3.30(b) sets forth a true, correct and complete schedule of all leases, subleases, licenses and other agreements under which SSNF or any of its Subsidiaries uses or occupies or has the right to use or occupy, now or in the future, real property (the "Leases"). Each of the Leases is valid, binding and in full force and effect and neither SSNF nor any of its Subsidiaries has received a written notice of, and otherwise has no Knowledge of any, default or termination with respect to any Lease. To SSNF's Knowledge, there has not occurred any event and no condition exists that would constitute a termination event or a breach by SSNF or any of its Subsidiaries of, or default by SSNF or any of its Subsidiaries in, the performance of any covenant, agreement or condition contained in any Lease. To SSNF's Knowledge, no lessor under a Lease is in material breach or default in the performance of any material covenant, agreement or condition contained in such Lease. SSNF and each of its Subsidiaries have paid all rents and other charges to the extent due under the Leases. True and complete copies of all leases for, or other documentation evidencing ownership of or a leasehold interest in, the properties listed in SSNF Disclosure Schedule 3.30(b), have been furnished or made available to FBMS.

(c) All buildings, structures, fixtures, building systems and equipment, and all components thereof, including the roof, foundation, load-bearing walls and other structural elements thereof, heating, ventilation, air conditioning, mechanical, electrical, plumbing and other building systems, environmental control, remediation and abatement systems, sewer, storm and waste water systems, irrigation and other

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water distribution systems, parking facilities, fire protection, security and surveillance systems, and telecommunications, computer, wiring and cable installations, included in the owned real property or the subject of the Leases are in good condition and repair (normal wear and tear excepted) and sufficient for the operation of the business of SSNF and its Subsidiaries.

Section 3.31 Intellectual Property. SSNF Disclosure Schedule 3.31 sets forth a true, complete and correct list of all SSNF Intellectual Property. SSNF or its Subsidiaries owns or has a valid license to use all SSNF Intellectual Property, free and clear of all Liens, royalty or other payment obligations (except for royalties or payments with respect to off-the-shelf Software at standard commercial rates). The SSNF Intellectual Property constitutes all of the Intellectual Property necessary to carry on the business of SSNF and its Subsidiaries as currently conducted. The SSNF Intellectual Property is valid and enforceable and has not been cancelled, forfeited, expired or abandoned, and neither SSNF nor any of its Subsidiaries has received notice challenging the validity or enforceability of SSNF Intellectual Property. None of SSNF or any of its Subsidiaries is, nor will any of them be as a result of the execution and delivery of this Agreement or the performance by SSNF of its obligations hereunder, in violation of any licenses, sublicenses and other agreements as to which SSNF or any of its Subsidiaries is a party and pursuant to which SSNF or any of its Subsidiaries is authorized to use any third-party patents, trademarks, service marks, copyrights, trade secrets or computer software, and neither SSNF nor any of its Subsidiaries has received notice challenging SSNF's or any of its Subsidiaries' license or legally enforceable right to use any such third-party intellectual property rights. The consummation of the transactions contemplated hereby will not result in the material loss or impairment of the right of SSNF or any of its Subsidiaries to own or use any of SSNF Intellectual Property.

Section 3.32 Insurance.

(a) SSNF Disclosure Schedule 3.32(a) identifies all of the insurance policies, binders, or bonds currently maintained by SSNF and its Subsidiaries (the "Insurance Policies"), including the insurer, policy numbers, amount of coverage, effective and termination dates and any pending claims thereunder involving more than $10,000. SSNF and each of its Subsidiaries is insured with reputable insurers against such risks and in such amounts as the management of SSNF reasonably has determined to be prudent in accordance with industry practices. All of the Insurance Policies are in full force and effect, neither SSNF nor any Subsidiary has received notice of cancellation of any of the Insurance Policies or is otherwise aware that any insurer under any of the Insurance Policies has expressed an intent to cancel any such Insurance Policies, and neither SSNF nor any of its Subsidiaries is in default thereunder, and all claims thereunder have been filed in due and timely fashion in all material respects.

(b) SSNF Disclosure Schedule 3.32(b) sets forth a true, correct and complete description of all bank owned life insurance ("BOLI") owned by SSNF or its Subsidiaries, including the value of its BOLI as of the end of the month prior to the date hereof. The value of such BOLI is and has been fairly and accurately reflected in the most recent balance sheet included in the Financial Statements in accordance with GAAP. All BOLI is owned solely by Sunshine Bank, no other Person has any ownership claims with respect to such BOLI or proceeds of insurance derived therefrom and there is no split dollar or similar benefit under SSNF's BOLI. Neither SSNF nor any of SSNF's Subsidiaries has any outstanding borrowings secured in whole or part by its BOLI.

Section 3.33 Antitakeover Provisions. No "control share acquisition," "business combination moratorium," "fair price" or other form of antitakeover statute or regulation is applicable to this Agreement, the Plan of Merger and the transactions contemplated hereby and thereby.

Section 3.34 SSNF Information. The information relating to SSNF and its Subsidiaries that is provided by or on behalf of SSNF for inclusion in the Proxy Statement-Prospectus and the Registration Statement will not (with respect to the Proxy Statement-Prospectus, as of the date the Proxy Statement-Prospectus is first mailed to SSNF's shareholders, and as of the date of the SSNF Meeting, with respect to the Registration Statement, as of the time the Registration Statement or any amendment or supplement thereto is declared effective under the Securities Act) contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading; provided, however, that any information contained in any SSNF Report as of a later date shall be deemed to modify information as of an earlier date. The

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portions of the Proxy Statement-Prospectus relating to SSNF and SSNF's Subsidiaries and other portions thereof within the reasonable control of SSNF and its Subsidiaries will comply as to form in all material respects with the provisions of the Exchange Act, and the rules and regulations thereunder.

Section 3.35 Transaction Costs. SSNF Disclosure Schedule 3.35 sets forth attorneys' fees, investment banking fees, accounting fees and other costs or fees of SSNF and its Subsidiaries that, based upon reasonable inquiry, are expected to be paid or accrued through the Closing Date in connection with the Merger and the other transactions contemplated by this Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF FBMS

Except as set forth in the disclosure schedule delivered by FBMS to SSNF prior to or concurrently with the execution of this Agreement with respect to each such Section below (the "FBMS Disclosure Schedule"); provided, that (a) the mere inclusion of an item in the FBMS Disclosure Schedule as an exception to a representation or warranty shall not be deemed an admission by FBMS that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect on FBMS, and (b) any disclosures made with respect to a section of Article IV shall be deemed to qualify (1) any other section of Article IV specifically referenced or cross-referenced and (2) other sections of Article IV to the extent it is reasonably apparent on its face (notwithstanding the absence of a specific cross reference) from a reading of the disclosure that such disclosure applies to such other sections, FBMS hereby represents and warrants to SSNF as follows:

Section 4.01 Organization and Standing. Each of FBMS and its Subsidiaries is (a) an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation and (b) is duly licensed or qualified to do business and in good standing in each jurisdiction where its ownership or leasing of property or the conduct of its business requires such qualification, except where the failure to be so licensed or qualified has not had, and is not reasonably likely to have, a Material Adverse Effect with respect to FBMS.

Section 4.02 Capital Stock. The authorized capital stock of FBMS consists of 20,000,000 shares of FBMS Common Stock, and 10,000,000 shares of preferred stock. As of the date hereof, 11,192,401 shares of FBMS Common Stock were issued and outstanding and no shares of preferred stock were issued and outstanding. The outstanding shares of FBMS Common Stock have been duly authorized and validly issued and are fully paid and non-assessable and have not been issued in violation of nor are they subject to preemptive rights of any FBMS shareholder. The shares of FBMS Common Stock to be issued pursuant to this Agreement, when issued in accordance with the terms of this Agreement, will be duly authorized, validly issued, fully paid and non-assessable and will not be subject to preemptive rights. All shares of FBMS's capital stock issued and outstanding have been issued in compliance with and not in violation of any applicable federal or state securities Laws.

Section 4.03 Corporate Power.

(a) FBMS and each of its Subsidiaries has the corporate or similar power and authority to carry on its business as it is now being conducted and to own all of its properties and assets; and FBMS has the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby, subject to receipt of all necessary approvals of Governmental Authorities and the Regulatory Approvals.

(b) FBMS has made available to SSNF a complete and correct copy of its articles of incorporation and bylaws or equivalent organizational documents, each as amended to date, of FBMS and each of its Subsidiaries. Neither FBMS nor any of its Subsidiaries is in violation of any of the terms of its articles of incorporation, bylaws or equivalent organizational documents.

Section 4.04 Corporate Authority. This Agreement and the transactions contemplated hereby have been authorized by all necessary corporate action of FBMS on or prior to the date hereof. FBMS has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery by SSNF,

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this Agreement is a valid and legally binding obligation of FBMS, enforceable in accordance with its terms (except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors' rights or by general equity principles).

Section 4.05 SEC Documents; Financial Statements.

(a) FBMS has filed all required reports, forms, schedules, registration statements and other documents with the SEC that it has been required to file since January 1, 2014 (the "FBMS Reports"), and has paid all fees and assessments due and payable in connection therewith. As of their respective dates of filing with the SEC (or, if amended or superseded by a subsequent filing prior to the date hereof, as of the date of such subsequent filing), the FBMS Reports complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such FBMS Reports, and none of the FBMS Reports when filed with the SEC, or if amended prior to the date hereof, as of the date of such amendment, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. As of the date of this Agreement, no executive officer of FBMS has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act. As of the date of this Agreement, there are no outstanding comments from or unresolved issues raised by the SEC with respect to any of the FBMS Reports.

(b) The consolidated financial statements of FBMS (or incorporated by reference) included (or incorporated by reference) in the FBMS Reports (including the related notes, where applicable) complied as to form, as of their respective dates of filing with the SEC (or, if amended or superseded by a subsequent filing prior to the date hereof, as of the date of such subsequent filing), in all material respects, with all applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto (except, in the case of unaudited statements, as permitted by the rules of the SEC), have been prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be disclosed therein), and fairly present, in all material respects, the consolidated financial position of FBMS and its Subsidiaries and the consolidated results of operations, changes in shareholders' equity and cash flows of such companies as of the dates and for the periods shown. The books and records of FBMS and its Subsidiaries have been, and are being, maintained in accordance with GAAP and any other applicable legal and accounting requirements, reflect only actual transactions and there are no material misstatements, omissions, inaccuracies or discrepancies contained or reflected therein. T. E. Lott & Company has not resigned (or informed FBMS that it intends to resign) or been dismissed as independent public accountants of FBMS as a result of or in connection with any disagreements with FBMS on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(c) FBMS (x) has established and maintained disclosure controls and procedures and internal control over financial reporting (as such terms are defined in paragraphs (e) and (f), respectively, of Rule 13a-15 under the Exchange Act) as required by Rule 13a-15 under the Exchange Act, and (y) has disclosed, based on its most recent evaluation, to its outside auditors and the audit committee of FBMS's board of directors (A) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect FBMS's ability to record, process, summarize and report financial data and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in FBMS's internal control over financial reporting. These disclosures were made in writing by management to FBMS's auditors and audit committee. There is no reason to believe that FBMS's outside auditors and its Chief Executive Officer and Chief Financial Officer will not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when next due.

(d) Since January 1, 2014, neither FBMS nor any of its Subsidiaries nor, to FBMS's Knowledge, any director, officer, employee, auditor, accountant or representative of FBMS or any of its Subsidiaries has received, or otherwise had or obtained Knowledge of, any material complaint, allegation, assertion or claim

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regarding the accounting or auditing practices, procedures, methodologies or methods of FBMS or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that FBMS or any of its Subsidiaries has engaged in questionable accounting or auditing practices.

Section 4.06 Regulatory Reports. Except as set forth on FBMS Schedule 4.06, since January 1, 2014, FBMS and each of its Subsidiaries has timely filed with the SEC, OCC, FRB, FDIC, any SRO and any other applicable Governmental Authority, in correct form, all reports, registration statements and other documents required to be filed under applicable Laws and regulations and have paid all fees and assessments due and payable in connection therewith, and such reports were complete and accurate and in compliance in all material respects with the requirements of applicable Laws and regulations, except where the failure to file such report or statement or to pay such fees and assessments, either individually or in the aggregate, would not reasonably be likely to have a Material Adverse Effect with respect to FBMS. Except for normal examinations conducted by a Governmental Authority in the regular course of the business of FBMS and its Subsidiaries, no Governmental Authority has notified FBMS that it has initiated or has pending any proceeding or, to the Knowledge of FBMS threatened an investigation into the business or operations of FBMS or any of its Subsidiaries since January 1, 2014, except where such proceedings or investigation would not reasonably be likely to have, either individually or in the aggregate, a Material Adverse Effect with respect to FBMS. There is no unresolved violation, criticism or exception by any Governmental Authority with respect to any report filed by, or relating to any examinations or inspections by any such Governmental Authority of FBMS or any of its Subsidiaries which would reasonably be likely to have, either individually or in the aggregate, a Material Adverse Effect with respect to FBMS.

Section 4.07 Regulatory Approvals; No Defaults. No consents or approvals of, or waivers by, or filings or registrations with, any Governmental Authority are required to be made or obtained by FBMS or any of its Subsidiaries in connection with the execution, delivery or performance by FBMS of this Agreement or to consummate the transactions contemplated by this Agreement, including the Bank Merger, except for (i) the Regulatory Approvals, (ii) the filing with the SEC of the Proxy Statement and the filing and declaration of effectiveness of the Form S-4, (iii) the filing of the Articles of Merger contemplated by Section 1.05(a) and the filing of documents with the FDIC, the OCC, applicable state banking agencies, and the Secretary of State of Florida to cause the Bank Merger to become effective, (iv) such other filings and reports as required pursuant to the Exchange Act and the rules and regulations promulgated thereunder, or applicable stock exchange requirements, (v) any consents, authorizations, approvals, filings or exemptions in connection with compliance with the rules and regulations of any applicable SRO and the rules of the NASDAQ and (vi) such filings and approvals as are required to be made or obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of the shares of FBMS Common Stock pursuant to this Agreement and approval of listing of such FBMS Common Stock on the NASDAQ. Subject to the receipt of the approvals referred to in the preceding sentence, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by FBMS do not and will not, (1) constitute a breach or violation of, or a default under, the articles of incorporation and bylaws of FBMS, (2) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to FBMS or any of its Subsidiaries, or any of their respective properties or assets, (3) violate, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of FBMS or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, contract, agreement or other instrument or obligation to which FBMS or any of its Subsidiaries is a party, or by which they or any of their respective properties or assets may be bound. As of the date hereof, FBMS has no Knowledge of any reason (i) why the Regulatory Approvals and other necessary consents and approvals will not be received in order to permit consummation of the Merger and Bank Merger on a timely basis and (ii) why a Burdensome Condition would be imposed.

Section 4.08 FBMS Information. The information relating to FBMS and its Subsidiaries that is supplied by or on behalf of FBMS for inclusion or incorporation by reference in the Proxy Statement-Prospectus and the Registration Statement will not (with respect to the Proxy

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Statement-Prospectus, as of the date the Proxy Statement-Prospectus is first mailed to SSNF shareholders, and as of the date of the SSNF Meeting, with respect to the Registration Statement, as of the time the Registration Statement or any amendment or supplement thereto is declared effective under the Securities Act) contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading; provided, however, that any information contained in any FBMS Report as of a later date shall be deemed to modify information as of an earlier date. The portions of the Proxy Statement-Prospectus relating to FBMS and FBMS's Subsidiaries and other portions thereof within the reasonable control of FBMS and its Subsidiaries will comply as to form in all material respects with the provisions of the Exchange Act, and the rules and regulations thereunder.

Section 4.09 Absence of Certain Changes or Events. Except as reflected or disclosed in FBMS's Annual Report on Form 10-K for the year ended December 31, 2016 or in the FBMS Reports since December 31, 2016, as filed with the SEC, there has been no change or development with respect to FBMS and its assets and business or combination of such changes or developments which, individually or in the aggregate, has had or is reasonably likely to have a Material Adverse Effect with respect to FBMS.

Section 4.10 Compliance with Laws.

(a) FBMS and each of its Subsidiaries is, and have been since January 1, 2014, in compliance in all material respects with all applicable federal, state, local and foreign Laws, rules, judgments, orders or decrees applicable thereto or to the employees conducting such businesses, including, without limitation, Laws related to data protection or privacy, the USA PATRIOT Act, the Bank Secrecy Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Community Reinvestment Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Dodd-Frank Act, Sections 23A and 23B of the Federal Reserve Act, the Sarbanes-Oxley Act or the regulations implementing such statutes, all other applicable anti-money laundering Laws, fair lending Laws and other Laws relating to discriminatory lending, financing, leasing or business practices and all agency requirements relating to the origination, sale and servicing of mortgage loans. Neither FBMS nor any of its Subsidiaries has been advised of any supervisory concerns regarding their compliance with the Bank Secrecy Act or related state or federal anti-money laundering laws, regulations and guidelines, including without limitation those provisions of federal regulations requiring (i) the filing of reports, such as Currency Transaction Reports and Suspicious Activity Reports, (ii) the maintenance of records and (iii) the exercise of due diligence in identifying customers.

(b) FBMS and each of its Subsidiaries have all material permits, licenses, authorizations, orders and approvals of, and each has made all filings and applications and registrations with, all Governmental Authorities that are required in order to permit it to own or lease its properties and to conduct its business as presently conducted. All such permits, licenses, certificates of authority, orders and approvals are in full force and effect and, to FBMS's Knowledge, no suspension or cancellation of any of them is threatened.

(c) Neither FBMS nor any of its Subsidiaries has received, since January 1, 2014, written or, to FBMS's Knowledge, oral notification from any Governmental Authority (i) asserting that it is not in compliance with any of the Laws which such Governmental Authority enforces or (ii) threatening to revoke any license, franchise, permit or governmental authorization, except where such noncompliance of threatened revocation is not reasonably likely to have, a Material Adverse Effect with respect to FBMS.

Section 4.11 FBMS Regulatory Matters.

(a) FBMS is regulated as a financial holding company under the Bank Holding Company Act of 1956.

(b) The deposit accounts of The First are insured by the FDIC through the Deposit Insurance Fund to the fullest extent permitted by Law, and all premiums and assessments required to be paid in connection therewith have been paid when due, and no proceedings for the termination of such insurance are pending or, to FBMS's Knowledge, threatened. The First received a rating of "satisfactory" in its most recent examination under the Community Reinvestment Act.

(c) Since January 1, 2014, neither FBMS nor any of its Subsidiaries is party to, or the subject of, any cease-and-desist order, consent order, written agreement, order for civil money penalty, refund, restitution, prompt corrective action directive, memorandum of understanding, supervisory letter, individual minimum

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capital requirement, operating agreement, or any other formal or informal enforcement action issued or required by, or entered into with, any Governmental Authority. Neither FBMS nor any of its Subsidiaries has made, adopted, or implemented any commitment, board resolution, policy, or procedure at the request or recommendation of any Governmental Authority that limits in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its payment of dividends or distribution of capital, its credit or risk management, its compliance program, its management, its growth, or its business. Neither FBMS nor any of its Subsidiaries has Knowledge that any Governmental Authority is considering issuing, initiating, ordering, requesting, recommending, or otherwise proceeding with any of the items referenced in this paragraph.

(d) Except for examinations of FBMS and its Subsidiaries conducted by their respective primary functional regulators in the Ordinary Course of Business, no Governmental Authority has initiated, threatened, or has pending any proceeding or, to the Knowledge of FBMS, any inquiry or investigation into the business or operations of FBMS or any of its Subsidiaries, except where such proceeding, inquiry, or investigation would not reasonably be likely to have, either individually or in the aggregate, a Material Adverse Effect with respect to FBMS or to prevent or materially delay receipt of the Regulatory Approvals.

(e) There is no unresolved violation, apparent violation, criticism, matter requiring attention, recommendation, or exception cited, made, or threatened by any Governmental Authority in any report of examination, report of inspection, supervisory letter or other communication with FBMS or any of its Subsidiaries that (i) would reasonably be likely to have, either individually or in the aggregate, a Material Adverse Effect with respect to FBMS or (ii) would reasonably be likely to prevent or materially delay the receipt of the Regulatory Approvals or result in a Burdensome Condition.

Section 4.12 Brokers. Neither FBMS nor any of its officers, directors or any of its Subsidiaries has employed any broker or finder or incurred, nor will it incur, any liability for any broker's fees, commissions or finder's fees in connection with any of the transactions contemplated by this Agreement, except that FBMS has engaged, and will pay a fee or commission to Keefe, Bruyette & Woods, Inc.

Section 4.13 Legal Proceedings.

(a) Neither FBMS nor any of its Subsidiaries is a party to any, and there are no pending or, to FBMS's knowledge, threatened, legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature against FBMS or any of its Subsidiaries or any of their current or former directors or executive officers in their capacities as such that is reasonably likely to have a Material Adverse Effect on FBMS, or challenging the validity or propriety of the transactions contemplated by this Agreement.

(b) There is no material injunction, order, judgment, decree or regulatory restriction (other than regulatory restrictions of general application to banks and bank holding companies) imposed upon FBMS, any of its Subsidiaries or the assets of FBMS or any of its Subsidiaries (or that, upon consummation of the Merger or the Bank Merger would apply to the Surviving Entity or any of its Subsidiaries or affiliates).

Section 4.14 Tax Matters.

(a) Each of FBMS and its Subsidiaries has filed all material Tax Returns that it was required to file under applicable Laws, other than Tax Returns that are not yet due or for which a request for extension was timely filed consistent with requirements of applicable Law. All such Tax Returns were correct and complete in all material respects and have been prepared in substantial compliance with all applicable Laws. All material Taxes due and owing by FBMS or any of its Subsidiaries (whether or not shown on any Tax Return) have been paid. Since January 1, 2014, neither FBMS nor any of its Subsidiaries has received written notice of any claim by any Governmental Authority in a jurisdiction where FBMS or such Subsidiary does not file Tax Returns that it is or may be subject to Taxes by that jurisdiction. There are no material Liens for Taxes (other than Taxes not yet due and payable or that are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP) upon any of the assets of FBMS or any of its Subsidiaries.

(b) No foreign, federal, state, or local Tax audits or administrative or judicial Tax proceedings are currently being conducted or pending or threatened in writing, in each case, with respect to a material amount of Taxes of FBMS or any of its Subsidiaries. Neither FBMS nor any of its Subsidiaries has

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received from any foreign, federal, state, or local taxing authority (including jurisdictions where FBMS or any of its Subsidiaries have not filed Tax Returns) any (i) notice indicating an intent to open an audit or other review with respect to Taxes or (ii) notice of deficiency or proposed adjustment for any amount of material Tax proposed, asserted, or assessed by any taxing authority against FBMS or any of its Subsidiaries which, in either case (i) or (ii), have not been fully paid or settled.

(c) Since December 31, 2016, neither FBMS nor any of its Subsidiaries has incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the ordinary course of business.

(d) Neither FBMS nor any of its Subsidiaries has been a party to any "listed transaction," as defined in Section 6707A(c)(2) of the Code and Section 1.6011-4(b)(2) of the Regulations in any tax year for which the statute of limitations has not expired.

(e) Neither FBMS nor any of its Subsidiaries has taken or agreed to take any action, or is aware of any fact or circumstance, that would be reasonably likely to prevent the Merger or the Bank Merger from qualifying for U.S. federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code.

Section 4.15 Regulatory Capitalization. FBMS and its Subsidiaries are "well-capitalized," as such term is defined in the applicable state and federal rules and regulations.

Section 4.16 No Financing. FBMS has and will have as of the Effective Time, without having to resort to external sources, sufficient capital to effect the transactions contemplated by this Agreement.

ARTICLE V

COVENANTS

Section 5.01 Covenants of SSNF. During the period from the date of this Agreement and continuing until the Effective Time or the earlier termination of this Agreement in accordance with its terms, except as expressly contemplated or permitted by this Agreement (including as set forth in the SSNF Disclosure Schedule), required by Law or with the prior written consent of FBMS (which consent shall not be unreasonably withheld, conditioned or delayed), SSNF shall carry on its business, including the business of each of its Subsidiaries, in the Ordinary Course of Business in all material respects and consistent with prudent banking practice. Without limiting the generality of the foregoing, SSNF will use commercially reasonable efforts to (i) preserve its business organizations and assets intact, (ii) keep available to itself and FBMS the present services of the current officers and employees of SSNF and its Subsidiaries, (iii) preserve for itself and FBMS the goodwill of its customers, employees, lessors and others with whom business relationships exist, (iv) continue diligent collection efforts with respect to any delinquent loans and, to the extent within its control, not allow any material increase in delinquent loans. Without limiting the generality of and in furtherance of the foregoing, from the date of this Agreement until the Effective Time, except (x) as set forth in SSNF Disclosure Schedule 5.01, (y) as otherwise expressly required by this Agreement, or (z) consented to in writing by FBMS (which consent shall not be unreasonably withheld, conditioned or delayed, and FBMS shall, when considering the reasonableness of any such request, take into account the preservation of the franchise value of SSNF and Sunshine Bank as independent enterprises on a going-forward basis and the prevention of substantial deterioration of the properties of Sunshine and its Subsidiaries), SSNF shall not and shall not permit its Subsidiaries to:

(a) Stock. (i) Issue, sell, grant, pledge, dispose of, encumber, or otherwise permit to become outstanding, or authorize the creation of, any additional shares of its stock, any Rights, any new award or grant under the SSNF Stock Plans or otherwise, or any other securities (including units of beneficial ownership interest in any partnership or limited liability company), or enter into any agreement with respect to the foregoing, except that SSNF may issue shares of SSNF Common Stock upon the exercise of SSNF Stock Options which are currently outstanding and vested (or which become vested prior to the Effective Time), (ii) except as expressly permitted by this Agreement, accelerate the vesting of any existing Rights, or (iii) except as expressly permitted by this Agreement (and provided that SSNF may repurchase, redeem or otherwise acquire shares of SSNF Common Stock in connection with the payment of (x) the exercise price and any related withholding taxes owed by the holder of an SSNF Stock Option who exercises an SSNF

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Stock Option or (y) the withholding taxes owed by a holder of an SSNF Restricted Share upon the vesting of an SSNF Restricted Share), directly or indirectly change (or establish a record date for changing), adjust, split, combine, redeem, reclassify, exchange, purchase or otherwise acquire any shares of its capital stock, or any other securities (including units of beneficial ownership interest in any partnership or limited liability company) convertible into or exchangeable for any additional shares of stock, any Rights issued and outstanding prior to the Effective Time.

(b) Dividends; Other Distributions. Make, declare, pay or set aside for payment of dividends payable in cash, stock or property on or in respect of, or declare or make any distribution on, any shares of its capital stock, except for dividends from wholly owned Subsidiaries to SSNF.

(c) Compensation; Employment Agreements, Etc. Enter into or amend or renew any employment, consulting, compensatory, severance, retention or similar agreements or arrangements with any director, officer or employee of SSNF or any of its Subsidiaries, or grant any salary, wage or fee increase or increase any employee benefit or pay any incentive or bonus payments, except, in each case, (i) normal increases in base salary to employees in the Ordinary Course of Business and pursuant to policies currently in effect, provided that, such increases shall not result in an annual adjustment in base compensation (which includes base salary and any other compensation other than bonus payments) of more than 5% for any individual or 3% in the aggregate for all employees of SSNF or any of its Subsidiaries other than annual increases in base compensation and year-end bonuses disclosed in SSNF Disclosure Schedule 5.01(c), (ii) as specifically provided for by this Agreement (including, without limitation, as contemplated by Section 5.11 of this Agreement), (iii) as may be required by Law, (iv) to satisfy the contractual obligations existing as of the date hereof set forth on SSNF Disclosure Schedule 3.15(k), or (iv) as otherwise set forth in SSNF Disclosure Schedule 5.01(c).

(d) Hiring. Hire any person as an employee or officer of SSNF or any of its Subsidiaries, except for at-will employment at an annual rate of base salary not to exceed $100,000 to fill vacancies that may arise from time to time in the Ordinary Course of Business.

(e) Benefit Plans. Enter into, establish, adopt, amend, modify or terminate (except (i) as may be required by or to make consistent with applicable Law, subject to the provision of prior written notice to and consultation with respect thereto with FBMS, (ii) to satisfy contractual obligations existing as of the date hereof and set forth in SSNF Disclosure Schedule 5.01(e), (iii) as previously disclosed to FBMS and set forth in SSNF Disclosure Schedule 5.01(e), or (iv) as may be required pursuant to the terms of this Agreement) any SSNF Benefit Plan or other pension, retirement, stock option, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any current or former director, officer or employee of SSNF or any of its Subsidiaries.

(f) Transactions with Affiliates. Except pursuant to agreements or arrangements in effect on the date hereof and set forth in SSNF Disclosure Schedule 5.01(f), pay, loan or advance any amount to, or sell, transfer or lease any properties or assets (real, personal or mixed, tangible or intangible) to, or enter into any agreement or arrangement with, any of its officers or directors or any of their immediate family members or any Affiliates or Associates of any of its officers or directors other than compensation or business expense advancements or reimbursements in the Ordinary Course of Business. This subsection shall not restrict Sunshine Bank from making or renewing loans to directors, officers, and their immediate family members, Affiliates, or Associates that are below the thresholds set forth in Section 5.01(s) and which are in compliance with Regulation O.

(g) Dispositions. Except in the Ordinary Course of Business, sell, license, lease, transfer, mortgage, pledge, encumber or otherwise dispose of or discontinue any of its rights, assets, deposits, business or properties or cancel or release any indebtedness owed to SSNF or any of its Subsidiaries.

(h) Acquisitions. Acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the Ordinary Course of Business) all or any portion of the assets, debt, business, deposits or properties of any other entity or Person, except for purchases specifically approved by FBMS pursuant to any other applicable paragraph of this Section 5.01.

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(i) Capital Expenditures. Make any capital expenditures in amounts exceeding $50,000 individually, or $250,000 in the aggregate, provided that FBMS shall grant or deny its consent to emergency repairs or replacements necessary to prevent substantial deterioration of the condition of a property within two (2) Business Days of its receipt of a written request from SSNF.

(j) Governing Documents. Amend SSNF's articles of incorporation or bylaws or any equivalent documents of SSNF's Subsidiaries.

(k) Accounting Methods. Implement or adopt any change in its accounting principles, practices or methods, other than as may be required by applicable Laws or GAAP or applicable accounting requirements of any Governmental Authority, in each case, including changes in the interpretation or enforcement thereof.

(l) Contracts. Except as set forth in SSNF Disclosure Schedule 5.01(l), enter into, amend, modify, terminate, extend, or waive any material provision of, any SSNF Material Contract, Lease or Insurance Policy, or make any change in any instrument or agreement governing the terms of any of its securities, or material lease, license or contract, other than normal renewals of contracts, licenses and leases without material adverse changes of terms with respect to SSNF or any of its Subsidiaries, or enter into any contract that would constitute a SSNF Material Contract if it were in effect on the date of this Agreement, except for any amendments, modifications or terminations reasonably requested by FBMS.

(m) Claims. Other than settlement of foreclosure actions in the Ordinary Course of Business, (i) enter into any settlement or similar agreement with respect to any action, suit, proceeding, order or investigation to which SSNF or any of its Subsidiaries is or becomes a party after the date of this Agreement, which settlement or agreement involves payment by SSNF or any of its Subsidiaries of an amount which exceeds $100,000 individually or $200,000 in the aggregate and/or would impose any material restriction on the business of SSNF or any of its Subsidiaries or (ii) waive or release any material rights or claims, or agree or consent to the issuance of any injunction, decree, order or judgment restricting or otherwise affecting its business or operations.

(n) Banking Operations. (i) Enter into any material new line of business, introduce any material new products or services, any material marketing campaigns or any material new sales compensation or incentive programs or arrangements; (ii) change in any material respect its lending, investment, underwriting, risk and asset liability management and other banking and operating policies, except as required by applicable Law, regulation or policies imposed by any Governmental Authority; (iii) make any material changes in its policies and practices with respect to underwriting, pricing, originating, acquiring, selling, servicing, or buying or selling rights to service Loans, its hedging practices and policies; and (iv) incur any material liability or obligation relating to retail banking and branch merchandising, marketing and advertising activities and initiatives except in the Ordinary Course of Business.

(o) Derivative Transactions. Enter into any Derivative Transaction.

(p) Indebtedness. Incur any indebtedness for borrowed money other than in the Ordinary Course of Business consistent with past practice with a term not in excess of twelve (12) months (other than creation of deposit liabilities or sales of certificates of deposit in the Ordinary Course of Business), or incur, assume or become subject to, whether directly or by way of any guarantee or otherwise, any obligations or liabilities (absolute, accrued, contingent or otherwise) of any other Person, other than the issuance of letters of credit in the Ordinary Course of Business and in accordance with the restrictions set forth in Section 5.01(s).

(q) Investment Securities. (i) Other than in accordance with SSNF's investment guidelines, acquire, sell or otherwise dispose of any debt security or equity investment or any certificates of deposits issued by other banks, nor (ii) change the classification method for any of the SSNF Investment Securities from "held to maturity" to "available for sale" or from "available for sale" to "held to maturity," as those terms are used in ASC 320.

(r) Deposits. Other than in the Ordinary Course of Business, make any changes to deposit pricing.

(s) Loans. Except for loans or extensions of credit approved and/or committed as of the date hereof that are listed in SSNF Disclosure Schedule 5.01(s), (i) make, renew, renegotiate, increase, extend or modify any (A) unsecured loan, if the amount of such unsecured loan, together with any other outstanding

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unsecured loans made by SSNF or any of its Subsidiaries to such borrower or its Affiliates, would be in excess of $100,000, in the aggregate, (B) loan secured by other than a first lien in excess of $500,000, (C) loan in excess of FFIEC regulatory guidelines relating to loan to value ratios, (D) loan secured by a first lien residential mortgage and with no loan policy exceptions in excess of $750,000, (E) secured loan over $2,000,000, (F) any loan that is not made in conformity with SSNF's ordinary course lending policies and guidelines in effect as of the date hereof, or (G) loan, whether secured or unsecured, if the amount of such loan, together with any other outstanding loans (without regard to whether such other loans have been advanced or remain to be advanced), would result in the aggregate outstanding loans to any borrower of SSNF or any of its Subsidiaries (without regard to whether such other loans have been advanced or remain to be advanced) to exceed $2,000,000, (ii) sell any loan or loan pools in excess of $1,000,000 in principal amount or sale price (other than residential mortgage loan pools sold in the Ordinary Couse of Business), or (iii) acquire any servicing rights, or sell or otherwise transfer any loan where SSNF or any of its Subsidiaries retains any servicing rights. Any loan in excess of the limits set forth in this Section 5.01(s) shall require the prior written approval of the President or Chief Credit Officer or Credit Administrator of The First, which approval or rejection shall be given in writing within one (1) Business Day after the loan package is delivered to such individual.

(t) Investments or Developments in Real Estate. Make any investment or commitment to invest in real estate or in any real estate development project other than by way of foreclosure or deed in lieu thereof or make any investment or commitment to develop, or otherwise take any actions to develop any real estate owned by SSNF or its Subsidiaries.

(u) Taxes. Except as required by applicable Law or in the Ordinary Course of Business, make or change any material Tax election, file any material amended Tax Return, enter into any material closing agreement with respect to Taxes, settle or compromise any material liability with respect to Taxes, agree to any material adjustment of any Tax attribute, file any claim for a material refund of Taxes, or consent to any extension or waiver of the limitation period applicable to any material Tax claim or assessment, provided that, for purposes of this Section 5.01(u), "material" means affecting or relating to $100,000 or more in Taxes or $200,000 or more of taxable income.