

FIRST BANCSHARES INC /MS/
Form 10-Q
May 16, 2016

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: March 31, 2016

OR

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

COMMISSION FILE NUMBER: 33-94288

THE FIRST BANCSHARES, INC.

(EXACT NAME OF ISSUER AS SPECIFIED IN ITS CHARTER)

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

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

EXECUTIVE OFFICES)

(601) 268-8998

(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NONE

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

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

YES NO

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

YES NO

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

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

ON March 31, 2016, 5,458,508 SHARES OF THE ISSUER'S COMMON STOCK, PAR VALUE \$1.00 PER SHARE WERE ISSUED AND OUTSTANDING.

TRANSITIONAL DISCLOSURE FORMAT (CHECK ONE):

YES NO

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

YES NO

PART I - FINANCIAL INFORMATION

ITEM NO. 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(\$ amounts in thousands)

	(Unaudited)	
	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$ 31,957	\$ 23,635
Interest-bearing deposits with banks	37,316	17,303
Federal funds sold	26,692	321
Total cash and cash equivalents	95,965	41,259
Securities held-to-maturity, at amortized cost	6,851	7,092
Securities available-for-sale, at fair value	253,126	239,732
Other securities	9,570	8,135
Total securities	269,547	254,959
Loans held for sale	6,095	3,974
Loans	797,764	772,515
Allowance for loan losses	(6,982)	(6,747)
Loans, net	796,877	769,742
Premises and equipment	33,353	33,623
Interest receivable	4,266	3,953
Cash surrender value of life insurance	14,971	14,872
Goodwill	13,776	13,776
Other real estate owned	4,363	3,083

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Other assets	8,833	9,864
TOTAL ASSETS	\$ 1,241,951	\$ 1,145,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 194,433	\$ 189,445
Interest-bearing	846,672	727,250
TOTAL DEPOSITS	1,041,105	916,695
Interest payable	236	246
Borrowed funds	78,976	110,321
Subordinated debentures	10,310	10,310
Other liabilities	4,127	4,123
TOTAL LIABILITIES	1,134,754	1,041,695
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, \$1,000 per share liquidation, 10,000,000 shares authorized; 17,123 issued and outstanding at March 31, 2016 and December 31, 2015, respectively	17,123	17,123
Common stock, par value \$1 per share, 20,000,000 shares authorized and 5,458,508 shares issued at March 31, 2016; and 5,403,159 shares issued at December 31, 2015, respectively	5,459	5,403
Additional paid-in capital	44,668	44,650
Retained earnings	37,939	35,625
Accumulated other comprehensive income	2,472	1,099
Treasury stock, at cost, 26,494 shares at March 31, 2016 and at December 31, 2015	(464)	(464)
TOTAL STOCKHOLDERS' EQUITY	107,197	103,436
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,241,951	\$ 1,145,131

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2016	2015
INTEREST INCOME:		
Interest and fees on loans	\$ 9,035	\$ 8,148
Interest and dividends on securities:		
Taxable interest and dividends	1,072	1,011
Tax exempt interest	460	501
Interest on federal funds sold	30	23
TOTAL INTEREST INCOME	10,597	9,683
INTEREST EXPENSE:		
Interest on deposits	701	632
Interest on borrowed funds	221	172
TOTAL INTEREST EXPENSE	922	804
NET INTEREST INCOME	9,675	8,879
PROVISION FOR LOAN LOSSES	190	150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,485	8,729
OTHER INCOME:		
Service charges on deposit accounts	1,281	1,051
Other service charges and fees	1,202	799
TOTAL OTHER INCOME	2,483	1,850
OTHER EXPENSES:		
Salaries and employee benefits	5,149	4,626
Occupancy and equipment	1,073	1,109

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Other	2,173	2,083
TOTAL OTHER EXPENSES	8,395	7,818
INCOME BEFORE INCOME TAXES	3,573	2,761
INCOME TAXES	969	732
NET INCOME	2,604	2,029
PREFERRED STOCK ACCRETION AND DIVIDENDS	85	85
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	\$ 2,519	\$ 1,944
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS:		
BASIC	\$.47	\$.36
DILUTED	.46	.36
DIVIDENDS PER SHARE – COMMON	.0375	.0375

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ amounts in thousands)

	(Unaudited) Three Months Ended March 31,	
	2016	2015
Net income per consolidated statements of income	\$ 2,604	\$ 2,029
Other Comprehensive Income:		
Unrealized holding gains arising during the period on available-for-sale securities	2,071	1,124
Unrealized holding gains on loans held for sale	12	16
Income tax expense	(710)	(388)
Other Comprehensive Income	1,373	752
Comprehensive Income	\$ 3,977	\$ 2,781

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

(\$ in thousands)

	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income(Loss)	Treasury Stock	Total
Balance, January 1, 2015	\$ 5,343	\$ 17,123	\$ 284	\$ 44,137	\$ 27,975	\$ 1,818	\$ (464)	\$ 96,216
Net income	-	-	-	-	2,029	-	-	2,029
Other comprehensive income	-	-	-	-	-	752	-	752
Dividends on preferred stock	-	-	-	-	(85)	-	-	(85)
Dividends on common stock, \$0.0375 per share	-	-	-	-	(202)	-	-	(202)
Repurchase of restricted stock for payment of taxes	(6)	-	-	(86)	-	-	-	(92)
Restricted stock grant	67	-	-	(67)	-	-	-	-
Compensation expense	-	-	-	184	-	-	-	184
Reversal of 2,514 common shares for BCB Holdings	(3)	-	-	(33)	-	-	-	(36)
Balance, March 31, 2015	\$ 5,401	\$ 17,123	\$ 284	\$ 44,135	\$ 29,717	\$ 2,570	\$ (464)	\$ 98,766
Balance, January 1, 2016	\$ 5,403	\$ 17,123	\$ -	\$ 44,650	\$ 35,625	\$ 1,099	\$ (464)	\$ 103,436
Net income	-	-	-	-	2,604	-	-	2,604
Other comprehensive income	-	-	-	-	-	1,373	-	1,373
Dividends on preferred stock	-	-	-	-	(85)	-	-	(85)
Dividends on common stock, \$0.0375 per share	-	-	-	-	(205)	-	-	(205)
Repurchase of restricted stock for payment of taxes	(5)	-	-	(100)	-	-	-	(105)
Restricted stock grant	61	-	-	(61)	-	-	-	-
Compensation expense	-	-	-	179	-	-	-	179
Balance, March 31, 2016	\$ 5,459	\$ 17,123	\$ -	\$ 44,668	\$ 37,939	\$ 2,472	\$ (464)	\$ 107,197

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ Amounts in Thousands)

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	\$2,604	\$2,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	870	871
Provision for loan losses	190	150
Loss on sale/writedown of ORE	62	94
Gain on sale of bank premises	-	(119)
Restricted stock expense	179	184
Increase in cash value of life insurance	(99)	(106)
Federal Home Loan Bank stock dividends	(2)	(1)
Changes in:		
Interest receivable	(313)	(291)
Loans held for sale, net	(2,109)	462
Interest payable	(10)	(41)
Other, net	365	(1,650)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,737	1,582
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities, calls and paydowns of available-for-sale and held-to-maturity securities	9,150	12,188
Purchases of securities available-for-sale and held-to-maturity securities	(20,541)	(3,520)
Net purchases of other securities	(1,433)	-
Net increase in loans	(26,736)	(12,650)
Proceeds from sale of bank premises	-	949
Net increase in premises and equipment	(151)	(197)
NET CASH USED IN INVESTING ACTIVITIES	(39,711)	(3,230)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	124,410	91,915
Net decrease in borrowed funds	(31,345)	(40,004)
Dividends paid on common stock	(195)	(194)
Dividends paid on preferred stock	(85)	(85)
Repurchase of restricted stock for payment of taxes	(105)	(92)
Repurchase of shares issued in BCB acquisition	-	(36)

NET CASH PROVIDED BY FINANCING ACTIVITIES	92,680	51,504
NET INCREASE IN CASH	54,706	49,856
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,259	44,618
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$95,965	\$94,474

SUPPLEMENTAL DISCLOSURES:

CASH PAYMENTS FOR INTEREST	932	892
CASH PAYMENTS FOR INCOME TAXES	236	2,206
LOANS TRANSFERRED TO OTHER REAL ESTATE	1,554	506
ISSUANCE OF RESTRICTED STOCK GRANTS	61	67

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2015.

NOTE B — SUMMARY OF ORGANIZATION

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

At March 31, 2016, the Company had approximately \$1.2 billion in assets, \$796.9 million in net loans, \$1.0 billion in deposits, and \$107.2 million in stockholders' equity. For the three months ended March 31, 2016, the Company reported net income of \$2.6 million (\$2.5 million applicable to common stockholders).

In the first quarter of 2016, the Company declared and paid a dividend of \$.0375 per common share.

NOTE C – BUSINESS COMBINATION

The Mortgage Connection

On December 14, 2015, the Company completed the acquisition of The Mortgage Connection, a Mississippi corporation, which included two loan production offices located in Madison and Brandon, Mississippi.

In connection with the acquisition, the Company recorded \$1.5 million of goodwill.

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

Purchase price:	
Cash	\$844
Payable	800
Total purchase price	1,644
Identifiable assets:	
Intangible	100
Personal property	44
Total assets	144
Liabilities and equity:	
Net assets acquired	\$144
Goodwill resulting from acquisition	\$1,500

NOTE D – PREFERRED STOCK AND WARRANT

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

The Letter Agreement contains limitations on the payment of dividends on the common stock to no more than 100% of the aggregate per share dividend and distributions for the immediate prior fiscal year (dividends of \$0.15 per share were declared and paid in 2011-2015) and on the Company’s ability to repurchase its common stock in the event of a non-payment of our dividend, and continues to subject the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA), as previously disclosed by the Company. The CDCI Preferred Shares entitle the holder to an annual dividend of 2% for 8 years of the liquidation value of the shares, payable quarterly in arrears.

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

NOTE E — EARNINGS APPLICABLE TO COMMON STOCKHOLDERS

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

	For the Three Months Ended March 31, 2016		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	\$2,519,000	5,415,339	\$ 0.47
Effect of dilutive shares: Restricted stock grants		63,364	
Diluted per share	\$2,519,000	5,478,703	\$ 0.46

	For the Three Months Ended March 31, 2015		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	\$ 1,944,000	5,358,576	\$ 0.36
Effect of dilutive shares: Restricted stock grants		56,524	
Diluted per share	\$ 1,944,000	5,415,100	\$ 0.36

The Company granted 61,247 shares of restricted stock in the first quarter of 2016.

NOTE F — FAIR VALUE OF ASSETS AND LIABILITIES

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

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

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

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

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

Available-for-Sale Securities

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

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fell as of March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	\$ 16,642	\$ -	\$ 16,642	\$ -
Municipal securities	97,594	-	97,594	-
Mortgage-backed securities	115,733	-	115,733	-
Corporate obligations	22,203	-	19,729	2,474
Other	954	954	-	-
Total	\$ 253,126	\$ 954	\$ 249,698	\$ 2,474

December 31, 2015

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	\$ 19,611	\$ -	\$ 19,611	\$ -
Municipal securities	97,889	-	97,889	-
Mortgage-backed securities	98,925	-	98,925	-
Corporate obligations	22,346	-	19,789	2,557
Other	961	961	-	-

Total \$239,732 \$ 961 \$ 236,214 \$ 2,557

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

<i>(Dollars in thousands)</i>	Bank-Issued Trust Preferred Securities	
	2016	2015
Balance, January 1	\$2,557	\$2,801
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Other-than-temporary impairment loss included in earnings (loss)	-	-
Unrealized loss included in comprehensive income	(83)	(244)
Balance at March 31, 2016 and December 31, 2015	\$2,474	\$2,557

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

Trust Preferred Securities	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
March 31, 2016	\$2,474	Discounted cash flow	Probability of default	1.18% - 2.96%
December 31, 2015	\$2,557	Discounted cash flow	Probability of default	1.08% - 2.77%

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

Impaired Loans

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

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

Other Real Estate Owned

Other real estate owned acquired through loan foreclosure is initially recorded at fair value less estimated costs to sell, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through non-interest expense. Operating costs associated with the assets

are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other non-interest expense. Other real estate owned measured at fair value on a non-recurring basis at March 31, 2016, amounted to \$4.4 million. Other real estate owned is classified within Level 2 of the fair value hierarchy.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at March 31, 2016 and December 31, 2015.

(\$ in thousands)

March 31, 2016

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 8,866	\$ -	\$ 8,866	\$ -
Other real estate owned	4,363	-	4,363	-

December 31, 2015

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 10,127	\$ -	\$ 10,127	\$ -
Other real estate owned	3,083	-	3,083	-

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

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

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

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

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

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

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

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

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

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

As of March 31, 2016		Fair Value Measurements			
(\$ in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$95,965	\$95,965	\$95,965	\$ -	\$ -
Securities available-for-sale	253,126	253,126	954	249,698	2,474
Securities held-to-maturity	6,851	8,741	-	8,741	-
Other securities	9,570	9,570	-	9,570	-
Loans, net	796,877	814,936	-	-	814,936
Bank-owned life insurance	14,971	14,971	-	14,971	-

Liabilities:

Noninterest-bearing deposits	\$194,433	\$194,433	\$-	\$194,433	\$-
Interest-bearing deposits	846,672	846,231	-	846,231	-
Subordinated debentures	10,310	10,310	-	-	10,310
FHLB and other borrowings	78,976	78,976	-	78,976	-

As of December 31, 2015		Fair Value Measurements			
(\$ in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$41,259	\$41,259	\$41,259	\$ -	\$ -
Securities available-for-sale	239,732	239,732	961	236,214	2,557
Securities held-to-maturity	7,092	8,548	-	8,548	-
Other securities	8,135	8,135	-	8,135	-
Loans, net	769,742	784,113	-	-	784,113
Bank-owned life insurance	14,872	14,872	-	14,872	-
Liabilities:					
Noninterest-bearing deposits	\$189,445	\$189,445	\$-	\$189,445	\$-
Interest-bearing deposits	727,250	726,441	-	726,441	-
Subordinated debentures	10,310	10,310	-	-	10,310
FHLB and other borrowings	110,321	110,321	-	110,321	-

NOTE G — LOANS

Loans typically provide higher yields than the other types of earning assets, and, thus, one of the Company's goals is for loans to be the largest category of the Company's earning assets. For the quarters ended March 31, 2016 and December 31, 2015, average loans accounted for 72.3% and 73.3% of average earning assets, respectively. The Company controls and mitigates the inherent credit and liquidity risks through the composition of its loan portfolio.

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

Composition of Loan Portfolio

	March 31, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Mortgage loans held for sale	\$6,095	0.8 %	\$ 3,974	0.5 %
Commercial, financial and agricultural	126,381	15.7	129,197	16.6
Real Estate:				
Mortgage-commercial	270,085	33.6	253,309	32.6
Mortgage-residential	276,272	34.3	272,180	35.1
Construction	100,386	12.5	99,161	12.8
Lease financing receivable	2,645	0.3	2,650	0.3
Obligations of states and subdivisions	7,034	0.9	969	0.1
Consumer and other	14,961	1.9	15,049	2.0
Total loans	803,859	100 %	776,489	100 %
Allowance for loan losses	(6,982)		(6,747)	
Net loans	\$796,877		\$ 769,742	

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

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

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

(In thousands)

	Three Months Ended March 31, 2016	
Balance at beginning of period	\$	6,747
Loans charged-off:		
Real Estate	(78)
Installment and Other	(9)
Commercial, Financial and Agriculture	(6)
Total	(93)
Recoveries on loans previously charged-off:		
Real Estate	44	
Installment and Other	18	
Commercial, Financial and Agriculture	76	
Total	138	
Net recoveries	45	
Provision for Loan Losses	190	
Balance at end of period	\$	6,982

The following tables represent how the allowance for loan losses is allocated to a particular loan type, as well as the percentage of the category to total loans at March 31, 2016 and December 31, 2015.

Allocation of the Allowance for Loan Losses

March 31, 2016 (Dollars in thousands)			
	Amount	% of loans in each category to total loans	
Commercial Non Real Estate	\$ 1,020	17.3	%
Commercial Real Estate	3,410	58.7	
Consumer Real Estate	1,584	21.6	
Consumer	144	2.3	
Unallocated	824	.1	
Total	\$ 6,982	100	%

December 31, 2015 (Dollars in thousands)			
	Amount	% of loans in each category to total loans	
Commercial Non Real Estate	\$ 895	17.1	%
Commercial Real Estate	3,018	58.4	
Consumer Real Estate	1,477	21.9	
Consumer	141	2.5	
Unallocated	1,216	.1	
Total	\$ 6,747	100	%

The following table represents the Company's impaired loans at March 31, 2016, and December 31, 2015.

	March 31, 2016	December 31, 2015
(In thousands)		
Impaired Loans:		
Impaired loans without a valuation allowance	\$4,776	\$ 6,020

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Impaired loans with a valuation allowance	4,090	4,107
Total impaired loans	\$8,866	\$ 10,127
Allowance for loan losses on impaired loans at period end	967	957
Total nonaccrual loans	5,851	7,368
Past due 90 days or more and still accruing	628	29
Average investment in impaired loans	9,496	9,652

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Interest income recognized during impairment	\$ 45	\$ 34
Cash-basis interest income recognized	45	34

The gross interest income that would have been recorded in the period that ended if the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the three months ended March 31, 2016 and March 31, 2015, was \$98,000 and \$94,000, respectively. The Company had no loan commitments to borrowers in non-accrual status at March 31, 2016 and December 31, 2015.

The following tables provide the ending balances in the Company's loans (excluding mortgage loans held for sale) and allowance for loan losses, broken down by portfolio segment as of March 31, 2016 and December 31, 2015. The tables also provide additional detail as to the amount of our loans and allowance that correspond to individual versus collective impairment evaluation. The impairment evaluation corresponds to the Company's systematic methodology for estimating its Allowance for Loan Losses.

March 31, 2016

	Real Estate (In thousands)	Installment and Other	Commercial, Financial and Agriculture	Total
Loans				
Individually evaluated	\$8,556	\$ 37	\$ 273	\$8,866
Collectively evaluated	637,661	15,257	135,980	788,898
Total	\$646,217	\$ 15,294	\$ 136,253	\$797,764
Allowance for Loan Losses				
Individually evaluated	\$880	\$ 25	\$ 62	\$967
Collectively evaluated	4,114	943	958	6,015
Total	\$4,994	\$ 968	\$ 1,020	\$6,982

December 31, 2015

	Real Estate (In thousands)	Installment and Other	Commercial, Financial and Agriculture	Total
Loans				
Individually evaluated	\$9,782	\$ 39	\$ 306	\$10,127

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Collectively evaluated	610,996	19,591	131,801	762,388
Total	\$620,778	\$ 19,630	\$ 132,107	\$772,515

Allowance for Loan Losses

Individually evaluated	\$882	\$ 25	\$ 50	\$957
Collectively evaluated	3,613	1,332	845	5,790
Total	\$4,495	\$ 1,357	\$ 895	\$6,747

The following tables provide additional detail of impaired loans broken out according to class as of March 31, 2016 and December 31, 2015. The recorded investment included in the following tables represent customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs. As nearly all of our impaired loans at March 31, 2016, are on nonaccrual status, recorded investment excludes any insignificant amount of accrued interest receivable on loans 90-days or more past due and still accruing. The unpaid balance represents the recorded balance prior to any partial charge-offs.

March 31, 2016

	Recorded Investment (In thousands)	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial installment	\$-	\$-	\$ -	\$ -	\$ -
Commercial real estate	4,558	4,597	-	5,174	7
Consumer real estate	212	212	-	218	-
Consumer installment	6	6	-	6	-
Total	\$4,776	\$4,815	\$ -	\$ 5,398	\$ 7
Impaired loans with a related allowance:					
Commercial installment	\$273	\$273	\$ 62	\$ 290	\$ 3
Commercial real estate	2,957	2,957	452	2,942	31
Consumer real estate	829	829	428	835	4
Consumer installment	31	31	25	31	-
Total	\$4,090	\$4,090	\$ 967	\$ 4,098	\$ 38
Total Impaired Loans:					
Commercial installment	\$273	\$273	\$ 62	\$ 290	\$ 3
Commercial real estate	7,515	7,554	452	8,116	38
Consumer real estate	1,041	1,041	428	1,053	4
Consumer installment	37	37	25	37	-
Total Impaired Loans	\$8,866	\$8,905	\$ 967	\$ 9,496	\$ 45

On January 1, 2015, the Company adopted Accounting Standards Update (ASU) 2014-4, Receivables – Troubled Debt Restructuring by Creditors. As of March 31, 2016, the Company had \$1.0 million of foreclosed residential real estate property obtained by physical possession and \$.5 million of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions.

December 31, 2015

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
	(In thousands)				
Impaired loans with no related allowance:					
Commercial installment	\$-	\$-	\$ -	\$ 2	\$ -
Commercial real estate	5,790	5,828	-	5,099	50
Consumer real estate	223	223	-	205	-
Consumer installment	7	7	-	8	-
Total	\$6,020	\$6,058	\$ -	\$ 5,314	\$ 50
Impaired loans with a related allowance:					
Commercial installment	\$306	\$306	\$ 50	\$ 264	\$ 14
Commercial real estate	2,927	2,927	444	2,891	132
Consumer real estate	842	842	438	1,152	15
Consumer installment	32	32	25	31	-
Total	\$4,107	\$4,107	\$ 957	\$ 4,338	\$ 161
Total Impaired Loans:					
Commercial installment	\$306	\$306	\$ 50	\$ 266	\$ 14
Commercial real estate	8,717	8,755	444	7,990	182
Consumer real estate	1,065	1,065	438	1,357	15
Consumer installment	39	39	25	39	-
Total Impaired Loans	\$10,127	\$10,165	\$ 957	\$ 9,652	\$ 211

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

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

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

Total outstanding acquired impaired loans were \$2,981,011 as of March 31, 2016 and \$3,039,840 as of December 31, 2015. The outstanding balance of these loans is the undiscounted sum of all amounts, including amounts deemed principal, interest, fees, penalties, and other under the loans, owed at the reporting date, whether or not currently due and whether or not any such amounts have been charged off.

Changes in the carrying amount and accretable yield for acquired impaired loans were as follows at March 31, 2016 and December 31, 2015: (in thousands)

	March 31, 2016		December 31, 2015	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period	\$1,219	\$ 1,821	\$ 1,417	\$ 2,063
Accretion	(21)	21	(198)	198
Payments received, net	-	(59)	-	(440)
Balance at end of period	\$1,198	\$ 1,783	\$ 1,219	\$ 1,821

The following tables provide detail of troubled debt restructurings (TDRs) at March 31, 2016.

For the Three Months Ending March 31, 2016

Outstanding

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	Outstanding Recorded Investment Pre-Modification	Recorded Investment Post- Modification	Number of Loans	Interest Income Recognized
Commercial installment	\$ -	\$ -	-	\$ -
Commercial real estate	296	289	1	4
Consumer real estate	-	-	-	-
Consumer installment	-	-	-	-
Total	\$ 296	\$ 289	1	\$ 4

There was one TDR that was modified during the three month period ended March 31, 2016.

The balance of troubled debt restructurings (TDRs) was \$6.8 million at March 31, 2016 and \$6.9 million at December 31, 2015, respectively, calculated for regulatory reporting purposes. As of March 31, 2016, the company had no additional amount committed on any loan classified as troubled debt restructuring.

The following tables set forth the amounts and past due status for the Bank TDRs at March 31, 2016 and December 31, 2015:

(in thousands)

	March 31, 2016				Total
	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Non-accrual	
Commercial installment	\$ 199	\$ -	\$ -	\$ 50	\$ 249
Commercial real estate	2,555	-	-	3,598	6,153
Consumer real estate	254	-	-	133	387
Consumer installment	7	-	-	28	35
Total	\$ 3,015	\$ -	\$ -	\$ 3,809	\$ 6,824
Allowance for loan losses	\$ 119	\$ -	\$ -	\$ 132	\$ 251

(in thousands)

	December 31, 2015				Total
	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Non-accrual	
Commercial installment	\$ 206	\$ -	\$ -	\$ 50	\$ 256
Commercial real estate	1,823	-	-	2,934	4,757
Consumer real estate	721	-	-	1,135	1,856
Consumer installment	8	-	-	29	37

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Total	\$2,758	\$	-	\$	-	\$4,148	\$6,906
Allowance for loan losses	\$106	\$	-	\$	-	\$197	\$303

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

	March 31, 2016 (In thousands)				
	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
Real Estate-construction	\$742	\$ 7	\$ 2,630	\$ 3,379	\$100,386
Real Estate-mortgage	3,215	523	2,144	5,882	276,272
Real Estate-non farm non residential	608	98	973	1,679	270,085
Commercial	50	-	74	124	126,381
Lease Financing Rec.	-	-	-	-	2,645
Obligations of states and subdivisions	-	-	-	-	7,034
Consumer	48	-	30	78	14,961
Total	\$4,663	\$ 628	\$ 5,851	\$ 11,142	\$797,764

	December 31, 2015 (In thousands)				
	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
Real Estate-construction	\$311	\$ -	\$ 2,956	\$ 3,267	\$99,161
Real Estate-mortgage	3,339	29	2,055	5,423	272,180
Real Estate-non farm non residential	736	-	2,225	2,961	253,309
Commercial	97	-	100	197	129,197
Lease Financing Rec.	-	-	-	-	2,650
Obligations of states and subdivisions	-	-	-	-	969
Consumer	70	-	32	102	15,049
Total	\$4,553	\$ 29	\$ 7,368	\$ 11,950	\$772,515

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

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

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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

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

As of March 31, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk categories of loans by class of loans (excluding mortgage loans held for sale) were as follows:

(\$ in thousands)

March 31, 2016

	Real Estate Commercial	Real Estate Mortgage	Installment and Other	Commercial, Financial and Agriculture	Total
Pass	\$ 453,767	\$ 170,711	\$ 18,078	\$ 137,949	\$ 780,505
Special Mention	794	151	-	248	1,193
Substandard	14,777	1,493	105	147	16,522
Doubtful	-	324	-	44	368
Subtotal	469,338	172,679	18,183	138,388	798,588
Less:					
Unearned discount	410	64	-	350	824
Loans, net of unearned discount	\$ 468,928	\$ 172,615	\$ 18,183	\$ 138,038	\$ 797,764

December 31, 2015

	Real Estate Commercial	Real Estate Mortgage	Installment and Other	Commercial, Financial and Agriculture	Total
Pass	\$ 434,638	\$ 167,394	\$ 19,556	\$ 132,101	\$ 753,689

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Special Mention	681	153	-	168	1,002
Substandard	16,655	1,453	75	178	18,361
Doubtful	-	327	-	-	327
Subtotal	451,974	169,327	19,631	132,447	773,379
Less:					
Unearned discount	448	76	-	340	864
Loans, net of unearned discount	\$ 451,526	\$ 169,251	\$ 19,631	\$ 132,107	\$ 772,515

NOTE H — SECURITIES

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

A summary of the amortized cost and estimated fair value of available-for-sale securities and held-to-maturity securities at March 31, 2016, follows:

(\$ in thousands)

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government Agencies	\$16,442	\$ 200	\$ -	\$ 16,642
Tax-exempt and taxable obligations of states and municipal subdivisions	94,487	3,118	11	97,594
Mortgage-backed securities	113,877	1,914	58	115,733
Corporate obligations	23,345	85	1,227	22,203
Other	1,255	-	301	954
Total	\$249,406	\$ 5,317	\$ 1,597	\$ 253,126
Held-to-maturity securities:				
Mortgage-backed securities	\$851	\$ 26	\$ -	\$ 877
Taxable obligations of states and municipal subdivisions	6,000	1,864	-	7,864
Total	\$6,851	\$ 1,890	\$ -	\$ 8,741

NOTE I — ALLOWANCE FOR LOAN LOSSES

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions which it believes to be reasonable, but which may not prove to be accurate, particularly

given the Company's growth and the economy. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

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

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

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

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

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

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

NOTE J – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through the date the financial statements were issued. The Company has experienced recoveries on a previously charged-off loan of \$941,000. In 2015, \$722,000 was recovered and a third and final installment of \$219,000 is expected during 2016.

NOTE K – RECLASSIFICATION

Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform to the current period financial statement presentation.

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

FINANCIAL CONDITION

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

The First represents the primary asset of the Company. The First reported total assets of \$1.2 billion at March 31, 2016, compared to \$1.1 billion at December 31, 2015, an increase of \$0.1 billion. Loans increased \$25.2 million, or 3.3%, during the first three months of 2016. Deposits at March 31, 2016, totaled \$1.0 billion compared to \$916.7 million at December 31, 2015. For the three month period ended March 31, 2016, The First reported net income of \$2.9 million compared to \$2.2 million for the three months ended March 31, 2015.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At March 31, 2016, The First had no concentrations of ten percent or more of total loans in any single industry or any geographical area outside its immediate market areas.

At March 31, 2016, The First had loans past due as follows:

	(\$ In Thousands)
Past due 30 through 89 days	\$ 4,663
Past due 90 days or more and still accruing	628

The accrual of interest is discontinued on loans which become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled \$5.9 million at March 31, 2016, a decrease of \$1.5 million from December 31, 2015. Any other real estate owned is carried at fair value, determined by an appraisal, less estimated costs to sell. Other real estate owned totaled \$4.4 million at March 31, 2016. A loan is classified as a restructured loan when the following two conditions are present: First, the borrower is experiencing financial difficulty and second, the creditor grants a concession it would not otherwise consider but for the borrower's financial difficulties. At March 31, 2016, the Bank had \$6.8 million in loans that were modified as troubled debt restructurings, of which \$3.0 million were performing as agreed with modified terms.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is adequate with cash and cash equivalents of \$96.0 million as of March 31, 2016. In addition, loans and investment securities repricing or maturing within one year or less exceeded \$218.7 million at March 31, 2016. Approximately \$156.0 million in loan commitments could fund within the next three months and other commitments, primarily standby letters of credit, totaled \$1.1 million at March 31, 2016.

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

Total consolidated equity capital at March 31, 2016, was \$107.2 million, or approximately 8.6% of total assets. The Company currently has adequate capital positions to meet the minimum capital requirements for all regulatory agencies. The Company's capital ratios as of March 31, 2016, were as follows:

Tier 1 leverage	8.4 %
Tier 1 risk-based	10.7%
Total risk-based	11.4%
Common equity Tier 1	7.8 %

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

RESULTS OF OPERATIONS

The Company had a consolidated net income of \$2,604,000 for the three months ended March 31, 2016, compared with consolidated net income of \$2,029,000 for the same period last year.

Net interest income increased to \$9.7 million from \$8.9 million for the three months ended March 31, 2016, or an increase of 9.0% as compared to the same period in 2015. Quarterly average earning assets at March 31, 2016, increased \$63.2 million, or 6.2% and quarterly average interest-bearing liabilities also increased \$69.6 million or 8.4% when compared to March 31, 2015.

Noninterest income for the three months ended March 31, 2016, was \$2,483,000 compared to \$1,850,000 for the same period in 2015, reflecting an increase of \$633,000 or 34.2%. This increase consisted mainly of increased mortgage income and gain on conversion of our debit card provider.

The provision for loan losses was \$190,000 for the three months ended March 31, 2016 compared with \$150,000 for the same period in 2015. The allowance for loan losses of \$7.0 million at March 31, 2016 (approximately .88% of total loans and 1.10% of loans including valuation accounting adjustments on acquired loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management's assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary.

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

Noninterest expense increased by \$0.6 million or 7.4% for the three months ended March 31, 2016, when compared with the same period in 2015. The largest increase was related to salaries and benefits of \$523,000 of which \$319,000 can be attributed to acquisition of The Mortgage Connection, LLC.

ITEM NO. 3. CONTROLS AND PROCEDURES

As of March 31, 2016, (the "Evaluation Date"), we carried out an evaluation, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

There have been no changes, significant or otherwise, in our internal controls over financial reporting that occurred during the quarter ended March 31, 2016, that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM NO. 4. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) NO. 2016-09 “*Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting.*” ASU 2016-09 requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election for forfeitures as they occur. The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. The Company is assessing the impact of ASU 2016-09 on its accounting and disclosures.

In February 2016 the FASB issued ASU NO. 2016-02 “*Leases (Topic 842)*.” ASU 2016-02 establishes a right of use model that requires a lessee to record a right of use asset and a lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. A lease will be treated as sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn’t convey risks and rewards or control, an operating lease results. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company is assessing the impact of ASU 2016-02 on its accounting and disclosures.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

There are no material changes in the Company’s risk factors since December 31, 2015. Please refer to the Annual Report on Form 10-K of The First Bancshares, Inc., filed with the Securities and Exchange Commission on March 30, 2016.

ITEM 2. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 3. REMOVED AND RESERVED

ITEM 4. OTHER INFORMATION

Not Applicable

ITEM 5. EXHIBITS

(a) Exhibits

Exhibit
No.

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

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

- 3.1 Articles of Amendment and Certificate of Designation, Preferences and Rights of Series D Nonvoting Convertible Preferred Stock dated as of March 18, 2013 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on 3-21-13).
- 3.2 Restated Articles of Incorporation dated as of March 21, 2013 (incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed on 3-21-13).
- 4.1 Certificate of Designation of Series D Nonvoting Convertible Preferred Stock, as filed with the Mississippi Secretary of State on March 20, 2013 (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on March 25, 2013).
- 10.1 Form of Securities Purchase Agreement between the Company and each of the Purchasers, dated as of March 20, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 25, 2013)
- 10.2 Form of Registration Rights Agreement between the Company and each of the Purchasers, dated as of March 20, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 25, 2013)
- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of principal executive officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of principal financial officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

(b)The Company filed two reports on Form 8-K during the quarter ended March 31, 2016.

SIGNATURES

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

THE FIRST BANCSHARES, INC.
(Registrant)

May 16, 2016 /s/ M. RAY (HOPPY)COLE, JR.
(Date) M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer

May 16, 2016 /s/ DEEDEE LOWERY
(Date) DeeDee Lowery
Executive Vice President and Chief Financial Officer