FIRST BANCSHARES INC /MS/
Form 10-Q/A
October 11, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

AMENDMENT NO. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES

EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

Commission file number: 000-22507

THE FIRST BANCSHARES, INC.

(Exact name of Registrant as specified in its charter)

Mississippi	64-0862173
(State of Incorporation)	(IRS Employer Identification No)

6480 U.S. Highway 98 West, Suite A Hattiesburg, Mississippi	39402
(Address of principal executive offices)	(Zip Code)

(601) 268-8998

(Registrant’s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (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 x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x 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.

Large accelerated filer ¨ Accelerated filer x
Non-accelerated filer ¨ Smaller Reporting Company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common stock, $1.00 par value, 5,458,508 shares outstanding as of June 30, 2016

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to amend our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 as originally filed with the Securities and Exchange Commission on August 15, 2016 (the "Original Form 10-Q"). The original Form 10-Q was prepared and filed in accordance with disclosure requirements applicable to "smaller reporting companies" as defined in Rule 12b-2 of the Exchange Act of 1934 ("Exchange Act"). During the 3rd quarter of 2016, after consultation with outside counsel, the Company determined that the Company had become, as of January 1, 2016, an "accelerated filer" as defined in Exchange Act Rule 12b-2 due to a re-evaluation of the affiliate status of certain shareholders, which were initially misinterpreted to be affiliates of the Company, which in turn increased the Company's public float to more than $75 million as of June 30, 2015. Accordingly, we are amending the Original Form 10-Q so that it complies with all applicable requirements for an "accelerated filer." Specifically, this amendment is being filed to augment Part I, Items 2 and 4, Part II, Items 1A and 6, and to add Part I, Item 3 which was previously inapplicable. We are restating the entire 10-Q in this filing as multiple items are being amended. The Company intends to file all future Exchange Act reports in accordance with accelerated filer Exchange Act rules, as applicable.

PART I - FINANCIAL INFORMATION

ITEM NO. 1- FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

($ In Thousands)

	(Unaudited) June 30, 2016	(audited) December 31, 2015
ASSETS		
Cash and due from banks	$ 33,402	$ 23,635
Interest-bearing deposits with banks	21,065	17,303
Federal funds sold	310	321
Total cash and cash equivalents	54,777	41,259
Securities held-to-maturity, at amortized cost	6,025	7,092
Securities available-for-sale, at fair value	242,855	239,732
Other securities	9,578	8,135
Total securities	258,458	254,959
Loans held for sale	8,937	3,974
Loans	824,083	772,515
Allowance for loan losses	(7,259)	(6,747)
Loans, net	825,761	769,742
Premises and equipment	33,502	33,623
Interest receivable	4,103	3,953
Cash surrender value of life insurance	20,963	14,872
Goodwill	13,776	13,776
Other real estate owned	4,716	3,083
Other assets	8,844	9,864
TOTAL ASSETS	$ 1,224,900	$ 1,145,131
LIABILITIES AND STOCKHOLDERS' EQUITY		

LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 194,950	$ 189,445
Interest-bearing	837,413	727,250
TOTAL DEPOSITS	1,032,363	916,695
Interest payable	244	246
Borrowed funds	68,000	110,321
Subordinated debentures	10,310	10,310
Other liabilities	3,685	4,123
TOTAL LIABILITIES	1,114,602	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 June 30, 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 June 30,2016; and 5,403,159 shares issued at December 31, 2015, respectively	5,459	5,403
Additional paid-in capital	44,865	44,650
Retained earnings	40,299	35,625
Accumulated other comprehensive income	3,016	1,099
Treasury stock, at cost, 26,494 shares at June 30, 2016 and at December 31, 2015	(464)	(464)
TOTAL STOCKHOLDERS' EQUITY	110,298	103,436
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,224,900	$ 1,145,131

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

($ In Thousands, except earnings and dividends per share)

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2016	2015	2016	2015
INTEREST INCOME:				
Interest and fees on loans	$ 9,313	$ 8,532	$ 18,349	$ 16,680
Interest and dividends on securities:				
Taxable interest and dividends	1,058	1,010	2,129	2,021
Tax exempt interest	473	464	933	965
Interest on federal funds sold	27	16	56	39
TOTAL INTEREST INCOME	10,871	10,022	21,467	19,705
INTEREST EXPENSE:				
Interest on deposits	813	658	1,514	1,290
Interest on borrowed funds	203	148	424	320
TOTAL INTEREST EXPENSE	1,016	806	1,938	1,610
NET INTEREST INCOME	9,855	9,216	19,529	18,095
PROVISION FOR LOAN LOSSES	204	-	394	150
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,651	9,216	19,135	17,945
OTHER INCOME:				
Service charges on deposit accounts	1,284	1,097	2,566	2,148
Other service charges and fees	1,677	757	2,878	1,556
TOTAL OTHER INCOME	2,961	1,854	5,444	3,704
OTHER EXPENSES:				
Salaries and employee benefits	5,400	4,613	10,549	9,239
Occupancy and equipment	1,110	1,137	2,183	2,246
Other	2,411	2,342	4,582	4,425
TOTAL OTHER EXPENSES	8,921	8,092	17,314	15,910
INCOME BEFORE INCOME TAXES	3,691	2,978	7,265	5,739

INCOME TAXES	1,042	793	2,012	1,525
NET INCOME	2,649	2,185	5,253	4,214
PREFERRED STOCK ACCRETION AND DIVIDENDS	86	86	171	171
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$ 2,563	$ 2,099	$ 5,082	$ 4,043
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS:				
BASIC	$ 0.47	$ 0.39	$ 0.94	$ 0.75
DILUTED	0.47	0.39	0.93	0.75
DIVIDENDS PER SHARE – COMMON	0.0375	0.0375	0.075	0.075

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ In Thousands)

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2016	2015	2016	2015
Net income per consolidated statements of income	$ 2,649	$ 2,185	$ 5,253	$ 4,214
Other Comprehensive Income:				
Unrealized holding gains (losses) arising during period on available-for-sale securities	756	(3,135)	2,827	(2,011)
Unrealized holding gains (losses) on loans held for sale	74	(56)	86	(39)
Income tax benefit(expense)	(286)	1,088	(996)	699
Other comprehensive income (loss)	544	(2,103)	1,917	(1,351)
Comprehensive Income	$ 3,193	$ 82	$ 7,170	$ 2,863

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

($ In Thousands, unaudited)

	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive 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	-	-	-	-	4,214	-	-	4,214
Other comprehensive loss	-	-	-	-	-	(1,351)	-	(1,351)
Dividends on preferred stock	-	-	-	-	(171)	-	-	(171)
Dividends on common stock, $0.0375 per share	-	-	-	-	(405)	-	-	(405)
Repurchase of restricted stock for payment of taxes	(6)	-	-	(86)	-	-	-	(92)
Restricted stock grant	67	-	-	(67)	-	-	-	-
Compensation expense	-	-	-	362	-	-	-	362
Reversal of 2,514 common shares for BCB Holdings	(3)	-	-	(33)	-	-	-	(36)
Repurchase warrants	-	-	(284)	(19)	-	-	-	(303)
Balance, June 30, 2015	$ 5,401	$ 17,123	$ -	$ 44,294	$ 31,613	$ 467	$ (464)	$ 98,434
Balance, January 1, 2016	$ 5,403	$ 17,123	$ -	$ 44,650	$ 35,625	$ 1,099	$ (464)	$ 103,436
Net income	-	-	-	-	5,253	-	-	5,253
Other comprehensive income	-	-	-	-	-	1,917	-	1,917
Dividends on preferred stock	-	-	-	-	(171)	-	-	(171)
Dividends on common stock, $0.0375 per share	-	-	-	-	(408)	-	-	(408)
Repurchase of restricted stock for payment of taxes	(5)	-	-	(100)	-	-	-	(105)
Restricted stock grant	61	-	-	(61)	-	-	-	-
Compensation expense	-	-	-	376	-	-	-	376
Balance, June 30, 2016	$ 5,459	$ 17,123	$ -	$ 44,865	$ 40,299	$ 3,016	$ (464)	$ 110,298

See Notes to Consolidated Financial Statements

6

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ In Thousands)

	(Unaudited) Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$5,253	$4,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of securities	(129)	-
Depreciation, amortization and accretion	1,741	1,642
Provision for loan losses	394	150
Loss on sale/writedown of ORE	86	129
Gain on sale of bank premises	-	(119)
Restricted stock expense	376	362
Increase in cash value of life insurance	(241)	(207)
Federal Home Loan Bank stock dividends	(10)	(4)
Changes in:		
Interest receivable	(150)	31
Loans held for sale, net	(4,877)	183
Interest payable	(2)	(61)
Other, net	(203)	(3,895)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,238	2,425
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities, calls and paydowns of available-for-sale and held-to-maturity securities	27,578	28,281
Purchases of available-for-sale securities	(27,294)	(11,496)
Net (purchases)/sales of other securities	(1,433)	1,451
Net increase in loans	(53,684)	(26,766)
Proceeds from sale of bank premises	-	949
Net increase in premises and equipment	(717)	(408)
Purchase of bank-owned life insurance	(5,850)	-
NET CASH USED IN INVESTING ACTIVITIES	(61,400)	(7,989)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	115,668	69,417
Net decrease in borrowed funds	(42,321)	(45,459)
Dividends paid on common stock	(391)	(389)
Dividends paid on preferred stock	(171)	(171)
Repurchase of restricted stock for payment of taxes	(105)	(92)
Repurchase of shares issued in BCB acquisition	-	(36)

Repurchase of warrants	-	(303)
NET CASH PROVIDED BY FINANCING ACTIVITIES	72,680	22,967
NET INCREASE IN CASH	13,518	17,403
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,259	44,618
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$54,777	$62,021
SUPPLEMENTAL DISCLOSURES:		
CASH PAYMENTS FOR INTEREST	1,940	1,764
CASH PAYMENTS FOR INCOME TAXES	2,751	3,305
LOANS TRANSFERRED TO OTHER REAL ESTATE	2,276	506
ISSUANCE OF RESTRICTED STOCK GRANTS	61	67

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2016

NOTE 1 — 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 six months ended June 30, 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 2 — 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 June 30, 2016, the Company had approximately $1.2 billion in assets, $825.8 million in net loans, $1.0 billion in deposits, and $110.3 million in stockholders' equity. For the six months ended June 30, 2016, the Company reported net income of $5.3 million ($5.1 million applicable to common stockholders).

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

NOTE 3 — RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* (ASU 2016-13). ASU 2016-13 requires a new impairment model known as the current expected credit loss ("CECL") which significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost, (2) requiring entities to record an allowance for credit losses related to available-for-sale debt securities rather than a direct write-down of the carrying amount of the investments, as is required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU 2016-13.

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.

NOTE 4 – 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 5 – 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 6 — EARNINGS APPLICABLE TO COMMON STOCKHOLDERS

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

	For the Three Months Ended June 30, 2016		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$2,563,000	5,432,014	$ 0.47
Effect of dilutive shares:			
Restricted stock grants		58,578	
Diluted per share	$2,563,000	5,490,592	$ 0.47

	For the Six Months Ended June 30, 2016		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$5,082,000	5,423,676	$ 0.94
Effect of dilutive shares:			
Restricted stock grants		58,578	
Diluted per share	$5,082,000	5,482,254	$ 0.93

	For the Three Months Ended June 30, 2015		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$2,099,000	5,374,415	$ 0.39
Effect of dilutive shares:			
Restricted stock grants		57,747	
Diluted per share	$2,099,000	5,432,162	$ 0.39

	For the Six Months Ended June 30, 2015		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$4,043,000	5,366,495	$ 0.75
Effect of dilutive shares:			
Restricted stock grants		57,747	
Diluted per share	$4,043,000	5,424,242	$ 0.75

The Company granted 61,247 shares of restricted stock in the first quarter of 2016 and -0- shares during the second quarter of 2016.

NOTE 7 – COMPREHNSIVE INCOME

As presented in the Consolidated Statements of Comprehensive Income, comprehensive income includes net income and other comprehensive income. The Company’s sources of other comprehensive income are unrealized gains and losses on available-for-sale investment securities and loans held for sale. Gains or losses on investment securities that were realized and reflected in net income of the current period, which had previously been included in other comprehensive income as unrealized holding gains or losses in the period in which they arose, are considered to be reclassification adjustments that are excluded from other comprehensive income in the current period.

NOTE 8 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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. At June 30, 2016, and December 31, 2015, these financial instruments consisted of the following:

($ In Thousands)	June 30, 2016	December 31, 2015
Commitments to extend credit	$ 195,398	$ 144,086
Standby letters of credit	$ 1,780	$ 1,135

NOTE 9 – FAIR VALUE DISCLOSURES AND REPORTING, THE FAIR VALUE OPTION AND FAIR VALUE MEASUREMENTS

FASB’s standards on financial instruments, and on fair value measurements and disclosures, require all entities to disclose in their financial statement footnotes the estimated fair values of financial instruments for which it is practicable to estimate fair values. In addition to disclosure requirements, FASB’s standard on investments requires that our debt securities which are classified as available for sale and our equity securities that have readily determinable fair values be measured and reported at fair value in our statement of financial position. Certain impaired loans are also reported at fair value, as explained in greater detail below, and foreclosed assets are carried at the lower of cost or fair value. FASB’s standard on financial instruments permits companies to report certain other financial assets and liabilities at fair value, but we have not elected the fair value option for any of those financial instruments.

Fair value measurement and disclosure standards also establish a framework for measuring fair values. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. Further, the standards establish a fair value hierarchy that encourages an entity to maximize the use of observable inputs and limit the use of unobservable inputs when measuring fair values. The standards describe three levels of inputs that may be used to measure fair values:

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

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

- Level 3: Significant unobservable inputs that reflect a company's own assumptions about the factors that market participants would likely consider in pricing an asset or liability.

Fair value estimates are made at a specific point in time based on relevant market data and information about the financial instruments. The estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to realized gains and losses could have a significant effect on fair value estimates but have not been considered in those estimates. Because no active market exists for a significant portion of our financial instruments, fair value disclosures are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. The estimates are subjective and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly alter the fair values presented. The following methods and assumptions were used by the Company to estimate its financial instrument fair values disclosed at June 30, 2016 and December 31, 2015:

- Cash and cash equivalents and fed funds sold: The carrying amount is estimated to be fair value.

- Securities (available-for-sale and held-to-maturity): Fair values are determined by obtaining quoted prices on nationally recognized securities exchanges or by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities by relying on their relationship to other benchmark quoted securities when quoted prices for specific securities are not readily available.

- Loans and leases: For variable-rate loans and leases that re-price frequently with no significant change in credit risk or interest rate spread, fair values are based on carrying values. Fair values for other loans and leases are estimated by

discounting projected cash flows at interest rates being offered at each reporting date for loans and leases with similar terms, to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

Loans held for sale: Since loans designated by the Company as available-for-sale are typically sold shortly after making the decision to sell them, realized gains or losses are usually recognized within the same period and fluctuations in fair values are not relevant for reporting purposes. If available-for-sale loans are on our books for an extended period of time, the fair value of those loans is determined using quoted secondary-market prices.

Collateral-dependent impaired loans: Collateral-dependent impaired loans are carried at fair value when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the original loan agreement and the loan has been written down to the fair value of its underlying collateral, net of expected disposition costs where applicable.

- Bank-owned life insurance: Fair values are based on net cash surrender policy values at each reporting date.

Other securities: Certain investments for which no secondary market exists are carried at cost and the carrying amount for those investments typically approximates their estimated fair value, unless an impairment analysis indicates the need for adjustments.

Deposits (noninterest-bearing and interest-bearing): Fair values for non-maturity deposits are equal to the amount payable on demand at the reporting date, which is the carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a cash flow analysis, discounted at interest rates being offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

FHLB and other borrowings: Current carrying amounts are used as an approximation of fair values for federal funds purchased, overnight advances from the Federal Home Loan Bank (“FHLB”), borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days of the reporting dates. Fair values of other short-term borrowings are estimated by discounting projected cash flows at the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Long-term borrowings: Fair values are estimated using projected cash flows discounted at the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Subordinated debentures: Fair values are determined based on the current market value for like instruments of a similar maturity and structure.

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.

13

Estimated fair values for the Company's financial instruments are as follows, as of the dates noted:

As of June 30, 2016 ($ In Thousands)			Fair Value Measurements		
	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	$54,777	$54,777	$54,777	$ -	$ -
Securities available-for-sale	242,855	242,855	949	239,498	2,408
Securities held-to-maturity	6,025	7,890	-	7,890	-
Other securities	9,578	9,578	-	9,578	-
Loans, net	825,761	848,470	-	-	848,470
Bank-owned life insurance	20,963	20,963	-	20,963	-
Liabilities:					
Noninterest-bearing deposits	$194,950	$194,950	$-	$ 194,950	$ -
Interest-bearing deposits	837,413	837,288	-	837,288	-
Subordinated debentures	10,310	10,310	-	-	10,310
FHLB and other borrowings	68,000	68,000	-	68,000	-

As of December 31, 2015 ($ In Thousands)			Fair Value Measurements		
	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	-

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U. S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

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

June 30, 2016

($ In Thousands)		Fair Value Measurements Using		
	Fair Value	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	$ 9,128	$ -	$ 9,128	$ -
Municipal securities	99,729	-	99,729	-
Mortgage-backed securities	111,958	-	111,958	-
Corporate obligations	21,091	-	18,683	2,408
Other	949	949	-	-
Total	$ 242,855	$ 949	$ 239,498	$ 2,408

15

December 31, 2015

($ In Thousands)		Fair Value Measurements Using		
	Fair Value	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.

	Bank-Issued Trust Preferred Securities	
($ In Thousands)	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	(149)	(244)
Balance at June 30, 2016 and December 31, 2015	$2,408	$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
June 30, 2016	$2,408	Discounted cash flow	Probability of default	1.20% - 2.98%

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 June 30, 2016, amounted to $4.7 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 June 30, 2016 and December 31, 2015.

($ In Thousands)
June 30, 2016

Fair Value Measurements Using

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 8,722	$ -	$ 8,722	$ -
Other real estate owned	4,716	-	4,716	-

December 31, 2015

		Fair Value Measurements Using		
	Fair Value	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	-

NOTE 10 - 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 June 30, 2016, follows:

($ In Thousands)

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government Agencies	$9,056	$ 72	$ -	$9,128
Tax-exempt and taxable obligations of states and municipal subdivisions	96,232	3,499	2	99,729

Mortgage-backed securities	109,637	2,341	20	111,958
Corporate obligations	22,200	146	1,255	21,091
Other	1,255	-	306	949
Total	$238,380	$ 6,058	$ 1,583	$242,855
Held-to-maturity securities:				
Mortgage-backed securities	$25	$ 1	$ -	$26
Taxable obligations of states and municipal subdivisions	6,000	1,864	-	7,864
Total	$6,025	$ 1,865	$ -	$7,890

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government agencies	$19,479	$ 144	$ 13	$19,610
Tax-exempt and taxable obligations of states and municipal subdivisions	95,631	2,362	103	97,890
Mortgage-backed securities	98,223	1,127	425	98,925
Corporate obligations	23,495	62	1,211	22,346
Other	1,255	-	294	961
	$238,083	$ 3,695	$ 2,046	$239,732
Held-to-maturity securities:				
Mortgage-backed securities	$1,092	$ 15	$ -	$1,107
Taxable obligations of states and municipal subdivisions	6,000	1,440	-	7,440
	$7,092	$ 1,455	$ -	$8,547

NOTE 11 – 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 June 30, 2016 and December 31, 2015, average loans accounted for 73.8% 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 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:

	June 30, 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	$561	$ -	$ 2,629	$ 3,190	$101,439
Real Estate-mortgage	1,388	267	2,049	3,704	282,420
Real Estate-non farm non residential	296	-	951	1,247	296,676
Commercial	134	-	73	207	118,924
Lease Financing Rec.	-	-	-	-	2,642

Obligations of states and subdivisions	-	-	-	-	6,965
Consumer	20	-	40	60	15,017
Total	$2,399	$ 267	$ 5,742	$ 8,408	$824,083

19

	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

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 $2,927,095 as of June 30, 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 June 30, 2016 and December 31, 2015: ($ In Thousands)

	June 30, 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	(39)	39	(198)	198
Payments received, net	-	(113)	-	(440)
Balance at end of period	$1,180	$ 1,747	$ 1,219	$ 1,821

The following tables provide additional detail of impaired loans broken out according to class as of June 30, 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 June 30, 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.

June 30, 2016

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
	($ In thousands)				
Impaired loans with no related allowance:					
Commercial installment	$-	$-	$ -	$ -	$ -
Commercial real estate	4,588	4,550	-	4,979	10
Consumer real estate	337	337	-	257	-
Consumer installment	5	5	-	6	-
Total	$4,930	$4,892	$ -	$ 5,242	$ 10
Impaired loans with a related allowance:					
Commercial installment	$262	$262	$ 61	$ 281	$ 6
Commercial real estate	2,727	2,727	373	2,870	59
Consumer real estate	761	761	495	810	8
Consumer installment	42	42	24	35	-
Total	$3,792	$3,792	$ 953	$ 3,996	$ 73
Total Impaired Loans:					
Commercial installment	$262	$262	$ 61	$ 281	$ 6
Commercial real estate	7,315	7,277	373	7,849	69
Consumer real estate	1,098	1,098	495	1,067	8
Consumer installment	47	47	24	41	-

Total Impaired Loans	$8,722	$8,684	$ 953	$ 9,238	$ 83

As of June 30, 2016, the Company had $1.4 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

The following table represents the Company's impaired loans at June 30, 2016, and December 31, 2015.

	June 30, 2016	December 31, 2015
	($ In thousands)	
Impaired Loans:		
Impaired loans without a valuation allowance	$4,930	$ 6,020
Impaired loans with a valuation allowance	3,792	4,107
Total impaired loans	$8,722	$ 10,127
Allowance for loan losses on impaired loans at period end	953	957
Total nonaccrual loans	5,742	7,368
Past due 90 days or more and still accruing	267	29
Average investment in impaired loans	9,238	9,652

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Interest income recognized during impairment	$ 40	$ 85
Cash-basis interest income recognized	40	83

The gross interest income that would have been recorded in the period that ended if the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the three months and six months ended June 30, 2016 was $100,000 and $198,000, respectively, and $105,000 and $199,000, respectively, for the three months and six months ended June 30, 2015. The Company had no loan commitments to borrowers in non-accrual status at June 30, 2016 and December 31, 2015.

The following tables provide detail of troubled debt restructurings (TDRs) at June 30, 2016.

For the Three Months Ending June 30, 2016

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

For the Six Months Ending June 30, 2016

	Outstanding Recorded Investment Pre-Modification	Outstanding Recorded Investment Post-Modification	Number of Loans	Interest Income Recognized
Commercial installment	$ 285	$ 285	1	$ 6
Commercial real estate	-	-	-	-
Consumer real estate	-	-	-	-
Consumer installment	-	-	-	-
Total	$ 285	$ 285	1	$ 6

There were no TDRs modified during the three month period ended June 30, 2016.

The balance of troubled debt restructurings (TDRs)was $6.8 million at June 30, 2016 and $6.9 million at December 31, 2015, respectively, calculated for regulatory reporting purposes. There was $247,000 allocated in specific reserves established with respect to these loans as of June 30, 2016. As of June 30, 2016, the company had no additional amount committed on any loan classified as troubled debt restructuring.

24

The following tables set forth the amounts and past due status for the Bank TDRs at June 30, 2016 and December 31, 2015:

($ In Thousands)

	June 30, 2016				
	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Non-accrual	Total
Commercial installment	$189	$ -	$ -	$50	$239
Commercial real estate	2,534	-	-	3,582	6,116
Consumer real estate	250	-	-	129	379
Consumer installment	7	-	-	27	34
Total	$2,980	$ -	$ -	$3,788	$6,768
Allowance for loan losses	$118	$ -	$ -	$129	$247

($ In Thousands)

	December 31, 2015				
	Current Loans	Past Due 30-89	Past Due 90 days and still accruing	Non-accrual	Total
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
Total	$2,758	$ -	$ -	$4,148	$6,906
Allowance for loan losses	$106	$ -	$ -	$197	$303

Internal Risk Ratings

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 June 30, 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)

June 30, 2016

	Real Estate Commercial	Real Estate Mortgage	Installment and Other	Commercial, Financial and Agriculture	Total
Pass	$ 492,372	$169,666	$ 20,575	$ 124,783	$807,396
Special Mention	785	245	-	205	1,235
Substandard	14,264	1,360	85	149	15,858
Doubtful	-	321	-	42	363
Subtotal	507,421	171,592	20,660	125,179	824,852
Less:					
Unearned discount	382	67	-	320	769
Loans, net of unearned discount	$ 507,039	$171,525	$ 20,660	$ 124,859	$824,083

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
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

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

($ In Thousands)

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Balance at beginning of period	$ 6,982	$ 6,747
Loans charged-off:		
Real Estate	(78)	(156)
Installment and Other	(19)	(28)
Commercial, Financial and Agriculture	-	(6)
Total	(97)	(190)
Recoveries on loans previously charged-off:		
Real Estate	147	191
Installment and Other	19	37
Commercial, Financial and Agriculture	4	80
Total	170	308
Net recoveries	73	118
Provision for Loan Losses	204	394
Balance at end of period	$ 7,259	$ 7,259

27

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 June 30, 2016 and December 31, 2015.

Allocation of the Allowance for Loan Losses

	June 30, 2016 ($ In Thousands)		
	Amount	% of loans in each category to total loans	
Commercial Non Real Estate	$ 865	15.1	%
Commercial Real Estate	3,215	61.5	
Consumer Real Estate	1,540	20.8	
Consumer	134	2.5	
Unallocated	1,505	.1	
Total	$ 7,259	100	%

	December 31, 2015 ($ 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 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 June 30, 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.

June 30, 2016

	Real Estate	Installment and Other	Commercial, Financial and Agriculture	Total
	(In thousands)			
Loans				
Individually evaluated	$8,413	$ 47	$ 262	$8,722
Collectively evaluated	671,632	15,268	128,461	815,361
Total	$680,045	$ 15,315	$ 128,723	$824,083
Allowance for Loan Losses				
Individually evaluated	$868	$ 24	$ 61	$953
Collectively evaluated	3,887	1,615	804	6,306
Total	$4,755	$ 1,639	$ 865	$7,259

December 31, 2015

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

NOTE 12 – SUBSEQUENT EVENTS/OTHER

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 13 – RECLASSIFICATION

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

PART I - FINANCIAL INFORMATION

ITEM NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

FORWARD LOOKING STATEMENTS

This Form 10-Q/A contains statements regarding the projected performance of The First Bancshares, Inc. and its subsidiary. These statements constitute forward-looking information within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from the projections provided in this release since such projections involve significant known and unknown risks and uncertainties. Factors that might cause such differences include, but are not limited to: competitive pressures among financial institutions increasing significantly; economic conditions, either nationally or locally, in areas in which the Company conducts operations being less favorable than expected; and legislation or regulatory changes which adversely affect the ability of the combined Company to conduct business combinations or new operations. The Company disclaims any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments. Further information on The First Bancshares, Inc. is available in its filings with the Securities and Exchange Commission, available at the SEC's website, http://www.sec.gov.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The financial information and disclosures contained within those statements are significantly impacted by Management's estimates and judgments, which are based on historical experience and incorporate various assumptions that are believed to be reasonable under current circumstances. Actual results may differ from those estimates under divergent conditions.

Critical accounting policies are those that involve the most complex and subjective decisions and assessments, and have the greatest potential impact on the Company's stated results of operations. In Management's opinion, the Company's critical accounting policies deal with the following areas: the establishment of the allowance for loan and lease losses, as explained in detail in Note 11 to the consolidated financial statements and in the "Provision for Loan and Lease Losses" and "Allowance for Loan and Lease Losses" sections of this discussion and analysis; the valuation of impaired loans and foreclosed assets, as discussed in Note 11 to the consolidated financial statements; income taxes

and deferred tax assets and liabilities, especially with regard to the ability of the Company to recover deferred tax assets as discussed in the “Provision for Income Taxes” and “Other Assets” sections of this discussion and analysis; and goodwill and other intangible assets, which are evaluated annually for impairment and for which we have determined that no impairment exists, as discussed in the “Other Assets” section of this discussion and analysis. Critical accounting areas are evaluated on an ongoing basis to ensure that the Company’s financial statements incorporate our most recent expectations with regard to those areas.

OVERVIEW OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS SUMMARY

Second quarter 2016 compared to Second quarter 2015

The Company had a consolidated net income of $2,649,000 for the three months ended June 30, 2016, compared with consolidated net income of $2,185,000 for the same period last year.

Net interest income increased to $9.9 million from $9.2 million for the three months ended June 30, 2016, or an increase of 6.9% as compared to the same period in 2015. Quarterly average earning assets at June 30, 2016, increased $78.8 million, or 7.7% and quarterly average interest-bearing liabilities also increased $88.5 million or 10.8% when compared to June 30, 2015.

Noninterest income for the three months ended June 30, 2016, was $2,961,000 compared to $1,854,000 for the same period in 2015, reflecting an increase of $1,107,000 or 59.7%. This increase consisted mainly of increased mortgage income of $827,000 resulting from the acquisition of The Mortgage Connection, LLC in December 2015.

The provision for loan losses was $204,000 for the three months ended June 30, 2016 compared with $0 for the same period in 2015. The allowance for loan losses of $7.3 million at June 30, 2016 (approximately .87% of total loans and 1.06% 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 $829,000 or 10.2% for the three months ended June 30, 2016, when compared with the same period in 2015. The largest increase was related to salaries and benefits of $787,000 of which $391,000 can be attributed to acquisition of The Mortgage Connection, LLC, as well as additional salaries and benefits related to the banking team in Mobile and the lender in Madison.

First Half 2016 compared to First Half 2015

The Company had a consolidated net income of $5,253,000 for the six months ended June 30, 2016, compared with consolidated net income of $4,214,000 for the same period last year.

Net interest income increased to $19.5 million from $18.1 million for the six months ended June 30, 2016, or an increase of 7.9% as compared to the same period in 2015. Average earning assets at June 30, 2016, increased $64.6 million, or 6.3% and quarterly average interest-bearing liabilities also increased $74.6 million or 9.0% when compared to December 31, 2015.

Noninterest income for the six months ended June 30, 2016, was $5,444,000 compared to $3,704,000 for the same period in 2015, reflecting an increase of $1,740,000 or 47.0%. This increase consists of $1,138,000 of increased mortgage income and increased service charges of $82,000 and a one-time gain on the conversion of our debit card provider of $260,000.

The provision for loan losses was $394,000 for the six months ended June 30, 2016, compared with $150,000 for the same period in 2015. The allowance for loan losses of $7.3 million at June 30, 2016 (approximately .87% of total loans and 1.06% of loans including valuation accounting adjustments on acquired loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management's assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary.

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

Noninterest expense increased by $1.4 million or 8.8% for the six months ended June 30, 2016, when compared with the same period in 2015. $1.0 million of the increase can be attributed to the salaries and benefits of The Mortgage Connection, LLC that was acquired in the fourth quarter of 2015 and the addition of the team in Mobile and the lender in Madison.

FINANCIAL CONDITION

The First represents the primary asset of the Company. The First reported total assets of $1.2 billion at June 30, 2016, compared to $1.1 billion at December 31, 2015, an increase of $79.6 million. Loans increased $51.6 million, or 6.7%, during the first six months of 2016. Deposits at June 30, 2016, totaled $1.0 billion compared to $916.7 million at December 31, 2015. For the six month period ended June 30, 2016, The First reported net income of $5.8 million compared to $4.6 million for the six months ended June 30, 2015.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At June 30, 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 June 30, 2016, The First had loans past due as follows:

($ In Thousands)

Past due 30 through 89 days	$ 2,399
Past due 90 days or more and still accruing	267

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 $5.7 million at June 30, 2016, a decrease of $1.6 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 $4.7 million at June 30, 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 June 30, 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.

EARNINGS PERFORMANCE

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by earning assets less interest expense on deposits and other borrowed money. The second is non-interest income, which primarily consists of customer service charges and fees as well as mortgage income but also comes from non-customer sources such as bank-owned life insurance. The majority of the Company's non-interest expense is comprised of operating costs that facilitate offering a full range of banking services to our customers.

Net interest income AND NET INTEREST MARGIN

Net interest income increased by $639,000, or 6.9%, for the second quarter of 2016 relative to the second quarter of 2015, and by $1.4 million, or 7.9%, for the first half of 2016 compared to the first half of 2015. The level of net interest income we recognize in any given period depends on a combination of factors including the average volume and yield for interest-earning assets, the average volume and cost of interest-bearing liabilities, and the mix of products which comprise the Company's earning assets, deposits, and other interest-bearing liabilities. Net interest income is also impacted by the reversal of interest for loans placed on non-accrual status during the reporting period, and the recovery of interest on loans that had been on non-accrual and were paid off, sold or returned to accrual status.

The following tables depict, for the periods indicated, certain information related to the average balance sheet and average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

Average Balances, Tax Equivalent Interest and Yields/Rates

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
($ In Thousands)	Avg Balance	Tax Equivalent interest	Yield/ Rate	Avg Balance	Tax Equivalent interest	Yield/ Rate
Taxable securities	$186,615	$ 1,034	2.22 %	$179,580	$ 991	2.21 %
Tax exempt securities	78,290	721	3.68 %	79,568	702	3.53 %
Total investment securities	264,905	1,755	2.65 %	259,148	1,693	2.61 %
Fed funds sold	9,902	27	1.09 %	6,702	16	0.95 %
Int bearing deposits in other banks	12,522	20	0.64 %	24,089	19	0.32 %
Loans	809,806	9,313	4.60 %	728,416	8,532	4.69 %
Total interest earning assets	1,097,135	11,115	4.05 %	1,018,355	10,260	4.03 %
Other assets	113,572			101,293		
Total assets	$1,210,707			$1,119,648		
Interest-bearing liabilities:						
Deposits	$843,771	$ 813	0.39 %	$772,837	$ 658	0.34 %
Repo	5,000	48	3.84 %	5,000	48	3.84 %
Fed funds purchased	2,894	8	1.11 %	1,180	3	1.02 %
FHLB	42,962	93	0.87 %	27,117	51	0.75 %
Subordinated debentures	10,310	54	2.10 %	10,310	46	1.78 %
Total interest bearing liabilities	904,937	1,016	0.45 %	816,444	806	0.39 %

Other liabilities	200,004			206,095		
Stockholders' equity	105,766			97,109		
Total liabilities and stockholders' equity	$1,210,707			$1,119,648		
Net interest income (TE)		$ 10,099	3.60 %		$ 9,454	3.64 %
Net interest margin			3.68 %			3.71 %

33

Net Interest Margin Analysis

Average Balances, Tax Equivalent Interest and Yields/Rates

($ In Thousands)	YTD June 30, 2016 Average Balance	Income/ Expense	Avg Rates	December 31, 2015 Average Balance	Income/ Expense	Avg Rates
Assets						
Earning assets						
Loans	$794,612	$18,349	4.62 %	$730,326	$34,242	4.69 %
Securities	265,474	3,504	2.64 %	256,462	5,803	2.26 %
Federal funds sold	21,398	56	0.53 %	24,582	64	0.26 %
Other	6,466	40	1.24 %	7,585	93	1.23 %
Total earning assets	$1,087,950	$21,949	4.03 %	$1,018,955	$40,202	3.94 %
Cash and due from banks	35,086			31,378		
Premises and equipment	33,126			33,797		
Other assets	54,025			44,375		
Allowance for loan losses	(6,908)			(6,313)		
Total assets	$1,203,279			$1,122,192		
Liabilities						
Interest bearing liabilities	$902,536	$1,938	0.43 %	$822,708	$3,209	0.39 %
Demand deposits	191,319			196,284		
Other liabilities	4,402			4,594		
Stockholders' equity	105,022			98,606		
Total liabilities and Stockholders' equity	$1,203,279			$1,122,192		
Net interest income (TE)		20,011	3.60 %		36,994	3.55 %
Net Interest Margin			3.68 %			3.63 %

Interest Rate Sensitivity – June 30, 2016

Change in Interest Rates	Net Interest Income@ Risk		Market Value of Equity	
	% Change from Base	Policy Limit	% Change from Base	Policy Limit
Up 400 bps	13.2 %	-20 %	40.9 %	-40.00 %
Up 300 bps	9.9 %	-15 %	33.2 %	-30.00 %
Up 200 bps	6.5 %	-10 %	24.1 %	-20.00 %
Up 100 bps	3.0 %	-5 %	13.1 %	-10.00 %
Down 100 bps	(2.9)%	-5 %	(7.1)%	-10.00 %
Down 200 bps	(4.2)%	-10 %	(2.6)%	-20.00 %

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is adequate with cash and cash equivalents of $54.8 million as of June 30, 2016. In addition, loans and investment securities repricing or maturing within one year or less exceeded $236.4 million at June 30, 2016. Approximately $195.4 million in loan commitments could fund within the next three months and other commitments, primarily standby letters of credit, totaled $1.8 million at June 30, 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 June 30, 2016, was $110.3 million, or approximately 9.0% 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 June 30, 2016, were as follows:

Tier 1 leverage	8.50 %
Tier 1 risk-based	10.53%
Total risk-based	11.28%
Common equity Tier 1	7.78 %

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.

PROVISION FOR LOAN AND LEASE 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 more than 72 months of 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.

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

The following table provides details on the Company's non-interest income and non-interest expense for the three-month and six month periods ended June 30, 2016 and 2015:

($ In Thousands)	Three Months Ended				Six Months Ended			
EARNINGS STATEMENT	6/30/16	% of Total	6/30/15	% of Total	6/30/16	% of Total	6/30/15	% of Total
Non-interest income:								
Service charges on deposit accounts	$604	20.40%	$591	31.88%	$1,241	22.80%	$1,159	31.29%
Mortgage income	1,184	39.99%	357	19.25%	1,829	33.60%	691	18.65%
Interchange fee income	681	22.99%	612	33.01%	1,325	24.34%	1,183	31.94%
Gain (loss) on securities, net	129	4.36 %	-	0 %	129	2.37 %	-	0 %
Gain on sale of premises and equipment	-	0 %	-	0 %	-	0 %	110	2.97 %
BEA award, net	-	0 %	-	0 %	-	0 %	-	0 %

Other charges and fees	363	12.26%	294	15.86%	920	16.89%	561	15.15%
Total non-interest income	$2,961	100 %	$1,854	100 %	$5,444	100 %	$3,704	100 %
Non-interest expense:								
Salaries and employee benefits	$5,400	60.53%	$4,613	57.01%	$10,549	60.92%	$9,239	58.07%
Occupancy expense	1,110	12.44%	1,137	14.05%	2,183	12.61%	2,246	14.12%
FDIC premiums	257	2.88 %	241	2.98 %	501	2.89 %	482	3.03 %
Marketing	132	1.48 %	161	1.99 %	204	1.18 %	223	1.40 %
Amortization of core deposit intangibles	100	1.12 %	100	1.24 %	194	1.12 %	200	1.26 %
Other professional services	321	3.60 %	379	4.68 %	552	3.19 %	637	4.00 %
Other non-interest expense	1,601	17.95%	1,461	18.05%	3,131	18.09%	2,883	18.12%
Total non-interest expense	$8,921	100 %	$8,092	100 %	$17,314	100 %	$15,910	100 %

Second quarter 2016 noninterest expenses increased $829,000, or 10.2% as compared to second quarter 2015. The largest increase in noninterest expenses was related to salaries and benefits of $787,000 of which $391,000 can be attributed to acquisition of The Mortgage Connection, LLC in December 2015 as well as additional salaries and benefits related to the banking team in Mobile and lender in Madison along with Treasury Management personnel. Noninterest income increased $1.1 million in second quarter comparison mainly consisting of increases in mortgage income of $827,000.

Noninterest income increased $1.7 million in year-over-year comparison mainly consisting of increases in mortgage income of $1.1 million. Noninterest expenses increased $1.4 million in year-over-year comparison consisting of increases in salaries and benefits of $1.3 million relating to the acquisition of The Mortgage Connection, LLC as well as salaries and benefits related to the lender in Madison along with the executive for Treasury Management.

PROVISION FOR INCOME TAXES

The Company sets aside a provision for income taxes on a monthly basis. The amount of that provision is determined by first applying the Company's statutory income tax rates to estimated taxable income, which is pre-tax book income adjusted for permanent differences, and then subtracting available tax credits if applicable. Permanent differences include but are not limited to tax-exempt interest income, BOLI income, and certain book expenses that are not allowed as tax deductions.

The Company's provision for income taxes was $2.0 million total as of June 30, 2016 relative to $1.5 million as of June 30, 2015. The higher tax provisioning for the first half comparison is the result of an increase in pre-tax income.

BALANCE SHEET ANALYSIS

EARNING ASSETS

The Company's interest-earning assets are comprised of investments and loans, and the composition, growth characteristics, and credit quality of both are significant determinants of the Company's financial condition. Investments are analyzed in the section immediately below, while the loan and lease portfolio and other factors affecting earning assets are discussed in the sections following investments.

38

INVESTMENTS

The Company's investments can at any given time consist of debt securities and marketable equity securities (together, the "investment portfolio"), investments in the time deposits of other banks, surplus interest-earning balances in our Federal Reserve Bank ("FRB") account, and overnight fed funds sold. Surplus FRB balances and fed funds sold to correspondent banks represent the temporary investment of excess liquidity. The Company's investments serve several purposes: 1) they provide liquidity to even out cash flows from the loan and deposit activities of customers; 2) they provide a source of pledged assets for securing public deposits, bankruptcy deposits and certain borrowed funds which require collateral; 3) they constitute a large base of assets with maturity and interest rate characteristics that can be changed more readily than the loan portfolio, to better match changes in the deposit base and other funding sources of the Company; 4) they are another interest-earning option for surplus funds when loan demand is light; and 5) they can provide partially tax exempt income. Aggregate investments totaled $249 million, or 20% of total assets at June 30, 2016, compared to $247 million, or 22% of total assets at December 31, 2015.

We had $310,000 fed funds sold at June 30, 2016 and $321,000 fed funds sold at December 31, 2015; and interest-bearing balances at other banks increased to $21,065 million at June 30, 2016 from $17,303 million at December 31, 2015 primarily due to an increase in our Federal Reserve Bank account. The Company's investment portfolio remained steady with a total fair value of $251 million at June 30, 2016, reflecting an increase of $2.5 million, or 1.0%, for the first half of 2016. The Company carries investments at their fair market values. The Company holds a small amount of "held-to-maturity" investments with a fair market value of $7.9 million at June 30, 2016 as compared to $8.5 million at December 31, 2015. All other investment securities are classified as "available for sale" to allow maximum flexibility with regard to interest rate risk and liquidity management.

Refer to table shown in NOTE 10 - SECURITIES for information on the Company's amortized cost and fair market value of its investment portfolio by investment type.

LOAN AND LEASE PORTFOLIO

The Company's loans and leases, gross of the associated allowance for losses and deferred fees and origination costs, totaled $833 million at June 30, 2016, an increase of $56.5 million, or 7.3%, since December 31, 2015. With an increase of $55.9 million in the Real Estate category, the Mortgage-commercial had the largest areas of growth of $43.4 million. At June 30, 2016 the company had direct energy related loans of $19.3 million, representing 2.3% of the total loan portfolio. A majority of the outstanding are secured by marine assets that operate in the Gulf of Mexico, which are under term contracts to major operators tied primarily to oil and gas production.

A distribution of the Company’s loans showing the balance and percentage of loans by type is presented for the noted periods in the table below. The balances shown are before deferred or unamortized loan origination, extension, or commitment fees, and deferred origination costs.

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

Composition of Loan Portfolio

	June 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
	($ In Thousands)			
Mortgage loans held for sale	$8,937	1.1 %	$3,974	0.5 %
Commercial, financial and agricultural	118,924	14.3	129,197	16.6
Real Estate:				
Mortgage-commercial	296,676	35.6	253,309	32.6
Mortgage-residential	282,420	33.9	272,180	35.1
Construction	101,439	12.2	99,161	12.8
Lease financing receivable	2,642	0.3	2,650	0.3
Obligations of states and subdivisions	6,965	0.8	969	0.1
Consumer and other	15,017	1.8	15,049	2.0
Total loans	833,020	100 %	776,489	100 %
Allowance for loan losses	(7,259)		(6,747)	
Net loans	$825,761		$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.

NONPERFORMING ASSETS

Nonperforming assets are comprised of loans for which the Company is no longer accruing interest, and foreclosed assets including mobile homes and OREO. If the Company grants a concession to a borrower in financial difficulty, the loan falls into the category of a troubled debt restructuring ("TDR"). TDRs may be classified as either nonperforming or performing loans depending on their accrual status. The following table presents comparative data for the Company's nonperforming assets and performing TDRs as of the dates noted:

Nonperforming assets totaled $10.5 million at June 30, 2016, remaining constant compared to $10.5 million at December 31, 2015. The ALLL/total loans ratio was 0.87% at June 30, 2016 and 0.87% at December 31, 2015. Including valuation accounting adjustments on acquired loans, the total valuation plus ALLL was 1.06% of loans at June 30, 2016. The ratio of annualized net charge-offs (recoveries) to total loans was (0.04%) for the quarter ended June 30, 2016 compared to (0.27%) for the quarter ended June 30, 2015. As noted in our first quarter 2015 10-Q, the Company had been notified that a recovery of $941,000 was more likely than not expected during 2015. We received the first installment during the second quarter of 2015 which totaled $481,000 and the second installment during the third quarter of 2015 which totaled $241,000. The remaining balance of $219,000 is expected to be received in 2016.

Nonperforming Assets and Performing Troubled Debt Restructurings
($ In Thousands)

	06/30/16	12/31/15	06/30/15
NON-ACCRUAL LOANS			
Real Estate:			
1-4 family residential construction	$ -	$ -	$ 578
Other construction/land	2,629	2,956	2,668
1-4 family residential revolving/open-end	321	327	334
1-4 family residential closed-end	1,728	1,728	1,725
Nonfarm, nonresidential, owner-occupied	600	1,853	671
Nonfarm, nonresidential, other nonfarm nonresidential	351	372	393
TOTAL REAL ESTATE	5,629	7,236	6,369
Commercial and industrial	73	100	109
Loans to individuals - other	40	32	35
TOTAL NON-ACCRUAL LOANS	5,742	7,368	6,513
Other real estate owned	4,716	3,083	4,116
TOTAL NON-PERFORMING ASSETS	$ 10,458	$ 10,451	$ 10,629
Performing TDRs	2,980	2,758	2,608
Total non-performing assets as a % of total loans & leases net of unearned income	1.27 %	1.35 %	1.45 %
Total non-accrual loans as a % of total loans & leases net of unearned income	0.70 %	0.95 %	0.89 %

ALLOWANCE FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses, a contra-asset, is established through a provision for loan and lease losses. It is maintained at a level that is considered adequate to absorb probable incurred losses inherent in the remaining loan portfolio. Specifically identifiable and quantifiable losses are immediately charged off against the allowance; recoveries are generally recorded only when sufficient cash payments are received subsequent to the charge off.

The table that follows summarizes the activity in the allowance for loan and lease losses for the noted periods:

Allowance for Loan and Lease Losses
($ In Thousands)

	3 months ended 6/30/16	3 months ended 6/30/15	6 months ended 6/30/16	6 months ended 6/30/15	For the Year Ended 12/31/15
Balances:					
Average gross loans & leases outstanding during period:	$809,806	$728,416	$794,612	$715,991	$730,326
Gross Loans & leases outstanding at end of period	833,020	732,901	833,020	732,901	776,489
Allowance for Loan and Lease Losses:					
Balance at beginning of period	$6,982	$5,928	$6,747	$6,095	6,095
Provision charged to expense	204	1	394	150	410
Charge-offs:					
Real Estate-					
1-4 family residential construction	0	0			74
Other construction/land	(1)	0	67		88
1-4 family revolving, open-ended					8
1-4 family closed-end	79	7	89	349	364
Nonfarm, nonresidential, owner-occupied	-	-	-	-	-
Total Real Estate	78	7	156	349	534
Commercial and industrial	0	0	6		183
Credit cards	1	0	1		-
Automobile loans	4	8	8	19	31
Loans to individuals - other	0	0			-
All other loans	14	30	19	44	95
Total	97	45	190	412	843
Recoveries:					
Real Estate-					
1-4 family residential construction	-	-	-	-	-
Other construction/land	67	13	83	19	63
1-4 family revolving, open-ended	12	3	14	4	9
1-4 family closed-end	67	501	89	523	818
Nonfarm, nonresidential, owner-occupied	1	3	5	7	15
Total Real Estate	147	520	191	553	905
Commercial and industrial	4	3	80	9	99
Credit cards	-	1	-	1	2
Automobile loans	-	-	1	-	1
Loans to individuals - other	3	-	5	1	14

All other loans	16		11		31		22		64	
Total	170		535		308		586		1,085	
Net loan charge offs (recoveries)	(73	)	(490	)	(118	)	(174	)	(242	)
Balance at end of period	$7,259		$6,419		$7,259		$6,419		$6,747	
RATIOS										
Net Charge-offs (recoveries) to average Loans & Leases(annualized)	(0.04	)%	(0.27	)%	(0.03	)%	(0.05	%)	(0.03	)%
Allowance for Loan Losses to gross Loans & Leases at end of period	0.87	%	0.88	%	0.87	%	0.88	%	0.87	%
Net Loan Charge-offs (recoveries) to provision for loan losses	(35.78	)%	-		(29.95	)%	(116.00	)%	(59.02	)%

OFF-BALANCE SHEET ARRANGEMENTS

The Company maintains commitments to extend credit in the normal course of business, as long as there are no violations of conditions established in the outstanding contractual arrangements. Unused commitments to extend credit totaled $195.4 million at June 30, 2016 and $144.1 million at December 31, 2015, although it is not likely that all of those commitments will ultimately be drawn down. Unused commitments represented approximately 23% of gross loans outstanding at June 30, 2016 and 19% at December 31, 2015, with the increase due in part to higher commitments in commercial and industrial loans. The Company also had undrawn letters of credit issued to customers totaling $1.8 million at June 30, 2016 and $1.1 million at December 31, 2015. The effect on the Company's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will ever be used. However, the "Liquidity" section in this Form 10-Q/A outlines resources available to draw upon should we be required to fund a significant portion of unused commitments. For more information regarding the Company's off-balance sheet arrangements, see NOTE 8 to the financial statements located elsewhere herein.

In addition to unused commitments to provide credit, the Company is utilizing a $107 million letter of credit issued by the Federal Home Loan Bank on the Company's behalf as security for certain deposits as of June 30, 2016. That letter of credit is backed by loans which are pledged to the FHLB by the Company.

OTHER ASSETS

The Company's balance of non-interest earning cash and due from banks was $33.4 million at June 30, 2016 and $23.6 million at December 31, 2015. The balance of cash and due from banks depends on the timing of collection of outstanding cash items (checks), the level of cash maintained on hand at our branches, and our reserve requirement among other things, and is subject to significant fluctuation in the normal course of business. While cash flows are normally predictable within limits, those limits are fairly broad and the Company manages its short-term cash position through the utilization of overnight loans to and borrowings from correspondent banks, including the Federal Reserve Bank and the Federal Home Loan Bank. Should a large "short" overnight position persist for any length of time, the Company typically raises money through focused retail deposit gathering efforts or by adding brokered time deposits. If a "long" position is prevalent, the Company will let brokered deposits or other wholesale borrowings roll off as they mature, or might invest excess liquidity in higher-yielding, longer-term bonds.

The Company's net premises and equipment at June 30, 2016 was $33.5 million and $33.6 million at December 31, 2015; the result being a decrease of $121,000, or .36% for the first six months of 2016. The Company purchased $5.8 million in life insurance, thereby creating a balance of $21.0 million at June 30, 2016. Bank-owned life insurance is also discussed above in the "Non-Interest Income and Non-Interest Expense" section. Goodwill did not change during the period, ending the first six months of 2016 with a balance of $13.8 million, but other intangible assets, namely the Company's core deposit intangible, decreased by $207,000 due to amortization. The Company's goodwill and other intangible assets are evaluated annually for potential impairment, and pursuant to that analysis Management has determined that no impairment exists as of June 30, 2016.

Other real estate increased $1.6 million, or 53.0% during the first six months of 2016. Total equity securities increased $1.4 million due primarily to an increase in FHLB stock.

DEPOSITS AND INTEREST BEARING LIABILITIES

DEPOSITS

Deposits are another key balance sheet component impacting the Company's net interest margin and other profitability metrics. Deposits provide liquidity to fund growth in earning assets, and the Company's net interest margin is improved to the extent that growth in deposits is concentrated in less volatile and typically less costly non-maturity deposits such as demand deposit accounts, NOW accounts, savings accounts, and money market demand accounts. Information concerning average balances and rates paid by deposit type for the three-month and six-month periods ended June 30, 2016 and 2015 is included in the Average Balances and Rates tables appearing above, in the section titled "Net Interest Income and Net Interest Margin." A distribution of the Company's deposits showing the balance and percentage of total deposits by type is presented for the noted periods in the following table. This information does not include "house accounts" or demand deposits utilized for internal purposes. The balance of house accounts on June 30, 2016 was approximately $5.8 million and $5.0 million for December 31, 2015.

Deposit Distribution

($ In Thousands)	June 30, 2016	December 31, 2015
Non-interest bearing demand deposits	$ 194,950	$ 189,445
NOW accounts and Other	466,118	373,687
Money Market / Savings	174,740	174,090
Time Deposits of less than $100,000	72,389	73,865
Time Deposits of $100,000 or more	124,166	105,608
Total deposits	$ 1,032,363	$ 916,695

Percentage of Total Deposits				
Non-interest bearing demand deposits	18.9	%	20.7	%
NOW accounts and other	45.2	%	40.8	%
Money Market / Savings	16.9	%	19.0	%
Time Deposits of less than $100,000	7.0	%	8.0	%
Time Deposits of $100,000 or more	12.0	%	11.5	%
Total	100.0	%	100.00	%

OTHER INTEREST-BEARING LIABILITIES

The Company's non-deposit borrowings may, at any given time, include fed funds purchased from correspondent banks, borrowings from the Federal Home Loan Bank, advances from the Federal Reserve Bank, securities sold under agreement to repurchase, and/or junior subordinated debentures. The Company uses short-term FHLB advances and fed funds purchased on uncommitted lines to support liquidity needs created by seasonal deposit flows, to temporarily satisfy funding needs from increased loan demand, and for other short-term purposes. The FHLB line is committed, but the amount of available credit depends on the level of pledged collateral.

Total non-deposit interest-bearing liabilities decreased by $42.3 million, or 35.1%, in the first six months of 2016, due to a reduction in notes payable to the Federal Home Loan Bank and fed funds purchased. We had no overnight fed funds purchased at June 30, 2016, relative to $5.3 million in fed funds purchased at December 31, 2015. Repurchase agreements remained unchanged for both periods at $5 million. The Company had junior subordinated debentures totaling $10.3 million at June 30, 2016 and December 31, 2015, in the form of long-term borrowings from trust subsidiaries formed specifically to issue trust preferred securities.

OTHER NON-INTEREST BEARING LIABILITIES

Other liabilities are principally comprised of accrued interest payable, other accrued but unpaid expenses, and house accounts. Other liabilities fell by $438,000, or 10.6%, during the first six months of 2016, due in part to a reduction in other accrued but unpaid expenses by $393,000 and a reduction of house account balances of $857,000.

liquidity and market RisK MANAGEMENT

LIQUIDITY

Liquidity management refers to the Company's ability to maintain cash flows that are adequate to fund operations and meet other obligations and commitments in a timely and cost-effective manner. Detailed cash flow projections are reviewed by Management on a monthly basis, with various scenarios applied to assess our ability to meet liquidity needs under adverse conditions. Liquidity ratios are also calculated and reviewed on a regular basis. While those ratios are merely indicators and are not measures of actual liquidity, they are closely monitored and we are focused on maintaining adequate liquidity resources to draw upon should unexpected needs arise.

The Company, on occasion, experiences cash needs as the result of loan growth, deposit outflows, asset purchases or liability repayments. To meet short-term needs, the Company can borrow overnight funds from other financial institutions, draw advances via Federal Home Loan Bank lines of credit, or solicit brokered deposits if deposits are not immediately obtainable from local sources. The net availability on lines of credit from the FHLB totaled $191.9 million at June 30, 2016. Furthermore, funds can be obtained by drawing down the Company's correspondent bank deposit accounts, or by liquidating unpledged investments or other readily saleable assets. In addition, the Company can raise immediate cash for temporary needs by selling under agreement to repurchase those investments in its portfolio which are not pledged as collateral. As of June 30, 2016, the market value of unpledged debt securities plus pledged securities in excess of current pledging requirements comprised $102 million of the Company's investment balances, compared to $66 million at December 31, 2015. The increase in unpledged debt from June 2016 compared to December 2015 is primarily due to an increase in letters of credit utilized for pledging purposes. Other forms of balance sheet liquidity include but are not necessarily limited to any outstanding fed funds sold and vault cash. The Company has a higher level of actual balance sheet liquidity than might otherwise be the case, since we utilize a letter of credit from the FHLB rather than investment securities for certain pledging requirements. That letter of credit, which is backed by loans that are pledged to the FHLB by the Company, totaled $107 million at June 30, 2016. Management is of the opinion that available investments and other potentially liquid assets, along with the standby funding sources it has arranged, are more than sufficient to meet the Company's current and anticipated short-term liquidity needs.

The Company's liquidity ratio as of June 30, 2016 was 13.75%, as compared to internal policy guidelines of 10% minimum. Other liquidity ratios reviewed include the following along with policy guidelines:

	June 30, 2016		Policy Maximum		
Loans to Deposits (including FHLB advances)	74.64	%	90.00	%	In Policy
Net Non-core Funding Dependency Ratio	9.62	%	20.00	%	In Policy
Fed Funds Purchased / Total Assets	0.41	%	10.00	%	In Policy
FHLB Advances / Total Assets	5.24	%	20.00	%	In Policy
FRB Advances / Total Assets	0.00	%	10.00	%	In Policy
Pledged Securities to Total	68.51	%	90.00	%	In Policy

Continued growth in core deposits and relatively high levels of potentially liquid investments have had a positive impact on our liquidity position in recent periods, but no assurance can be provided that our liquidity will continue at current robust levels.

The holding company's primary uses of funds are ordinary operating expenses and stockholder dividends, and its primary source of funds is dividends from the Bank since the holding company does not conduct regular banking operations. Management anticipates that the Bank will have sufficient earnings to provide dividends to the holding company to meet its funding requirements for the foreseeable future. Both the holding company and the Bank are subject to legal and regulatory limitations on dividend payments, as outlined in Item 5(c) Dividends in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 which was filed with the SEC.

INTEREST RATE RISK MANAGEMENT

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company does not engage in the trading of financial instruments, nor does it have exposure to currency exchange rates. Our market risk exposure is primarily that of interest rate risk, and we have established policies and procedures to monitor and limit our earnings and balance sheet exposure to changes in interest rates. The principal objective of interest rate risk management is to manage the financial components of the Company's balance sheet in a manner that will optimize the risk/reward equation for earnings and capital under a variety of interest rate scenarios.

To identify areas of potential exposure to interest rate changes, we utilize commercially available modeling software to perform earnings simulations and calculate the Company's market value of portfolio equity under varying interest rate scenarios every month. The model imports relevant information for the Company's financial instruments and incorporates Management's assumptions on pricing, duration, and optionality for anticipated new volumes. Various

rate scenarios consisting of key rate and yield curve projections are then applied in order to calculate the expected effect of a given interest rate change on interest income, interest expense, and the value of the Company's financial instruments. The rate projections can be shocked (an immediate and parallel change in all base rates, up or down), ramped (an incremental increase or decrease in rates over a specified time period), economic (based on current trends and econometric models) or stable (unchanged from current actual levels).

We use seven standard interest rate scenarios in conducting our 12-month net interest income simulations: “static,” upward shocks of 100, 200, 300 and 400 basis points, and downward shocks of 100, and 200 basis points. Pursuant to policy guidelines, we typically attempt to limit the projected decline in net interest income relative to the stable rate scenario to no more than 5% for a 100 basis point (bp) interest rate shock, 10% for a 200 bp shock, 15% for a 300 bp shock, and 20% for a 400 bp shock. As of June 30, 2016 the Company had the following estimated net interest income sensitivity profile, without factoring in any potential negative impact on spreads resulting from competitive pressures or credit quality deterioration:

June 30, 2016	Net Interest Income at Risk						
	-200 bp	-100 bp	STATIC	+100 bp	+200 bp	+300 bp	+400 bp
Dollar Change	-1,467,137	-965,174	none	462,529	1,115,336	1,710,732	2,261,785
NII @ Risk - Sensitivity Y1	-3.96 %	-2.61 %	none	1.25 %	3.01 %	4.62 %	6.11 %

If there were an immediate and sustained downward adjustment of 200 basis points in interest rates, all else being equal, net interest income over the next twelve months would likely be around $1.5 million lower than in a stable interest rate scenario, for a negative variance of 3.96%. The unfavorable variance increases if rates were to drop below 200 basis points, due to the fact that certain deposit rates are already relatively low (on NOW accounts and savings accounts, for example), and will hit a natural floor of close to zero while non-floored variable-rate loan yields continue to drop. This effect is exacerbated by accelerated prepayments on fixed-rate loans and mortgage-backed securities when rates decline, although rate floors on some of our variable-rate loans partially offset other negative pressures. While we view further interest rate reductions as highly unlikely, the potential percentage drop in net interest income exceeds our internal policy guidelines in declining interest rate scenarios and we will continue to monitor our interest rate risk profile and take corrective action as deemed appropriate.

Net interest income would likely improve by $1.1 million, or 3.01%, if interest rates were to increase by 200 basis points relative to a stable interest rate scenario, with the favorable variance expanding the higher interest rates rise. The initial increase in rising rate scenarios will be limited to some extent by the fact that some of our variable-rate loans are currently at rate floors, resulting in a re-pricing lag while base rates are increasing to floored levels, but the Company still appears well-positioned to benefit from a material upward shift in the yield curve.

The Company’s one year cumulative GAP ratio is approximately 178.02%, which means that there are more assets repricing than liabilities within the first year. The Company is “asset-sensitive.” These results are based on cash flows from assumptions of assets and liabilities that reprice (maturities, likely calls, prepayments, etc.) Typically, the net interest income of asset-sensitive companies should improve with rising rates and decrease with declining rates.

In addition to the net interest income simulations shown above, we run stress scenarios modeling the possibility of no balance sheet growth, the potential runoff of “surge” core deposits which flowed into the Company in the most recent

economic cycle, and potential unfavorable movement in deposit rates relative to yields on earning assets. Even though net interest income will naturally be lower with no balance sheet growth, the rate-driven variances projected for net interest income in a static growth environment are similar to the changes noted above for our standard projections. When a greater level of non-maturity deposit runoff is assumed or unfavorable deposit rate changes are factored into the model, projected net interest income in declining rate and flat rate scenarios does not change materially relative to standard growth projections. However, the benefit we would otherwise experience in rising rate scenarios is minimized and net interest income remains relatively flat.

The economic value (or "fair value") of financial instruments on the Company's balance sheet will also vary under the interest rate scenarios previously discussed. The difference between the projected fair value of the Company's financial assets and the fair value of its financial liabilities is referred to as the economic value of equity ("EVE"), and changes in EVE under different interest rate scenarios are effectively a gauge of the Company's longer-term exposure to interest rate risk. Fair values for financial instruments are estimated by discounting projected cash flows (principal and interest) at projected replacement interest rates for each account type, while the fair value of non-financial accounts is assumed to equal their book value for all rate scenarios. An economic value simulation is a static measure utilizing balance sheet accounts at a given point in time, and the measurement can change substantially over time as the characteristics of the Company's balance sheet evolve and interest rate and yield curve assumptions are updated.

The change in economic value under different interest rate scenarios depends on the characteristics of each class of financial instrument, including stated interest rates or spreads relative to current or projected market-level interest rates or spreads, the likelihood of principal prepayments, whether contractual interest rates are fixed or floating, and the average remaining time to maturity. As a general rule, fixed-rate financial assets become more valuable in declining rate scenarios and less valuable in rising rate scenarios, while fixed-rate financial liabilities gain in value as interest rates rise and lose value as interest rates decline. The longer the duration of the financial instrument, the greater the impact a rate change will have on its value. In our economic value simulations, estimated prepayments are factored in for financial instruments with stated maturity dates, and decay rates for non-maturity deposits are projected based on historical patterns and Management's best estimates. The table below shows estimated changes in the Company's EVE as of June 30, 2016, under different interest rate scenarios relative to a base case of current interest rates:

	Balance Sheet Shock						
(in $000s)	-200 bp	-100 bp	STATIC (Base)	+100 bp	+200 bp	+300 bp	+400 bp
Market Value of Equity	254,071	242,284	260,892	295,089	323,853	347,606	367,590
Change in EVE from base	(6,821)	(18,608)		34,197	62,961	86,714	106,698
% Change	(2.61)%	(7.13)%		13.11%	24.13%	33.24%	40.90%
Policy Limits	(20.00)%	(10.00)%		(10.00)%	(20.00)%	(30.00)%	(40.00)%

The table shows that our EVE will generally deteriorate in declining rate scenarios, but should benefit from a parallel shift upward in the yield curve. As noted previously, however, Management is of the opinion that the potential for a significant rate decline is low. We also run stress scenarios for EVE to simulate the possibility of higher loan prepayment rates, unfavorable changes in deposit rates, and higher deposit decay rates. Model results are highly sensitive to changes in assumed decay rates for non-maturity deposits, in particular.

CAPITAL RESOURCES

At June 30, 2016 the Company had total stockholders' equity of $110.3 million, comprised of $5.5 million in common stock, $17.1 million in preferred stock, less than one half a million in treasury stock, $44.9 million in surplus, $40.2 million in undivided profits, $3.0 million in accumulated comprehensive income for available for sale securities. Total stockholders' equity at the end of 2015 was $103.4 million. The increase of $6.9 million, or 6.6%, in stockholders' equity during the first six months of 2016 is comprised of capital added via net earnings of $5.3 million, $1.9 million increase accumulated comprehensive income for available for sale securities, offset by $0.5 million in cash dividends paid.

The Company uses a variety of measures to evaluate its capital adequacy, including risk-based capital and leverage ratios that are calculated separately for the Company and the Bank. Management reviews these capital measurements on a quarterly basis and takes appropriate action to help ensure that they meet or surpass established internal and external guidelines. As permitted by the regulators for financial institutions that are not deemed to be "advanced approaches" institutions, the Company has elected to opt out of the Basel III requirement to include accumulated other comprehensive income in risk-based capital. The following table sets forth the Company's and the Bank's regulatory capital ratios as of the dates indicated.

Regulatory Capital Ratios

The First, ANBA

	June 30, 2016	December 31, 2015	Minimum Required to be Well Capitalized
Common Equity Tier 1 Capital Ratio	10.49 %	11.04 %	6.50 %
Tier 1 Capital Ratio	10.49 %	11.04 %	8.00 %
Total Capital Ratio	11.24 %	11.81 %	10.00 %
Tier 1 Leverage Ratio	8.47 %	8.62 %	5.00 %

Regulatory Capital Ratios

The First Bancshares, Inc.

	June 30, 2016		December 31, 2015		Minimum Required to be Well Capitalized	
Common Equity Tier 1 Capital Ratio*	7.78	%	8.10	%	6.50	%
Tier 1 Capital Ratio**	10.53	%	11.09	%	8.00	%
Total Capital Ratio	11.28	%	11.86	%	10.00	%
Tier 1 Leverage Ratio	8.50	%	8.66	%	5.00	%

* The numerator does not include Preferred Stock and Trust Preferred.

** The numerator includes Preferred Stock and Trust Preferred.

Regulatory capital ratios slightly decreased from December 31, 2015 to June 30, 2016 as asset growth outpaced capital formation. Our capital ratios remain very strong relative to the median for peer financial institutions, and at June 30, 2016 were well above the threshold for the Company and the Bank to be classified as “well capitalized,” the highest rating of the categories defined under the Bank Holding Company Act and the Federal Deposit Insurance Corporation Improvement Act of 1991. We do not foresee any circumstances that would cause the Company or the Bank to be less than well capitalized, although no assurance can be given that this will not occur.

PART I - FINANCIAL INFORMATION

ITEM NO. 3

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk is included in Part I, Item 2 above. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Market Risk Management.”

PART I - FINANCIAL INFORMATION

ITEM NO. 4

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 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. As noted in the Explanatory Note above, the failure to file the Original Form 10-Q within the specified time period for “accelerated filers” as defined by Rule 12b-2 of the Securities Exchange Act of 1934 resulted from a misinterpretation of the affiliate status of certain shareholders, and not due to any failure of disclosure controls and procedures.

Changes in Internal Controls

There have been no changes, significant or otherwise, in our internal controls over financial reporting that occurred during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company is involved in various legal proceedings in the normal course of business. In the opinion of Management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial condition or results of operation.

ITEM 1A: RISK FACTORS

There are no material changes in the Company's risk factors since December 31, 2015. For additional information on risk factors, refer to Part I, Item 1A. "Risk Factors" of 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: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4: (REMOVED AND RESERVED)

Item 5: Other Information

Not applicable

ITEM 6: EXHIBITS -

(a) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of The First Bancshares, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on July 28, 2016.
3.2	Amended and Restated Bylaws

	of The First Bancshares, Inc. effective as of March 17, 2016 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on March 18, 2016.
4.1	Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement No. 333-137198 on Form S-1 filed on 9/8/2006.
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

51

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)

	/s/ M. RAY (HOPPY)COLE, JR.
October 11, 2016	M. Ray (Hoppy) Cole, Jr.
(Date)	Chief Executive Officer
	/s/ DEE DEE LOWERY
October 11, 2016	Dee Dee Lowery, Executive Vice President and Chief Financial Officer
(Date)	