

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2024

OR

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

For the transition period from _____ to _____

Commission file number: 000-22507



THE FIRST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Mississippi

(State of Incorporation)

64-0862173

(IRS Employer Identification No)

6480 U.S. Highway 98 West, Suite A , Hattiesburg , Mississippi

(Address of principal executive offices)

39402

(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock , par value \$1.00	FBMS	The Nasdaq Stock Market

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☒

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, 32,468,333 shares issued and 31,218,726 outstanding as of May 3, 2024.

Auditor Firm PCAOB ID: 686

Auditor Name: FORVIS, LLP

Auditor Location: Jackson, MS

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Form 10-Q
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(\$ in thousands)

	(Unaudited)	
	March 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	\$ 109,323	\$ 224,199
Interest-bearing deposits with banks	230,641	130,948
Total cash and cash equivalents	339,964	355,147
Securities available-for-sale, at fair value (amortized cost: \$ 1,216,163 - 2024; \$ 1,164,227 - 2023; allowance for credit losses: \$ 0)	1,088,568	1,042,365
Securities held to maturity, net of allowance for credit losses of \$ 0 (fair value: \$ 577,343 - 2024; \$ 615,944 - 2023)	622,574	654,539
Other securities	34,094	37,754
Total securities	1,745,236	1,734,658
Loans held for sale	4,241	2,914
Loans held for investment	5,139,952	5,170,042
Allowance for credit losses	(53,959)	(54,032)
Net loans held for investment	5,085,993	5,116,010
Interest receivable	34,954	33,300
Premises and equipment	173,225	174,309
Operating lease right-of-use assets	6,619	6,387
Finance lease right-of-use assets	1,350	1,466
Cash surrender value of bank-owned life insurance	135,148	134,249
Goodwill	272,520	272,520
Other real estate owned	6,743	8,320
Other assets	157,766	160,065
Total assets	\$ 7,963,759	\$ 7,999,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,836,952	\$ 1,849,013
Interest-bearing	4,873,403	4,613,859
Total deposits	6,710,355	6,462,872
Interest payable	13,705	22,702
Borrowed funds	110,000	390,000
Subordinated debentures	123,472	123,386
Operating lease liabilities	6,783	6,550
Finance lease liabilities	1,693	1,739
Allowance for credit losses on off-balance sheet credit exposures	2,075	2,075
Other liabilities	35,764	40,987
Total liabilities	7,003,847	7,050,311
Shareholders' equity:		
Common stock, par value \$ 1 per share, 80,000,000 shares authorized; 32,467,928 shares issued at March 31, 2024, and par value \$ 1 per share, 80,000,000 shares authorized; 32,338,983 shares issued at December 31, 2023	32,468	32,339
Additional paid-in capital	775,442	775,232
Retained earnings	313,001	300,150
Accumulated other comprehensive (loss)	(119,888)	(117,576)
Treasury stock, at cost, 1,249,607 shares at March 31, 2024 and at December 31, 2023	(41,111)	(41,111)
Total shareholders' equity	959,912	949,034
Total liabilities and shareholders' equity	\$ 7,963,759	\$ 7,999,345

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	
	March 31,	
	2024	2023
Interest and dividend income:		
Interest and fees on loans	\$ 78,799	\$ 67,733
Interest and dividends on securities:		
Taxable interest and dividends	8,302	8,759
Tax exempt interest	2,946	2,948
Interest on federal funds sold and interest-bearing deposits in other banks	1,616	898
Total interest income	91,663	80,338
Interest expense:		
Interest on deposits	29,413	12,277
Interest on borrowed funds	4,909	3,135
Total interest expense	34,322	15,412
Net interest income	57,341	64,926
Provision for credit losses, LHFI	—	10,500
Provision for credit losses, OBSC exposures	—	500
Net interest income after provision for credit losses	57,341	53,926
Non-interest income:		
Service charges on deposit accounts	3,367	3,657
Loss on securities	(48)	—
Gain on sale of premises and equipment	—	662
Other	9,360	8,293
Total non-interest income	12,679	12,612
Non-interest expense:		
Salaries and employee benefits	24,508	23,572
Occupancy and equipment	5,714	5,296
Acquisition expense/charter conversion	8	3,793
Other	13,195	13,009
Total non-interest expense	43,425	45,670
Income before income taxes	26,595	20,868
Income tax expense	5,967	4,597
Net income	\$ 20,628	\$ 16,271
Basic earnings per share	\$ 0.66	\$ 0.52
Diluted earnings per share	0.65	0.52

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(\$ in thousands)

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2024	2023
Net income	\$ 20,628	\$ 16,271
Other comprehensive (loss) income:		
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(3,237)	24,249
Reclassification adjustment for (accretion) amortization of unrealized holdings gain/(loss) included in accumulated other comprehensive income from the transfer of securities available-for-sale to held-to-maturity	94	92
Reclassification adjustment for losses (gains) included in net income	48	—
Unrealized holding (losses) gains arising during the period on available-for-sale securities	(3,095)	24,341
Income tax (expense) benefit	783	(6,158)
Other comprehensive (loss) income	(2,312)	18,183
Comprehensive income	<u>\$ 18,316</u>	<u>\$ 34,454</u>

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(\$ in thousands except per share data, unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, January 1, 2023	25,275,369	\$ 25,275	\$ 558,833	\$ 252,623	\$ (148,957)	(1,249,607)	\$ (41,111)	\$ 646,663
Net income	—	—	—	16,271	—	—	—	16,271
Other comprehensive income	—	—	—	—	18,183	—	—	18,183
Dividends on common stock, \$ 0.21 per share	—	—	—	(6,498)	—	—	—	(6,498)
Issuance of common shares for HSBI acquisition	6,920,422	6,920	214,602	—	—	—	—	221,522
Issuance of restricted stock grants	118,689	119	(119)	—	—	—	—	—
Restricted stock grants forfeited	(500)	(1)	1	—	—	—	—	—
Repurchase of restricted stock for payment of taxes	(9,827)	(9)	(298)	—	—	—	—	(307)
Compensation expense	—	—	593	—	—	—	—	593
Balance, March 31, 2023	<u>32,304,153</u>	<u>\$ 32,304</u>	<u>\$ 773,612</u>	<u>\$ 262,396</u>	<u>\$ (130,774)</u>	<u>(1,249,607)</u>	<u>\$ (41,111)</u>	<u>\$ 896,427</u>
Balance, January 1, 2024	32,338,983	\$ 32,339	\$ 775,232	\$ 300,150	\$ (117,576)	(1,249,607)	\$ (41,111)	\$ 949,034
Net income	—	—	—	20,628	—	—	—	20,628
Other comprehensive loss	—	—	—	—	(2,312)	—	—	(2,312)
Dividends on common stock, \$ 0.25 per share	—	—	—	(7,777)	—	—	—	(7,777)
Issuance of restricted stock grants	141,457	141	(141)	—	—	—	—	—
Repurchase of restricted stock for payment of taxes	(12,512)	(12)	(302)	—	—	—	—	(314)
Compensation expense	—	—	653	—	—	—	—	653
Balance, March 31, 2024	<u>32,467,928</u>	<u>\$ 32,468</u>	<u>\$ 775,442</u>	<u>\$ 313,001</u>	<u>\$ (119,888)</u>	<u>(1,249,607)</u>	<u>\$ (41,111)</u>	<u>\$ 959,912</u>

See Notes to Consolidated Financial Statements

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THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in thousands)

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 20,628	\$ 16,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	3,700	3,336
Provision for credit loss	—	11,000
(Gain) loss on sale or write-down of ORE	(33)	66
Securities loss	48	—
(Gain) loss on disposal of premises and equipment	—	(662)
Restricted stock expense	653	593
Increase in cash value of life insurance	(899)	(795)
Federal Home Loan Bank stock dividends	(109)	—
Residential loans originated and held for sale	(19,923)	(21,900)
Proceeds from sale of residential loans held for sale	18,596	22,270
Changes in:		
Interest receivable	(1,654)	2,089
Interest payable	(8,997)	763
Operating lease liability	233	(1,186)
Other, net	(2,009)	(27,191)
Net cash provided by operating activities	10,234	4,654
Cash flows from investing activities:		
Available-for-sale securities:		
Sales	—	170,625
Maturities, prepayments, and calls	75,302	31,173
Purchases	(128,487)	—
Held-to-maturity securities:		
Maturities, prepayments, and calls	32,658	14,044
Purchases of other securities	—	(7,631)
Proceeds from other securities	3,769	7,979
Net decrease (increase) in loans	33,486	(33,405)
Net changes in premises and equipment	(717)	(1,066)
Proceeds from sale of other real estate owned	768	456
Proceeds from the sale of premises and equipment	—	731
Cash received in excess of cash paid for acquisitions	—	106,973
Net cash provided by investing activities	16,779	289,879
Cash flows from financing activities:		
Increase (decrease) in deposits	245,821	(219,484)
Proceeds from borrowed funds	100,000	1,533,086
Repayments of borrowed funds	(380,000)	(1,413,186)
Principal payments on finance lease liabilities	(46)	(44)
Dividends paid on common stock	(7,657)	(6,422)
Repurchase of restricted stock for payment of taxes	(314)	(307)
Net cash used in financing activities	(42,196)	(106,357)
Net change in cash and cash equivalents	(15,183)	188,176
Beginning cash and cash equivalents	355,147	145,315
Ending cash and cash equivalents	\$ 339,964	\$ 333,491

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED
(\$ in thousands)

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2024	2023
Supplemental disclosures:		
Cash paid during the year for:		
Interest	\$ 39,006	\$ 10,551
Income taxes, (net of refunds)	(162)	(940)
Non-cash activities:		
Loans transferred to other real estate	842	—
Issuance of restricted stock grants	141	119
Dividends on restricted stock grants	120	76
Stock issued in connection with HSBI acquisition	—	221,522
Lease liabilities arising from obtaining right-of-use assets	482	—
Lease liabilities arising from HSBI acquisition	—	184

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2024

NOTE 1 – BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and the instructions to Form 10-Q of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2023.

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 Bank (the "Bank" or "The First").

At March 31, 2024, the Company had approximately \$ 7.964 billion in assets, \$ 5.086 billion in net loans held for investment ("LHFI"), \$ 6.710 billion in deposits, and \$ 959.9 million in shareholders' equity. For the three months ended March 31, 2024, the Company reported net income of \$ 20.6 million.

On February 23, 2024, the Company paid a cash dividend in the amount of \$ 0.25 per share to shareholders of record as of the close of business on February 7, 2024. On April 24, 2024, the Company announced that its Board of Directors declared a cash dividend of \$ 0.25 per share to be paid on its common stock on May 23, 2024 to shareholders of record as of the close of business on May 7, 2024.

NOTE 3 – ACCOUNTING STANDARDS

Effect of Recently Adopted Accounting Standards

In March 2023, FASB issued ASU No. 2023-01, *Leases (Topic 842) - "Common Control Arrangements."* This ASU requires entities to determine whether a related party arrangement between entities under common control is a lease. If the arrangement is determined to be a lease, an entity must classify and account for the lease on the same basis as an arrangement with a related party. The ASU requires all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. This guidance is effective for the Company January 1, 2024, and did not have a material impact on the Company's consolidated financial statements.

In March 2023, FASB issued ASU No. 2023-02, *Investments - Equity Method and Joint Venture (Topic 323): "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method."* These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. This guidance is effective for the Company January 1, 2024, and did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards That Have Not Yet Been Adopted

In October 2023, FASB issued ASU No. 2023-06, " *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative.*" This ASU amends the ASC to incorporate certain disclosure requirements from SEC Release No. 33-10532 - Disclosure Update and Simplification that was issued in 2018. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-K becomes effective, with early adoption prohibited. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In November 2023, FASB issued ASU No. 2023-07, " *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.*" This ASU amends the ASC to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. The key amendments: 1. Require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss. 2. Require that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less the significant expenses disclosed and each reported measure of segment profit or loss. 3. Require that a public entity provide all annual disclosures about a reportable segment's profit or loss and assets currently required by FASB ASU Topic 280, Segment Reporting, in interim periods. 4. Clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) should be the measure that is most consistent with the measurement principles used in measuring the corresponding amounts in the public entity's consolidated financial statements. 5. Require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. 6. Require that a public entity has a single reportable segment provide all the disclosures required by the amendments in the ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In December 2023, FASB issued ASU No. 2023-09, " *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.*" This ASU amends the ASC to require that a public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate). The amendments require that all entities disclose on an annual basis the following information about income taxes paid: 1. The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes. 2. The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). The amendments also require that all entities disclose the following information: 1. Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign. 2. Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

In March 2024, FASB issued ASU No. 2024-02, *Codification Improvements - Amendments to Remove References to the Concepts Statements*: This ASU amends the Codification to remove references to various concepts statements and impacts a variety of topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. This ASU is effective for annual periods beginning after December 15, 2024. This guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 4 – BUSINESS COMBINATIONS

Acquisitions

Heritage Southeast Bank

On January 1, 2023, the Company completed its acquisition of Heritage Southeast Bancorporation, Inc. ("HSBI"), pursuant to an Agreement and Plan of Merger dated July 27, 2022, by and between the Company and HSBI (the "HSBI Merger Agreement"). Upon the completion of the merger of HSBI with and into the Company, Heritage Southeast Bank ("Heritage Bank"), HSBI's wholly-owned subsidiary, was merged with and into The First Bank. Under the terms of the HSBI Merger Agreement, each share of HSBI common stock was converted into the right to receive 0.965 of a share of Company common stock. The Company paid a total consideration of \$ 221.5 million to the former HSBI shareholders as consideration in the acquisition, which included 6,920,422 shares of the Company's common stock, and \$ 16 thousand in cash in lieu of fractional shares. The HSBI acquisition provided the opportunity for the Company to expand its operations in Georgia and the Florida panhandle.

In connection with the acquisition of HSBI, the Company recorded \$ 91.9 million of goodwill, of which \$ 3.2 million funded the ACL for estimated losses on the acquired PCD loans, and \$ 43.7 million core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

The following table summarizes the finalized fair values of the assets acquired and liabilities assumed including the goodwill generated from the transaction on January 1, 2023, along with valuation adjustments that have been made since initially reported.

(\$ in thousands)	Measurement		
	As Initially Reported	Period Adjustments	As Adjusted
Identifiable assets:			
Cash and due from banks	\$ 106,973	\$ (180)	\$ 106,793
Investments	172,775	—	172,775
Loans	1,155,712	—	1,155,712
Core deposit intangible	43,739	—	43,739
Personal and real property	35,963	—	35,963
Other real estate owned	857	332	1,189
Bank owned life insurance	35,579	—	35,579
Deferred taxes	6,761	(632)	6,129
Interest receivable	4,349	—	4,349
Other assets	3,103	—	3,103
Total assets	1,565,811	(480)	1,565,331
Liabilities and equity:			
Deposits	1,392,432	—	1,392,432
Trust Preferred	9,015	—	9,015
Other liabilities	34,271	—	34,271
Total liabilities	1,435,718	—	1,435,718
Net assets acquired	130,093	(480)	129,613
Consideration paid	221,538	—	221,538
Goodwill	\$ 91,445	\$ 480	\$ 91,925

During the fourth quarter of 2023, the Company finalized its analysis and valuation adjustments have been made to cash and due from banks, other real estate owned, and deferred taxes since initially reported.

Beach Bancorp, Inc.

On August 1, 2022, the Company completed its acquisition of Beach Bancorp, Inc. ("BBI"), pursuant to an Agreement and Plan of Merger dated April 26, 2022, by and between the Company and BBI (the "BBI Merger Agreement"). Upon the completion of the merger of BBI with and into the Company, Beach Bank, BBI's wholly-owned subsidiary, was merged with and into The First Bank. Under the terms of the BBI Merger Agreement, each share of BBI common stock and each share of BBI preferred stock was converted into the right to receive 0.1711 of a share of Company common stock (the "BBI Exchange Ratio"), and all stock options awarded under the BBI equity plans were converted automatically into an option to purchase shares of Company common stock on the same terms and conditions as applicable to each such BBI option as in effect immediately prior to the effective time, with the number of shares underlying each such option and the applicable exercise price adjusted based on the BBI Exchange Ratio. The BBI merger provides the opportunity for the Company to expand its operations in the Florida panhandle and enter the Tampa market. The Company paid consideration of \$ 101.5 million to the former BBI shareholders including 3,498,936 shares of the Company's common stock and \$ 1 thousand in cash in lieu of fractional shares, and also assumed options entitling the owners thereof to purchase an additional 310,427 shares of the Company's common stock.

In connection with the acquisition of BBI, the Company recorded \$ 23.7 million of goodwill, of which \$ 1.3 million funded the ACL for estimated losses on the acquired PCD loans, and \$ 9.8 million core deposit intangible. Goodwill is not deductible for income taxes. The core deposit intangible will be amortized to expense over 10 years.

The following table summarizes the finalized fair values of the assets acquired and liabilities assumed including the goodwill generated from the transaction on August 1, 2022, along with valuation adjustments that have been made since initially reported.

(\$ in thousands)	Measurement Period		
	As Initially Reported	Adjustments	As Adjusted
Purchase price:			
Cash and stock	\$ 101,470	\$ —	\$ 101,470
Total purchase price	101,470	—	101,470
Identifiable assets:			
Cash	\$ 23,939	\$ —	\$ 23,939
Investments	22,907	(264)	22,643
Loans	482,903	2,268	485,171
Other real estate	8,797	(580)	8,217
Bank owned life insurance	10,092	—	10,092
Core deposit intangible	9,791	—	9,791
Personal and real property	13,825	(1,868)	11,957
Deferred tax asset	28,105	(970)	27,135
Other assets	9,649	(414)	9,235
Total assets	610,008	(1,828)	608,180
Liabilities and equity:			
Deposits	490,588	3	490,591
Borrowings	25,000	—	25,000
Other liabilities	14,772	—	14,772
Total liabilities	530,360	3	530,363
Net assets acquired	79,648	(1,831)	77,817
Goodwill	\$ 21,822	\$ 1,831	\$ 23,653

During the third quarter of 2023, the Company finalized its analysis and valuation adjustments that have been made to investments, loans, other real estate, personal and real property, deferred tax asset, other assets, and deposits.

NOTE 5 – EARNINGS APPLICABLE TO COMMON SHAREHOLDERS

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 restricted stock grants. There were no anti-dilutive common stock equivalents excluded in the calculations.

The following tables disclose the reconciliation of the numerators and denominators of the basic and diluted computations applicable to common shareholders.

(\$ in thousands, except per share amount)	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic earnings per share	\$ 20,628	31,475,254	\$ 0.66	\$ 16,271	31,309,458	\$ 0.52
Effect of dilutive shares:						
Restricted stock grants		155,491			231,755	
Diluted earnings per share	\$ 20,628	31,630,745	\$ 0.65	\$ 16,271	31,541,213	\$ 0.52

The Company granted 141,457 shares and 118,689 shares of restricted stock in the first quarter of 2024 and 2023, respectively.

NOTE 6 – COMPREHENSIVE INCOME

As presented in the Consolidated Statements of Comprehensive Income (Loss), 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 securities, which are also recognized as separate components of equity.

NOTE 7 – 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 March 31, 2024, and December 31, 2023, these financial instruments consisted of the following:

(\$ in thousands)	March 31, 2024		December 31, 2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	\$ 35,854	\$ 116,668	\$ 34,380	\$ 50,226
Unused lines of credit	208,878	606,400	231,335	605,646
Standby letters of credit	14,845	14,621	15,573	13,114

Commitments to make loans are generally made for periods of 90 days or less. The fixed rate loan commitments have interest rates ranging from 0.0 % to 18.0 % and maturities ranging from approximately 1 year to 30 years.

ALLOWANCE FOR CREDIT LOSSES ("ACL") ON OFF BALANCE SHEET CREDIT ("OBSC") EXPOSURES

The Company maintains a separate ACL on OBSC exposures, including unfunded commitments and letters of credit, which is included on the accompanying consolidated balance sheet as of March 31, 2024 and December 31, 2023. The ACL on OBSC exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Changes in the ACL on OBSC exposures were as follows for the presented periods:

(\$ in thousands)	Three Months Ended March 31,	
	2024	2023
Balance at beginning of period	\$ 2,075	\$ 1,325
Credit loss expense related to OBSC exposures	—	500
Balance at end of period	\$ 2,075	\$ 1,825

Adjustments to the ACL on OBSC exposures are recorded to provision for credit losses related to OBSC exposures. The Company recorded no ACL provision for the three months period ended March 31, 2024 and a \$ 500 thousand ACL provision for the three months period ended March 31, 2023. The ACL on OBSC exposures for the three months ended March 31, 2023 includes the day one provision for unfunded commitments related to the HSBI acquisition and an increase in unfunded commitments.

No credit loss estimate is reported for OBSC exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation on the arrangement.

NOTE 8 – FAIR VALUE DISCLOSURES AND REPORTING, THE FAIR VALUE OPTION AND FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants on the measurement date. There are 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.

The following methods and assumptions were used by the Company to estimate its financial instrument fair values disclosed at March 31, 2024 and December 31, 2023:

- Investment Securities: The fair value for investment securities is determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, valuing debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).
- Loans Held for Sale - Loans held for sale are carried at fair value in the aggregate as determined by the outstanding commitments from investors. As such, we classify those loans subjected to recurring fair value adjustments as Level 2 of the fair value hierarchy.
- Collateral Dependent 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. 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. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments, if any, result in a Level 3 classification of the inputs for determining fair value. The Company generally adjusts the appraisal down by approximately 10 percent to account for cost associated with litigation and collection. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment.
- Other Real Estate Owned: Other real estate owned consists of properties obtained through foreclosure. The adjustment at the time of foreclosure is recorded through the allowance for credit losses. Fair value of other real estate owned is based on current independent appraisals of the collateral less costs to sell when acquired,

establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals, which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments, if any, result in a Level 3 classification of the inputs for determining fair value. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as changes in market conditions from the time of valuation and anticipated sales values considering plans for disposition, which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. The Company generally adjusts the appraisal down by approximately 10 percent to account for carrying costs. Periodic revaluations are classified as Level 3 in the fair value hierarchy since assumptions are used that may not be observable in the market. Due to the subjective nature of establishing the fair value when the asset is acquired, 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 other non-interest income. Operating costs associated with the assets after acquisition are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and recorded in other non-interest income. Other real estate owned is classified within Level 3 of the fair value hierarchy.

- **Interest Rate Swaps:** The Company offers interest rate swaps to certain commercial loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Company originates a variable rate loan and enters into a variable to fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing the contract or fixed interest payments for the customer. In addition, the Company will enter into risk participation agreements ("RPA"). Under an RPA-in agreement, a derivative liability, the Company assumes, or participates in, a portion of the credit risk associated with the interest rate swap position with the commercial borrower, for a fee received from the other bank. Under an RPA-out agreement, a derivative asset, the Company participates out a portion of the credit risk associated with the interest rate swap position executed with the commercial borrower, for a fee paid to the participating bank. RPAs are derivative financial instruments recorded at fair value. Although we have determined that a majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit assumptions associated with our risk participation agreements utilize Level 3 inputs.

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

March 31, 2024

(\$ 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	\$ 339,964	\$ 339,964	\$ 339,964	\$ —	\$ —
Securities available-for-sale	1,088,568	1,088,568	6,742	1,056,214	25,612
Securities held-to-maturity	622,574	577,343	—	577,343	—
Loans held for sale	4,241	4,241	—	4,241	—
Loans, net	5,085,993	4,841,681	—	—	4,841,681
Accrued interest receivable	34,954	34,954	—	7,604	27,350
Interest rate swaps	11,987	11,987	—	11,957	30
Liabilities:					
Noninterest-bearing deposits	\$ 1,836,952	\$ 1,836,952	\$ —	\$ 1,836,952	\$ —
Interest-bearing deposits	4,873,403	4,690,163	—	4,690,163	—
Subordinated debentures	123,472	106,946	—	—	106,946
FHLB and other borrowings	110,000	110,000	—	110,000	—
Accrued interest payable	13,705	13,705	—	13,705	—
Interest rate swaps	11,988	11,988	—	11,957	31

December 31, 2023

(\$ 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	\$ 355,147	\$ 355,147	\$ 355,147	\$ —	\$ —
Securities available-for-sale	1,042,365	1,042,365	16,675	1,007,477	18,213
Securities held-to-maturity	654,539	615,944	—	615,944	—
Loans held for sale	2,914	2,914	—	2,914	—
Loans, net	5,116,010	4,877,935	—	—	4,877,935
Accrued interest receivable	33,300	33,300	—	8,632	24,668
Interest rate swaps	12,170	12,170	—	12,129	41
Liabilities:					
Non-interest-bearing deposits	\$ 1,849,013	\$ 1,849,013	\$ —	\$ 1,849,013	\$ —
Interest-bearing deposits	4,613,859	4,430,227	—	4,430,227	—
Subordinated debentures	123,386	109,426	—	—	109,426
FHLB and other borrowings	390,000	390,000	—	390,000	—
Accrued interest payable	22,702	22,702	—	22,702	—
Interest rate swaps	12,175	12,175	—	12,129	46

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

March 31, 2024

(\$ 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)
Assets:				
Available-for-sale				
U.S. Treasury	\$ 6,742	\$ 6,742	\$ —	\$ —
Obligations of U.S. Government agencies and sponsored entities	99,787	—	99,787	—
Municipal securities	428,995	—	403,413	25,582
Mortgage-backed securities	515,517	—	515,517	—
Corporate obligations	34,476	—	34,446	30
Other	3,051	—	3,051	—
Total available-for-sale	\$ 1,088,568	\$ 6,742	\$ 1,056,214	\$ 25,612
Loans held for sale	\$ 4,241	\$ —	\$ 4,241	\$ —
Interest rate swaps	\$ 11,987	\$ —	\$ 11,957	\$ 30
Liabilities:				
Interest rate swaps	\$ 11,988	\$ —	\$ 11,957	\$ 31

December 31, 2023

(\$ in thousands)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale				
U.S. Treasury	\$ 16,675	\$ 16,675	\$ —	\$ —
Obligations of U.S. Government agencies and sponsored entities	104,923	—	104,923	—
Municipal securities	438,466	—	420,283	18,183
Mortgage-backed securities	441,661	—	441,661	—
Corporate obligations	37,597	—	37,567	30
Other	3,043	—	3,043	—
Total available-for-sale	\$ 1,042,365	\$ 16,675	\$ 1,007,477	\$ 18,213
Loans held for sale	\$ 2,914	\$ —	\$ 2,914	\$ —
Interest rate swaps	\$ 12,170	\$ —	\$ 12,129	\$ 41
Liabilities:				
Interest rate swaps	\$ 12,175	\$ —	\$ 12,129	\$ 46

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable inputs (Level 3) information.

(\$ in thousands)	Bank-Issued Trust Preferred Securities	
	2024	2023
Balance, January 1	\$ 30	\$ 31
Balance at March 31	\$ 30	\$ 31

(\$ in thousands)	Municipal Securities	
	2024	2023
Balance, January 1	\$ 18,183	\$ 15,117
Maturities, calls and paydowns	(221)	(216)
Transfer from level 2 to level 3	7,629	—
Unrealized gain (loss) included in comprehensive income	(9)	726
Balance at March 31	\$ 25,582	\$ 15,627

(\$ in thousands)	Interest Rate Swaps - Risk Participations	
	2024	
Balance, January 1	\$	(5)
RPA-in		15
RPA-out		(11)
Balance at March 31	\$	(1)

The following methods and assumptions were used to estimate the fair values of the Company's assets measured at fair value on a recurring basis at March 31, 2024 and December 31, 2023. The following tables present quantitative information about recurring Level 3 fair value measurements.

(\$ in thousands)

Trust Preferred Securities	Fair Value	Valuation Technique	Significant Unobservable	
			Inputs	Range of Inputs
March 31, 2024	\$ 30	Discounted cash flow	Probability of default	7.71 % - 7.82 %
December 31, 2023	\$ 30	Discounted cash flow	Probability of default	7.81 % - 7.89 %

Municipal Securities	Fair Value	Valuation Technique	Significant	
			Unobservable Inputs	Range of Inputs
March 31, 2024	\$ 25,582	Discounted cash flow	Discount Rate	3.59 % - 7.59 %
December 31, 2023	\$ 18,183	Discounted cash flow	Discount Rate	2.34 % - 5.50 %

Interest Rate Swaps - Risk Participations	Fair Value	Valuation Technique	Significant	
			Unobservable Inputs	Range of Inputs
March 31, 2024	\$ (1)	Credit Value Adjustment	Credit Spread	225 bps - 300 bps
			Recovery Rate	70 %
December 31, 2023	\$ (5)	Credit Value Adjustment	Credit Spread	225 bps - 300 bps
			Recovery Rate	70 %

The following table presents the fair value measurement of assets measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements were classified at March 31, 2024 and December 31, 2023.

March 31, 2024

(\$ in thousands)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	\$ 2,285	\$ —	\$ —	\$ 2,285
Other real estate owned	6,743	—	—	6,743

December 31, 2023

(\$ in thousands)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	\$ 2,494	\$ —	\$ —	\$ 2,494
Other real estate owned	8,320	—	—	8,320

NOTE 9 - SECURITIES

The following table summarizes the amortized cost, gross unrealized gains and losses, and estimated fair values of securities available-for-sale ("AFS") and securities held-to-maturity at March 31, 2024 and December 31, 2023.

(\$ in thousands)

	March 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Available-for-sale securities:</i>				
U.S. Treasury	\$ 6,989	\$ —	\$ 247	\$ 6,742
Obligations of U.S. government agencies and sponsored entities	114,588	—	14,801	99,787
Tax-exempt and taxable obligations of states and municipal subdivisions	480,597	360	51,962	428,995
Mortgage-backed securities - residential	337,963	11	36,034	301,940
Mortgage-backed securities - commercial	234,691	326	21,440	213,577
Corporate obligations	38,258	—	3,782	34,476
Other	3,077	—	26	3,051
Total available-for-sale	<u>\$ 1,216,163</u>	<u>\$ 697</u>	<u>\$ 128,292</u>	<u>\$ 1,088,568</u>
<i>Held-to-maturity:</i>				
U.S. Treasury	\$ 62,189	\$ —	\$ 2,556	\$ 59,633
Obligations of U.S. government agencies and sponsored entities	33,615	—	1,881	31,734
Tax-exempt and taxable obligations of states and municipal subdivisions	246,266	6,108	14,816	237,558
Mortgage-backed securities - residential	138,366	—	16,060	122,306
Mortgage-backed securities - commercial	132,138	—	13,609	118,529
Corporate obligations	10,000	—	2,417	7,583
Total held-to-maturity	<u>\$ 622,574</u>	<u>\$ 6,108</u>	<u>\$ 51,339</u>	<u>\$ 577,343</u>

(\$ in thousands)

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Available-for-sale securities:</i>				
U.S. Treasury	\$ 16,985	\$ —	\$ 310	\$ 16,675
Obligations of U.S. government agencies sponsored entities	119,868	1	14,946	104,923
Tax-exempt and taxable obligations of states and municipal subdivisions	486,293	449	48,276	438,466
Mortgage-backed securities - residential	297,735	11	34,430	263,316
Mortgage-backed securities - commercial	198,944	76	20,675	178,345
Corporate obligations	41,347	—	3,750	37,597
Other	3,055	—	12	3,043
Total available-for-sale	<u>\$ 1,164,227</u>	<u>\$ 537</u>	<u>\$ 122,399</u>	<u>\$ 1,042,365</u>
<i>Held-to-maturity:</i>				
U.S. Treasury	\$ 89,688	\$ —	\$ 2,804	\$ 86,884
Obligations of U.S. government agencies and sponsored entities	33,659	—	1,803	31,856
Tax-exempt and taxable obligations of states and municipal subdivisions	246,908	9,566	14,697	241,777
Mortgage-backed securities - residential	141,573	—	14,237	127,336
Mortgage-backed securities - commercial	132,711	—	12,334	120,377
Corporate obligations	10,000	—	2,286	7,714
Total held-to-maturity	<u>\$ 654,539</u>	<u>\$ 9,566</u>	<u>\$ 48,161</u>	<u>\$ 615,944</u>

ACL on Securities

Securities Available for Sale

Quarterly, the Company evaluates if a security has a fair value less than its amortized cost. Once these securities are identified, in order to determine whether a decline in fair value resulted from a credit loss or other factors, the Company performs further analysis as outlined below:

- Review the extent to which the fair value is less than the amortized cost and determine if the decline is indicative of credit loss or other factors.
- The securities that violate the credit loss trigger above would be subjected to additional analysis.
- If the Company determines that a credit loss exists, the credit portion of the allowance will be measured using the discounted cash flow ("DCF") analysis using the effective interest rate. The amount of credit loss the Company records will be limited to the amount by which the amortized cost exceeds the fair value. The allowance for the calculated credit loss will be monitored going forward for further credit deterioration or improvement.

At both March 31, 2024 and December 31, 2023, the results of the analysis did not identify any securities where the decline was indicative of credit loss factors; therefore, no credit loss was recognized on any of the securities AFS.

Accrued interest receivable is excluded from the estimate of credit losses for securities AFS. Accrued interest receivable totaled \$ 4.6 million and \$ 5.2 million at March 31, 2024 and December 31, 2023, respectively and was reported in interest receivable on the accompanying Consolidated Balance Sheet.

All AFS securities were current with no securities past due or on nonaccrual as of March 31, 2024 and December 31, 2023.

Securities Held to Maturity

At March 31, 2024 and December 31, 2023, the potential credit loss exposure was \$ 226 thousand and \$ 205 thousand, respectively and consisted of tax-exempt and taxable obligations of states and municipal subdivisions and corporate obligations securities. After applying appropriate probability of default ("PD") and loss given default ("LGD") assumptions, the total amount of current expected credit losses was deemed immaterial. Therefore, no reserve was recorded at March 31, 2024.

Accrued interest receivable is excluded from the estimate of credit losses for securities held-to-maturity. Accrued interest receivable totaled \$ 2.7 million and \$ 3.4 million at March 31, 2024 and December 31, 2023, respectively and was reported in interest receivable on the accompanying Consolidated Balance Sheet.

At both March 31, 2024 and December 31, 2023, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual at both March 31, 2024 and December 31, 2023.

The Company monitors the credit quality of the debt securities held-to-maturity through the use of credit ratings. The Company monitors the credit ratings on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at March 31, 2024 and December 31, 2023, aggregated by credit quality indicators.

(\$ in thousands)	March 31, 2024	December 31, 2023
Aaa	\$ 400,229	\$ 431,527
Aa1/Aa2/Aa3	129,834	129,751
A1/A2	13,940	13,902
BBB	10,000	10,000
Not rated	68,571	69,359
Total	<u>\$ 622,574</u>	<u>\$ 654,539</u>

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(\$ in thousands)

	March 31, 2024	
	Amortized Cost	Fair Value
<i>Available-for-sale:</i>		
Due less than one year	\$ 35,451	\$ 35,045
Due after one year through five years	148,780	141,077
Due after five years through ten years	322,402	280,601
Due greater than ten years	136,876	116,328
Mortgage-backed securities - residential	337,963	301,940
Mortgage-backed securities - commercial	234,691	213,577
Total	<u>\$ 1,216,163</u>	<u>\$ 1,088,568</u>
<i>Held-to-maturity:</i>		
Due less than one year	\$ 29,130	\$ 28,536
Due after one year through five years	54,788	52,372
Due after five years through ten years	58,556	53,344
Due greater than ten years	209,596	202,256
Mortgage-backed securities - residential	138,366	122,306
Mortgage-backed securities - commercial	132,138	118,529
Total	<u>\$ 622,574</u>	<u>\$ 577,343</u>

Total securities pledged as collateral, to secure public deposits and for other purposes, was \$ 1.321 billion at March 31, 2024 and \$ 1.095 billion at December 31, 2023, respectively.

The following table summarizes securities in an unrealized loss position for which an allowance for credit losses has not been recorded at March 31, 2024 and December 31, 2023. The securities are aggregated by major security type and length of time in a continuous unrealized loss position:

(\$ in thousands)

	March 31, 2024					
	Losses < 12 Months		Losses 12 Months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>Available-for-sale:</i>						
U.S. Treasury	\$ —	\$ —	\$ 6,742	\$ 247	\$ 6,742	\$ 247
Obligations of U.S. government agencies and sponsored entities	258	—	99,374	14,801	99,632	14,801
Tax-exempt and taxable obligations of state and municipal subdivisions	38,338	3,528	372,292	48,434	410,630	51,962
Mortgage-backed securities - residential	49,355	311	251,328	35,723	300,683	36,034
Mortgage-backed securities - commercial	3,699	25	164,761	21,415	168,460	21,440
Corporate obligations	—	—	33,976	3,782	33,976	3,782
Other	3,051	26	—	—	3,051	26
Total	<u>\$ 94,701</u>	<u>\$ 3,890</u>	<u>\$ 928,473</u>	<u>\$ 124,402</u>	<u>\$ 1,023,174</u>	<u>\$ 128,292</u>
<i>Held-to-maturity:</i>						
U.S. Treasury	\$ —	\$ —	\$ 59,633	\$ 2,556	\$ 59,633	\$ 2,556
Obligations of U.S. government agencies and sponsored entities	743	17	30,991	1,864	31,734	1,881
Tax-exempt and taxable obligations of state and municipal subdivisions	10,178	216	100,427	14,600	110,605	14,816
Mortgage-backed securities - residential	—	—	122,306	16,060	122,306	16,060
Mortgage-backed securities - commercial	902	20	117,627	13,589	118,529	13,609
Corporate obligations	—	—	7,583	2,417	7,583	2,417
Total	<u>\$ 11,823</u>	<u>\$ 253</u>	<u>\$ 438,567</u>	<u>\$ 51,086</u>	<u>\$ 450,390</u>	<u>\$ 51,339</u>

(\$ in thousands)

	December 31, 2023					
	Losses < 12 Months		Losses 12 Months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>Available-for-sale:</i>						
U.S. Treasury	\$ —	\$ —	\$ 16,675	\$ 310	\$ 16,675	\$ 310
Obligations of U.S. government agencies and sponsored entities	123	—	104,495	14,946	104,618	14,946
Tax-exempt and taxable obligations of state and municipal subdivisions	20,879	1,479	389,113	46,797	409,992	48,276
Mortgage-backed securities - residential	222	2	262,012	34,428	262,234	34,430
Mortgage-backed securities - commercial	2,896	52	170,256	20,623	173,152	20,675
Corporate obligations	—	—	37,597	3,750	37,597	3,750
Other	3,055	12	—	—	3,055	12
Total	\$ 27,175	\$ 1,545	\$ 980,148	\$ 120,854	\$ 1,007,323	\$ 122,399
<i>Held-to-maturity:</i>						
U.S. Treasury	\$ —	\$ —	\$ 86,884	\$ 2,804	\$ 86,884	\$ 2,804
Obligations of U.S. government agencies and sponsored entities	747	5	31,109	1,798	31,856	1,803
Tax-exempt and taxable obligations of state and municipal subdivisions	10,472	3,949	91,480	10,748	101,952	14,697
Mortgage-backed securities - residential	—	—	127,336	14,237	127,336	14,237
Mortgage-backed securities - commercial	920	2	119,457	12,332	120,377	12,334
Corporate obligations	—	—	7,714	2,286	7,714	2,286
Total	\$ 12,139	\$ 3,956	\$ 463,980	\$ 44,205	\$ 476,119	\$ 48,161

At March 31, 2024 and December 31, 2023, the Company's securities portfolio consisted of 1,138 and 1,125 securities, respectively, which were in an unrealized loss position. Securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. The unrealized losses shown above are due to increases in market rates over the yields available at the time of purchase of the underlying securities and not credit quality. As of March 31, 2024 and December 31, 2023, the Company determined that it does not intend to sell and is not currently aware of any circumstances which will require it to sell any of the securities that are in an unrealized loss position prior to recovery of their amortized cost basis. As such, no allowance for credit losses was needed at March 31, 2024 and December 31, 2023.

NOTE 10 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Company uses four different categories to classify loans in its portfolio based on the underlying collateral securing each loan. The loans grouped together in each category have been determined to share similar risk characteristics with respect to credit quality. Those four categories are commercial, financial and agriculture, commercial real estate, consumer real estate, consumer installment;

Commercial, financial and agriculture – Commercial, financial and agriculture loans include loans to business entities issued for commercial, industrial, or other business purposes. This type of commercial loan shares a similar risk characteristic in that unlike commercial real estate loans, repayment is largely dependent on cash flow generated from the operation of the business.

Commercial real estate – Commercial real estate loans are grouped as such because repayment is mainly dependent upon either the sale of the real estate, operation of the business occupying the real estate, or refinance of the debt obligation. This includes both owner-occupied and non-owner occupied CRE secured loans, because they share similar risk characteristics related to these variables.

Consumer real estate – Consumer real estate loans consist primarily of loans secured by 1-4 family residential properties and/or residential lots. This includes loans for the purpose of constructing improvements on the residential property, as well as home equity lines of credit.

Consumer installment – Installment and other loans are all loans issued to individuals that are not for any purpose related to operation of a business, and not secured by real estate. Repayment on these loans is mostly dependent on personal income, which may be impacted by general economic conditions.

The following table shows the composition of the loan portfolio:

(\$ in thousands)	March 31, 2024	December 31, 2023
Loans held for sale		
Mortgage loans held for sale	\$ 4,241	\$ 2,914
Total LHFS	<u>\$ 4,241</u>	<u>\$ 2,914</u>
Loans held for investment		
Commercial, financial and agriculture (1)	\$ 772,124	\$ 800,324
Commercial real estate	3,059,784	3,059,155
Consumer real estate	1,254,397	1,252,795
Consumer installment	53,647	57,768
Total loans	5,139,952	5,170,042
Less allowance for credit losses	(53,959)	(54,032)
Net LHFI	<u>\$ 5,085,993</u>	<u>\$ 5,116,010</u>

(1) Loan balance includes \$ 320 thousand and \$ 386 thousand in Paycheck Protection Program ("PPP") loans as of March 31, 2024 and December 31, 2023, respectively.

Accrued interest receivable is not included in the amortized cost basis of the Company's LHFI. At March 31, 2024 and December 31, 2023, accrued interest receivable for LHFI totaled \$ 27.4 million and \$ 24.7 million, respectively, with no related ACL and was reported in interest receivable on the accompanying consolidated balance sheet.

Nonaccrual and Past Due LHFI

Past due LHFI are loans contractually past due 30 days or more as to principal or interest payments. 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.

The following tables present the aging of the amortized cost basis in past due loans in addition to those loans classified as nonaccrual including purchase credit deteriorated ("PCD") loans:

March 31, 2024							
(\$ in thousands)	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Nonaccrual	PCD	Total Past Due, Nonaccrual and PCD	Total LHFI	Nonaccrual and PCD with No ACL
Commercial, financial and agriculture (1)	\$ 1,768	\$ 24	\$ 991	\$ 691	\$ 3,474	\$ 772,124	\$ 468
Commercial real estate	2,714	455	3,650	660	7,479	3,059,784	300
Consumer real estate	4,631	137	1,987	2,942	9,697	1,254,397	789
Consumer installment	398	71	40	—	509	53,647	11
Total	\$ 9,511	\$ 687	\$ 6,668	\$ 4,293	\$ 21,159	\$ 5,139,952	\$ 1,568

(1) Total loan balance includes \$ 320 thousand in PPP loans as of March 31, 2024.

December 31, 2023							
(\$ in thousands)	Past Due 30 to 89 Days	Past Due 90 Days or More and Still Accruing	Nonaccrual	PCD	Total Past Due, Nonaccrual and PCD	Total LHFI	Nonaccrual and PCD with No ACL
Commercial, financial and agriculture (1)	\$ 2,043	\$ 313	\$ 353	\$ 965	\$ 3,674	\$ 800,324	\$ 465
Commercial real estate	1,698	630	3,790	647	6,765	3,059,155	410
Consumer real estate	3,992	220	1,806	3,098	9,116	1,252,795	680
Consumer installment	180	—	31	—	211	57,768	—
Total	\$ 7,913	\$ 1,163	\$ 5,980	\$ 4,710	\$ 19,766	\$ 5,170,042	\$ 1,555

(1) Total loan balance includes \$ 386 thousand in PPP loans as of December 31, 2023.

Acquired Loans

In connection with the acquisitions of HSBI and BBI, the Company acquired loans both with and without evidence of credit quality deterioration since origination. Acquired loans are recorded at their fair value at the time of acquisition with no carryover from the acquired institution's previously recorded allowance for credit losses. Acquired loans are accounted for following ASC 326, *Financial Instruments - Credit Losses*.

The fair value for acquired loans recorded at the time of acquisition is based upon several factors including the timing and payment of expected cash flows, as adjusted for estimated credit losses and prepayments, and then discounting these cash flows using comparable market rates. The resulting fair value adjustment is recorded in the form of premium or discount to the unpaid principal balance of each acquired loan. As it relates to acquired PCD loans, the net premium or net discount is adjusted to reflect the Company's allowance for credit losses ("ACL") recorded for PCD loans at the time of acquisition, and the remaining fair value adjustment is accreted or amortized into interest income over the remaining life of the loan. As it relates to acquired loans not classified as PCD ("non-PCD") loans, the credit loss and yield components of the fair value adjustments are aggregated, and the resulting net premium or net discount is accreted or amortized into interest income over the average remaining life of those loans. The Company records an ACL for non-PCD loans at the time of acquisition through provision expense, and therefore, no further adjustments are made to the net premium or net discount for non-PCD loans.

The estimated fair value of the non-PCD loans acquired in the BBI acquisition was \$ 460.0 million, which is net of a \$ 8.8 million discount. The gross contractual amounts receivable of the acquired non-PCD loans at acquisition was approximately \$ 468.8 million, of which \$ 6.4 million is the amount of contractual cash flows not expected to be collected.

The estimated fair value of the non-PCD acquired in the HSBI acquisition was \$ 1.091 billion, which is net of a \$ 33.7 million discount. The gross contractual amounts receivable of the acquired non-PCD loans at acquisition was approximately \$ 1.125 billion, of which \$ 16.5 million is the amount of contractual cash flows not expected to be collected.

The following table shows the carrying amount of loans acquired in the BBI and HSBI acquisitions for which there was, at the date of acquisition, more than insignificant deterioration of credit quality since origination:

(\$ in thousands)	BBI	HSBI
Purchase price of loans at acquisition	\$ 27,669	\$ 52,356
Allowance for credit losses at acquisition	1,303	3,176
Non-credit discount (premium) at acquisition	530	2,325
Par value of acquired loans at acquisition	<u>\$ 29,502</u>	<u>\$ 57,857</u>

As of March 31, 2024, and December 31, 2023 the amortized cost of the Company's PCD loans totaled \$ 54.7 million and \$ 57.8 million, respectively, which had an estimated ACL of \$ 3.2 million and \$ 3.7 million, respectively.

Loan Modifications

The Company adopted ASU No. 2022-02 effective January 1, 2023. These amendments eliminate the TDR recognition and measurement guidance and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, and other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, an other-than-insignificant payment delay and/or an interest rate reduction.

The following table presents the amortized cost basis of loans that were both experiencing financial difficulty and modified during the three months ended March 31, 2024 and March 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below:

(\$ in thousands)		Combination Payment Deferral and Payment Modification	Percentage of Total Loans Held for Investment
March 31, 2024	Term Extension		
Commercial real estate	\$ 578	\$ —	0.05 %
Total	<u>\$ 578</u>	<u>\$ —</u>	0.05 %
March 31, 2023	Term Extension		
Commercial real estate	\$ —	\$ 301	0.01 %
Total	<u>\$ —</u>	<u>\$ 301</u>	0.01 %

The Company has not committed to lend additional amounts to the borrowers included in the previous table.

Collateral Dependent Loans

The following table presents the amortized cost basis of collateral dependent individually evaluated loans by class of loans as of March 31, 2024 and December 31, 2023:

(\$ in thousands)

March 31, 2024	Real Property	Equipment	Miscellaneous	Total
Commercial, financial and agriculture	\$ 805	\$ 186	\$ 247	\$ 1,238
Commercial real estate	599	—	—	599
Consumer real estate	789	—	—	789
Consumer installment	—	82	—	82
Total	\$ 2,193	\$ 268	\$ 247	\$ 2,708

December 31, 2023	Real Property	Equipment	Miscellaneous	Total
Commercial, financial and agriculture	\$ —	\$ 496	\$ 918	\$ 1,414
Commercial real estate	710	—	—	710
Consumer real estate	778	—	—	778
Total	\$ 1,488	\$ 496	\$ 918	\$ 2,902

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the sale of the collateral. The following provides a qualitative description by class of loan of the collateral that secures the Company's collateral dependent LHF:

- Commercial, financial and agriculture – Loans within these loan classes are secured by equipment, inventory, accounts receivable, and other non-real estate collateral.
- Commercial real estate – Loans within these loan classes are secured by commercial real property.
- Consumer real estate - Loans within these loan classes are secured by consumer real property.
- Consumer installment - Loans within these loan classes are secured by consumer goods, equipment, and non-real estate collateral.

There have been no significant changes to the collateral that secures these financial assets during the period.

Loan Participations

The Company has loan participations, which qualify as participating interest, with other financial institutions. As of March 31, 2024, these loans totaled \$ 311.5 million, of which \$ 174.9 million had been sold to other financial institutions and \$ 136.5 million was purchased by the Company. As of December 31, 2023, these loans totaled \$ 304.0 million, of which \$ 165.9 million had been sold to other financial institutions and \$ 138.1 million was purchased by the Company. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder; involving no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder; all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership; and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Credit Quality Indicators

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 analyzes loans individually to classify the loans as to credit risk. The Company uses the following definitions for risk ratings:

Pass: Loans classified as pass are deemed to possess average to superior credit quality, requiring no more than normal attention.

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.

These above classifications were the most current available as of March 31, 2024, and were generally updated within the prior year.

The tables below present the amortized cost basis of loans by credit quality indicator and class of loans based on the most recent analysis performed at March 31, 2024 and December 31, 2023. Revolving loans converted to term as of the three months ended March 31, 2024 and December 31, 2023 were not material to the total loan portfolio.

As of March 31, 2024		Term Loans Amortized Cost Basis by Origination Year						Revolving								
(\$ in thousands)		2024	2023	2022	2021	2020	Prior	Loans	Total							
Commercial, financial and agriculture:																
Risk Rating																
Pass	\$	15,750	\$	97,084	\$	140,290	\$	106,519	\$	40,841	\$	91,445	\$	270,636	\$	762,565
Special mention		—		7		—		635		3,128		1,085		10		4,865
Substandard		75		449		714		610		255		2,182		409		4,694
Doubtful		—		—		—		—		—		—		—		—
Total commercial, financial and agriculture	\$	15,825	\$	97,540	\$	141,004	\$	107,764	\$	44,224	\$	94,712	\$	271,055	\$	772,124
Current period gross write offs	\$	—	\$	20	\$	114	\$	25	\$	—	\$	236	\$	—	\$	395
Commercial real estate:																
Risk Rating																
Pass	\$	48,444	\$	400,705	\$	827,718	\$	532,658	\$	368,103	\$	788,127	\$	5,394	\$	2,971,149
Special mention		—		68		690		8,506		3,016		33,898		—		46,178
Substandard		—		603		8,232		1,572		535		31,515		—		42,457
Doubtful		—		—		—		—		—		—		—		—
Total commercial real estate	\$	48,444	\$	401,376	\$	836,640	\$	542,736	\$	371,654	\$	853,540	\$	5,394	\$	3,059,784
Current period gross write offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Consumer real estate:																
Risk Rating																
Pass	\$	32,803	\$	175,955	\$	324,453	\$	214,401	\$	124,065	\$	211,149	\$	151,830	\$	1,234,656
Special mention		—		—		1,342		—		—		3,801		697		5,840
Substandard		—		907		385		590		1,543		7,290		3,186		13,901
Doubtful		—		—		—		—		—		—		—		—
Total consumer real estate	\$	32,803	\$	176,862	\$	326,180	\$	214,991	\$	125,608	\$	222,240	\$	155,713	\$	1,254,397
Current period gross write offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—
Consumer installment:																
Risk Rating																
Pass	\$	4,616	\$	20,143	\$	10,652	\$	6,110	\$	2,490	\$	1,930	\$	7,394	\$	53,335
Special mention		—		—		—		—		—		—		—		—
Substandard		—		143		20		15		37		90		7		312
Doubtful		—		—		—		—		—		—		—		—
Total consumer installment	\$	4,616	\$	20,286	\$	10,672	\$	6,125	\$	2,527	\$	2,020	\$	7,401	\$	53,647
Current period gross write offs	\$	3	\$	106	\$	73	\$	25	\$	18	\$	100	\$	20	\$	345
Total																
Pass	\$	101,613	\$	693,887	\$	1,303,113	\$	859,688	\$	535,499	\$	1,092,651	\$	435,254	\$	5,021,705
Special mention		—		75		2,032		9,141		6,144		38,784		707		56,883
Substandard		75		2,102		9,351		2,787		2,370		41,077		3,602		61,364
Doubtful		—		—		—		—		—		—		—		—
Total	\$	101,688	\$	696,064	\$	1,314,496	\$	871,616	\$	544,013	\$	1,172,512	\$	439,563	\$	5,139,952
Current period gross write offs	\$	3	\$	126	\$	187	\$	50	\$	18	\$	336	\$	20	\$	740

As of December 31, 2023

As of December 31, 2023	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans	Total
(\$ in thousands)	2023	2022	2021	2020	2019	Prior		
Commercial, financial and: agriculture								
Risk Rating								
Pass	\$ 102,263	\$ 150,420	\$ 113,487	\$ 47,313	\$ 36,065	\$ 64,020	\$ 281,646	\$ 795,214
Special mention	—	—	—	141	797	3	10	951
Substandard	451	330	121	185	550	1,894	628	4,159
Doubtful	—	—	—	—	—	—	—	—
Total commercial, financial and agriculture	\$ 102,714	\$ 150,750	\$ 113,608	\$ 47,639	\$ 37,412	\$ 65,917	\$ 282,284	\$ 800,324
Current period gross write offs	\$ 14	\$ 51	\$ 225	\$ 139	\$ 206	\$ 110	\$ —	\$ 745
Commercial real estate:								
Risk Rating								
Pass	\$ 385,954	\$ 825,505	\$ 558,742	\$ 377,085	\$ 253,746	\$ 569,428	\$ 6,397	\$ 2,976,857
Special mention	—	660	6,118	3,111	9,545	22,648	—	42,082
Substandard	136	7,293	393	566	5,427	26,401	—	40,216
Doubtful	—	—	—	—	—	—	—	—
Total commercial real estate	\$ 386,090	\$ 833,458	\$ 565,253	\$ 380,762	\$ 268,718	\$ 618,477	\$ 6,397	\$ 3,059,155
Current period gross write offs	\$ —	\$ —	\$ 193	\$ —	\$ —	\$ 57	\$ —	\$ 250
Consumer real estate:								
Risk Rating								
Pass	\$ 176,144	\$ 334,056	\$ 219,071	\$ 127,539	\$ 59,615	\$ 163,464	\$ 153,821	\$ 1,233,710
Special mention	—	1,081	—	—	643	3,246	412	5,382
Substandard	502	404	511	1,559	514	6,988	3,225	13,703
Doubtful	—	—	—	—	—	—	—	—
Total consumer real estate	\$ 176,646	\$ 335,541	\$ 219,582	\$ 129,098	\$ 60,772	\$ 173,698	\$ 157,458	\$ 1,252,795
Current period gross write offs	\$ 5	\$ 19	\$ —	\$ —	\$ —	\$ 25	\$ —	\$ 49
Consumer installment:								
Risk Rating								
Pass	\$ 24,482	\$ 12,408	\$ 7,316	\$ 2,919	\$ 1,213	\$ 1,195	\$ 8,156	\$ 57,689
Special mention	—	—	—	—	—	—	—	—
Substandard	—	8	17	42	11	—	1	79
Doubtful	—	—	—	—	—	—	—	—
Total consumer installment	\$ 24,482	\$ 12,416	\$ 7,333	\$ 2,961	\$ 1,224	\$ 1,195	\$ 8,157	\$ 57,768
Current period gross write offs	\$ 226	\$ 567	\$ 223	\$ 179	\$ 156	\$ 576	\$ 121	\$ 2,048
Total								
Pass	\$ 688,843	\$ 1,322,389	\$ 898,616	\$ 554,856	\$ 350,639	\$ 798,107	\$ 450,020	\$ 5,063,470
Special mention	—	1,741	6,118	3,252	10,985	25,897	422	48,415
Substandard	1,089	8,035	1,042	2,352	6,502	35,283	3,854	58,157
Doubtful	—	—	—	—	—	—	—	—
Total	\$ 689,932	\$ 1,332,165	\$ 905,776	\$ 560,460	\$ 368,126	\$ 859,287	\$ 454,296	\$ 5,170,042
Current period gross write offs	\$ 245	\$ 637	\$ 641	\$ 318	\$ 362	\$ 768	\$ 121	\$ 3,092

Allowance for Credit Losses

The ACL is a valuation account that is deducted from loans' amortized cost basis to present the net amount expected to be collected on the loans. It is comprised of a general allowance for loans that are collectively assessed in pools with similar risk characteristics and a specific allowance for individually assessed loans. The allowance is continuously monitored by management to maintain a level adequate to absorb expected losses inherent in the loan portfolio.

The ACL represents the estimated losses for financial assets accounted for on an amortized cost basis. Expected losses are calculated using relevant information, from internal and external sources, about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environment conditions, such as changes in unemployment rates, property values, or other relevant factors. Management may selectively apply external market data to subjectively adjust the Company's own loss history including index or peer data. Expected losses are estimated over the contractual term of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. Expected recovery amounts may not exceed the aggregate of amounts previously charged-off.

The ACL is measured on a collective basis when similar risk characteristics exist. Generally, collectively assessed loans are grouped by call code (segments). Segmenting loans by call code will group loans that contain similar types of collateral and purposes and are usually structured with similar terms making each loan's risk profile very similar to the rest in that segment. Each of these segments then flows up into one of the four bands, Commercial, Financial, and Agriculture, Commercial Real Estate, Consumer Real Estate, and Consumer Installment. In accordance with the guidance in ASC 326, the Company redefined its LHFI portfolio segments and related loan classes based on the level at which risk is monitored within the ACL methodology. Construction loans for 1-4 family residential properties with a call code 1A1, and other construction, all land development and other land loans with a call code 1A2 were previously separated between the Commercial Real Estate or Consumer Real Estate bands based on loan type code. Under our ASC 326 methodology 1A1 loans are all defined as part of the Consumer Real Estate band and 1A2 loans are all defined as part of the Commercial Real Estate Band.

The PD calculation analyzes the historical loan portfolio over the given lookback period to identify, by segment, loans that have defaulted. A default is defined as a loan that has moved to past due 90 days and greater, nonaccrual status, or experienced a charge-off during the period. The model observes loans over a 12-month window, detecting any events previously defined. This information is then used by the model to calculate annual iterative count-based PD rates for each segment. This process is then repeated for all dates within the historical data range. These averaged PD's are used for an immediate reversion back to the historical mean. The historical data used to calculate this input was captured by the Company from 2009 through the most recent quarter end.

The Company utilizes reasonable and supportable forecasts of future economic conditions when estimating the ACL on loans. The model's calculation also includes a 24-month forecasted PD based on a regression model that calculated a comparison of the Company's historical loan data to various national economic metrics during the same periods. The results showed the Company's past losses having a high rate of correlation to unemployment, both regionally and nationally. Using this information, along with the most recently published Wall Street Journal survey of sixty economists' forecasts predicting unemployment rates out over the next eight quarters, a corresponding future PD can be calculated for the forward-looking 24-month period. This data can also be used to predict loan losses at different levels of stress, including a baseline, adverse and severely adverse economic condition. After the forecast period, PD rates revert to the historical mean of the entire data set.

The LGD calculation is based on actual losses (charge-offs, net recoveries) at a loan level experienced over the entire lookback period aggregated to get a total for each segment of loans. The aggregate loss amount is divided by the exposure at default to determine an LGD rate. Defaults occurring during the lookback period are included in the denominator, whether a loss occurred or not and exposure at default is determined by the loan balance immediately preceding the default event. If there is not a minimum of five past defaults in a loan segment, or less than 15.0 % calculated LGD rate, or the total balance at default is less than 1 % of the balance in the respective call code as of the model run date, a proxy index is used. This index is proprietary to the Company's ACL modeling vendor derived from loss data of other client institutions similar in organization structure to the Company. The vendor also provides a "crisis" index derived from loss data between the post-recessionary years of 2008-2013 that the Company uses.

The model then uses these inputs in a non-discounted version of DCF methodology to calculate the quantitative portion of estimated losses. The model creates loan level amortization schedules that detail out the expected monthly payments for a loan including estimated prepayments and payoffs. These expected cash flows are discounted back to present value using the loan's coupon rate instead of the effective interest rate.

On a quarterly basis, the Company uses internal credit portfolio data, such as changes in portfolio volume and composition, underwriting practices, and levels of past due loans, nonaccruals and classified assets along with other external information not used in the quantitative calculation to determine if any subjective qualitative adjustments are required so that all significant risks are incorporated to form a sufficient basis to estimate credit losses.

The following table presents the activity in the allowance for credit losses by portfolio segment for the three months ended March 31, 2024 and 2023:

(\$ in thousands)

	Three Months Ended March 31, 2024				
	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Allowance for credit losses:					
Beginning balance	\$ 8,844	\$ 29,125	\$ 15,260	\$ 803	\$ 54,032
Provision for credit losses	—	—	—	—	—
Loans charged-off	(395)	—	—	(345)	(740)
Recoveries	6	432	20	209	667
Total ending allowance balance	<u>\$ 8,455</u>	<u>\$ 29,557</u>	<u>\$ 15,280</u>	<u>\$ 667</u>	<u>\$ 53,959</u>

(\$ in thousands)

	Three Months Ended March 31, 2023				
	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
Allowance for credit losses:					
Beginning balance	\$ 6,349	\$ 20,389	\$ 11,599	\$ 580	\$ 38,917
Initial allowance on PCD loans	727	2,260	182	7	3,176
Provision for credit losses	2,327	5,388	2,402	383	10,500
Loans charged-off	(3)	—	—	(338)	(341)
Recoveries	43	15	18	122	198
Total ending allowance balance	<u>\$ 9,443</u>	<u>\$ 28,052</u>	<u>\$ 14,201</u>	<u>\$ 754</u>	<u>\$ 52,450</u>

Due to a decrease in loans for the first quarter of 2024, the Company recorded no provision for credit losses for the three months ended March 31, 2024, compared to \$ 10.5 million provision for the same period in 2023. During January 2023, loans totaling \$ 1.159 billion, net of purchase accounting adjustments, were acquired in the HSBI acquisition. The initial ACL on PCD loans recorded in March 2023, of \$ 3.2 million was related to the HSBI acquisition. The 2023 provision for credit losses includes \$ 10.7 million associated with day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments acquired in the HSBI acquisition.

The following table provides the ending balance in the Company's LHFI and the ACL, broken down by portfolio segment as of March 31, 2024 and December 31, 2023.

(\$ in thousands)

	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
March 31, 2024					
LHFI					
Individually evaluated	\$ 1,238	\$ 599	\$ 789	\$ 82	\$ 2,708
Collectively evaluated	770,886	3,059,185	1,253,608	53,565	5,137,244
Total	<u>\$ 772,124</u>	<u>\$ 3,059,784</u>	<u>\$ 1,254,397</u>	<u>\$ 53,647</u>	<u>\$ 5,139,952</u>
Allowance for Credit Losses					
Individually evaluated	\$ 340	\$ 12	\$ —	\$ 71	\$ 423
Collectively evaluated	8,115	29,545	15,280	596	53,536
Total	<u>\$ 8,455</u>	<u>\$ 29,557</u>	<u>\$ 15,280</u>	<u>\$ 667</u>	<u>\$ 53,959</u>

(\$ in thousands)

	Commercial, Financial and Agriculture	Commercial Real Estate	Consumer Real Estate	Consumer Installment	Total
December 31, 2023					
LHFI					
Individually evaluated	\$ 1,414	\$ 710	\$ 778	\$ —	\$ 2,902
Collectively evaluated	798,910	3,058,445	1,252,017	57,768	5,167,140
Total	<u>\$ 800,324</u>	<u>\$ 3,059,155</u>	<u>\$ 1,252,795</u>	<u>\$ 57,768</u>	<u>\$ 5,170,042</u>
Allowance for Credit Losses					
Individually evaluated	\$ 408	\$ —	\$ —	\$ —	\$ 408
Collectively evaluated	8,436	29,125	15,260	803	53,624
Total	<u>\$ 8,844</u>	<u>\$ 29,125</u>	<u>\$ 15,260</u>	<u>\$ 803</u>	<u>\$ 54,032</u>

NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps

The Company enters into interest rate swap agreements primarily to facilitate the risk management strategies of certain commercial customers. The interest rate swap agreements entered into by the Company are entered into under what is referred to as a back-to-back interest rate swap, as such, the net positions are offsetting assets and liabilities, as well as income and expenses and risk participation.

Under a back-to-back interest rate swap program, all derivative instruments are recorded in the consolidated statement of financial condition at their respective fair values, as components of other assets and other liabilities. The Company enters into an interest rate swap with the customer and another offsetting swap with a counterparty. The result is two mirrored interest rate swaps, absent a credit event, which will offset in the financial statements. These swaps are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities. The change in fair value is recognized in the income statement as other income and fees.

Risk participation agreements are derivative financial instruments and are recorded at fair value. These derivatives are not designated as hedges and therefore, changes in fair value are recorded directly through earnings at each reporting period. Under a risk participation-out agreement, a derivative asset, the Company participates out a portion of the credit risk associated with the interest rate swap position executed with the commercial borrower, for a fee paid to the participating bank. Under a risk participation-in agreement, a derivative liability, the Company assumes, or participates in, a portion of the credit risk associated with the interest rate swap position with the commercial borrower, for a fee received.

from the other bank. The Company has two risk participation-in swaps and one risk participation-out swap at March 31, 2024.

The following table provides outstanding interest rate swaps as of March 31, 2024 and December 31, 2023.

(\$ in thousands)

	March 31, 2024	December 31, 2023
Notional amount	\$ 475,321	\$ 493,290
Weighted average pay rate	5.3 %	5.2 %
Weighted average receive rate	5.3 %	5.2 %
Weighted average maturity in years	5.44	5.39

The following table provides the fair value of interest rate swap contracts at March 31, 2024 and December 31, 2023 included in other assets and other liabilities.

(\$ in thousands)

	March 31, 2024		December 31, 2023	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Interest rate swap contracts	\$ 11,987	\$ 11,988	12,170	\$ 12,175

The Company also enters into a collateral agreement with the counterparty requiring the Company to post cash or cash equivalent collateral to mitigate the credit risk in the transaction. At March 31, 2024 and December 31, 2023, the Company had \$ 500 thousand of collateral posted with its counterparties, which is included in the consolidated statement of financial condition as cash and cash equivalents as "restricted cash". The Company also receives a swap spread to compensate it for the credit exposure it takes on the customer-facing portion of the transaction and this upfront cash payment from the counterparty is recorded in other income, net of any transaction execution expenses, in the consolidated statement of operations. For the three months ended March 31, 2024, net swap spread income included in other income was \$ 162 thousand compared to \$ 169 thousand for the same period in 2023.

Entering into derivative contracts potentially exposes the Company to the risk of counterparties' failure to fulfill their legal obligations, including, but not limited to, potential amounts due or payable under each derivative contract. Notional principal amounts are often used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller. The Company assesses the credit risk of its dealer counterparties by regularly monitoring publicly available credit rating information, evaluating other market indicators, and periodically reviewing detailed financials.

The Company records the fair value of its interest rate swap contracts separately within other assets and other liabilities as current accounting rules do not permit the netting of customer and counterparty fair value amounts in the consolidated statement of financial condition.

NOTE 12 – RECLASSIFICATION

Certain amounts in the 2023 financial statements have been reclassified for comparative purposes to conform to the current period financial statement presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Quarterly Report on Form 10-Q of the Company (the "Report") which are not statements of historical fact, including those under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Report, constitute forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, many of which are beyond the Company's control and which may cause the Company's actual results, performance or achievements or the financial services industry or economy generally, to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements, other than statements of historical fact, are forward-looking statements. You can identify these forward-looking statements through the Company's use of words such as "believes," "anticipates," "expects," "may," "will," "assumes," "predicts," "could," "should," "would," "intends," "targets," "estimates," "projects," "seek," "plans," "potential," "aim," and other similar words and expressions of the future or otherwise regarding the outlook for the Company's future business and financial performance and/or the performance of the financial services industry and economy in general. Forward-looking statements are based on the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements. A number of factors could cause actual results to differ materially from those contemplated by the forward-looking statements in this document. Many of these factors are beyond the Company's ability to control or predict. Other factors that could cause actual results to differ materially from those indicated by forward-looking statements include, but are not limited to, the following:

- negative impacts on our business, profitability and our stock price that could result from prolonged periods of inflation;
- risks and uncertainties relating to recent, pending or potential future mergers or acquisitions, including risks related to the completion of such acquisitions within expected timeframes and the successful integration of the business that we acquire into our operations;
- the risk that a future economic downturn and contraction, including a recession, could have a material adverse effect on our capital, financial condition, credit quality, results of operations and future growth, including the risk that the strength of the current economic environment could be weakened by the continued impact of rising interest rates, and inflation;
- disruptions to the financial markets as a result of the current or anticipated impact of military conflict, including Russia's military action in Ukraine, the conflict in Israel and surrounding areas, terrorism or other geopolitical events;
- governmental monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve;
- the costs and effects of litigation, investigations, inquiries or similar matters, or adverse facts and developments related thereto, including the costs and effects of litigation related to our participation in government stimulus programs associated with the COVID-19 pandemic;
- reduced earnings due to higher credit losses generally and specifically because losses in the sectors of our loan portfolio secured by real estate are greater than expected due to economic factors, including declining residential and commercial real estate values, increasing interest rates, increasing unemployment, or changes in payment behavior or other factors occurring in those areas;
- general economic conditions, either nationally or regionally and especially in our primary service area, becoming less favorable than expected resulting in, among other things, a deterioration in credit quality;

- adverse changes in asset quality and resulting credit risk-related losses and expenses;
- ability of borrowers to repay loans, which can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, natural disasters, public health emergencies and international instability;
- developments in our mortgage banking business, including loan modifications, general demand, and the effects of judicial or regulatory requirements or guidance;
- changes in laws and regulations affecting our businesses, including governmental monetary and fiscal policies, legislation and regulations relating to bank products and services, as well as changes in the enforcement and interpretation of such laws and regulations by applicable governmental and self-regulatory agencies, which could require us to change certain business practices, increase compliance risk, reduce our revenue, impose additional costs on us, or otherwise negatively affect our businesses;
- the financial impact of future tax legislation;
- changes in political conditions or the legislative or regulatory environment, including the possibility that the U.S. could default on its debt obligations;
- the adequacy of the level of our allowance for credit losses and the amount of credit loss provisions required to replenish the allowance in future periods;
- reduced earnings due to higher credit losses because our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral;
- changes in the interest rate environment which could reduce anticipated or actual margins;
- increased funding costs due to market illiquidity, increased competition for funding, higher interest rates, and increased regulatory requirements with regard to funding;
- results of examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for credit losses through additional credit loss provisions or write-down of our assets;
- the rate of delinquencies and amount of loans charged-off;
- the impact of our efforts to raise capital on our financial position, liquidity, capital, and profitability;
- significant increases in competition in the banking and financial services industries;
- changes in the securities markets;
- significant turbulence or a disruption in the capital or financial markets and the effect of a fall in stock market prices on our investment securities;
- loss of consumer confidence and economic disruptions resulting from national disasters or terrorist activities;
- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget;
- the risk that the regulatory environment may not be conducive to or may prohibit the consummation of future mergers and/or business combinations, may increase the length of time and amount of resources required to consummate such transactions, and may reduce the anticipated benefit;
- our ability to retain our existing customers, including our deposit relationships;
- changes occurring in business conditions and inflation;

- changes in technology or risks to cybersecurity;
- changes in deposit flows;
- changes in accounting principles, policies, or guidelines;
- our ability to maintain adequate internal control over financial reporting; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission ("SEC").

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in and the assumptions underlying our forward-looking statements are reasonable, we cannot guarantee that these expectations will be achieved, or the assumptions will be accurate. 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. Additional information concerning these risks and uncertainties is contained in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023 "the Company's 2023 Form 10-K" and in our other filings with the Securities and Exchange Commission, available at the SEC's website, <http://www.sec.gov>.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. Accounting policies considered critical to our financial results include the allowance for credit losses and related provision, income taxes, goodwill, and business combinations. The most critical of these is the accounting policy related to the allowance for credit losses. The allowance is based in large measure upon management's evaluation of borrowers' abilities to make loan payments, local and national economic conditions, and other subjective factors. If any of these factors were to deteriorate, management would update its estimates and judgments which may require additional loss provisions. The Company's critical accounting policies are discussed in detail in Note B "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements" contained in Item 8 "Financial Statements and Supplementary Data" of the Company's 2023 Form 10-K.

OVERVIEW OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS SUMMARY

First quarter 2024 compared to first quarter 2023

Net income available to common shareholders for the first quarter of 2024 totaled \$20.6 million compared to \$16.3 million for the first quarter of 2023, an increase of \$4.4 million or 26.8%.

Excluding one-time items detailed in the tables below, net earnings available to common shareholders, operating (non-GAAP) decreased \$6.5 million, or 23.9%, to \$20.6 million for the quarter ended March 31, 2024, as compared to \$27.1 million for the quarter ended March 31, 2023. This decrease is attributable to a decrease in net interest income of \$7.6 million.

Net interest income for the first quarter of 2024 was \$57.3 million, a decrease of \$7.6 million or 11.7% when compared to the first quarter of 2023. Fully tax equivalent ("FTE") net interest income (non-GAAP) totaled \$58.3 million and \$65.9 million for the first quarter of 2024 and 2023, respectively. Purchase accounting adjustments increased \$1.0 million for the first quarter comparisons. The decrease was largely due to increased interest expense due to increased competition for deposits.

First quarter of 2024 net interest margin was 3.20%, which included 15 basis points related to purchase accounting adjustments, compared to 3.63% for the same quarter in 2023, which included 19 basis points related to purchase accounting adjustments. Excluding the purchase accounting adjustments, the core net interest margin (non-GAAP)

decreased 38 basis points in prior year quarterly comparison primarily due to an increase in rates on interest bearing liabilities.

Non-interest income increased \$67 thousand for the first quarter of 2024 as compared to the first quarter of 2023.

First quarter 2024 non-interest expense was \$43.4 million, a decrease of \$2.2 million, or 4.9% as compared to the first quarter of 2023. Excluding acquisition charges, non-interest expense increased \$1.5 million, of which salaries and employee benefits increased \$ 1.0 million.

Investment securities totaled \$1.745 billion, or 21.9% of total assets at March 31, 2024, compared to \$1.962 billion, or 24.5% of total assets at March 31, 2023. For the first quarter of 2024 compared to the first quarter of 2023, the average balance of investment securities decreased \$217.3 million. The average tax equivalent yield on investment securities (non-GAAP) increased 17 basis points to 2.48% from 2.31% in prior year quarterly comparison. The investment portfolio had a net unrealized loss of \$127.6 million at March 31, 2024 as compared to a net unrealized loss of \$137.6 million at March 31, 2023.

The average yield on all earning assets increased 63 basis points in prior year quarterly comparison, from 4.49% for the first quarter of 2023 to 5.12% for the first quarter of 2024. Interest expense on average interest bearing liabilities increased 141 basis points from 1.24% for the first quarter of 2023 to 2.65% for the first quarter of 2024.

Cost of all deposits averaged 178 basis points for the first quarter of 2024 compared to 72 basis points for the first quarter of 2023.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE FIRST

The First represents the primary asset of the Company. The First reported total assets of \$7.957 billion at March 31, 2024 compared to \$7.993 billion at December 31, 2023, a decrease of \$36.4 million. Loans, including loans held for sale, decreased \$28.8 million to \$5.144 billion, or 0.6%, during the first three months of 2024. Deposits at March 31, 2024 totaled \$6.721 billion compared to \$6.476 billion at December 31, 2023, an increase of \$244.2 million.

For the three months ended March 31, 2024, The First reported net income of \$23.0 million, compared to \$20.3 million for the three months ended March 31, 2023. Merger and conversion charges equaled \$6 thousand, net of tax, for the first three months of 2024 as compared to \$2.8 million, net of tax, for the first three months of 2023.

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

For the three months ended March 31, 2024, net interest income decreased by \$7.6 million, or 11.7%, when compared with the same period in 2023. The decrease was largely due to an increase of \$17.1 million in interest expense on deposits and an increase of \$1.8 million in borrowing expense that was partially offset by an increase of \$11.1 million in interest and fees on loans. PPP loans totaled \$320 thousand as of March 31, 2024, a decrease of \$248 thousand or 43.7% when compared to the same period last year due to loan forgiveness under the PPP program. 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 nonaccrual status during the reporting period, and the recovery of interest on loans that had been on nonaccrual 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

(\$ in thousands)

	Three Months Ended					
	March 31, 2024			March 31, 2023		
	Avg. Balance	Tax Equivalent Interest	Yield/ Rate	Avg. Balance	Tax Equivalent Interest	Yield/ Rate
Earning Assets:						
Taxable securities	\$ 1,342,644	\$ 8,303	2.47 %	\$ 1,565,623	\$ 8,758	2.24 %
Tax exempt securities	468,432	3,944	3.37 %	462,718	3,946	3.41 %
Total investment securities	1,811,076	12,247	2.70 %	2,028,341	12,704	2.51 %
Interest bearing deposits in other banks	189,785	1,616	3.41 %	146,663	898	2.45 %
Loans	5,158,071	78,798	6.11 %	4,975,663	67,734	5.45 %
Total earning assets	7,158,932	92,661	5.18 %	7,150,667	81,336	4.55 %
Other assets	846,642			852,587		
Total assets	<u>\$ 8,005,574</u>			<u>\$ 8,003,254</u>		
Interest-bearing liabilities:						
Deposits	\$ 4,803,277	\$ 29,412	2.45 %	\$ 4,738,076	\$ 12,277	1.04 %
Borrowed funds	254,505	3,023	4.75 %	77,098	959	4.98 %
Subordinated debentures	123,424	1,887	6.12 %	155,084	2,176	5.61 %
Total interest-bearing liabilities	5,181,206	34,322	2.65 %	4,970,258	15,412	1.24 %
Other liabilities	1,871,660			2,164,001		
Shareholders' equity	952,708			868,995		
Total liabilities and shareholders' equity	<u>\$ 8,005,574</u>			<u>\$ 8,003,254</u>		
Net interest income		<u>\$ 57,341</u>			<u>\$ 64,926</u>	
Net interest margin			3.20 %			3.63 %
Net interest income (FTE)*		<u>\$ 58,339</u>	2.53 %		<u>\$ 65,924</u>	3.31 %
Net interest margin (FTE)*			3.26 %			3.69 %

*Non-GAAP measure. See reconciliation of non-GAAP financial measures.

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 months ended March 31, 2024 and 2023:

(\$ in thousands)	Three Months Ended			
	March 31, 2024	% of Total	March 31, 2023	% of Total
EARNINGS STATEMENT				
Non-interest income:				
Service charges on deposit accounts	\$ 3,367	26.6 %	\$ 3,657	29.0 %
Mortgage fee income	704	5.6 %	633	5.0 %
Interchange fee income	4,195	33.1 %	4,498	35.7 %
Gain (loss) on securities, net	(48)	(0.4) %	—	— %
(Loss) gain on sale of premises and equipment	—	0.0 %	662	5.2 %
Other	4,461	35.1 %	3,162	25.1 %
Total non-interest income	<u>\$ 12,679</u>	<u>100 %</u>	<u>\$ 12,612</u>	<u>100 %</u>
Non-interest expense:				
Salaries and employee benefits	\$ 24,508	56.5 %	\$ 23,572	51.6 %
Occupancy expense	5,714	13.2 %	5,296	11.6 %
FDIC/OCC premiums	1,008	2.3 %	670	1.5 %
Marketing	139	0.3 %	158	0.3 %
Amortization of core deposit intangibles	2,385	5.5 %	2,402	5.3 %
Other professional services	1,833	4.2 %	1,068	2.3 %
Other non-interest expense	7,830	18.0 %	8,711	19.1 %
Acquisition and charter conversion charges	8	— %	3,793	8.3 %
Total non-interest expense	<u>\$ 43,425</u>	<u>100 %</u>	<u>\$ 45,670</u>	<u>100 %</u>

U.S. TREASURY AWARDS

During the third quarter of 2023, The Bank received \$6.2 million in funds from the Community Development Financial Institutions Fund. This award was distributed as part of the CDFI Equitable Recovery Program (CDFI ERP). This award is to provide funding to expand lending, grant making and investment activities in low- or moderate-income communities and to borrowers that have significant unmet capital and financial service needs. As part of the agreement with CDFI ERP, the Bank has annual reporting requirements, performance goals and related measures that the Bank must achieve during the period of performance. These are reported to the CDFI ERP through various schedules and reports required by the program. In addition, the award must be expended in certain Program Activities and/or Operations Support Activities as described and defined in the CDFI ERP agreement. The total amount of the award must be utilized by December 31, 2028, and other expenditure milestones must be met as follows: sixty percent of the award must be utilized by December 31, 2026; eighty percent by December 31, 2027; and one hundred percent of the award by December 31, 2028. The Bank intends to expense the award on Financial Products (i.e. loans) and Grants which fall under the Program Activities section as defined in the CDFI ERP agreement. The Bank accounts for the CDFI ERP using ASC 958-605. Although the scope of ASC 958-605 excludes for-profit entities, the FASB staff has concluded that for-profit entities may apply this guidance when appropriate and that the award should be accounted for as other non-interest income as permitted by GAAP.

PROVISION FOR INCOME TAXES

The Company sets aside a provision for income taxes on a monthly basis. The amount of the 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, bank-owned life insurance cash surrender value income, and certain book expenses that are not allowed as tax deductions.

The Company's provision for income taxes was \$6.0 million or 22.4% of earnings before income taxes for the first quarter 2024, compared to \$4.6 million or 22.0% of earnings before income taxes for the same period in 2023.

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.

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 federal 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. Total securities, excluding other securities, totaled \$1.711 billion, or 21.5% of total assets at March 31, 2024 compared to \$1.697 billion, or 21.2% of total assets at December 31, 2023.

There were no federal funds sold at March 31, 2024 and December 31, 2023; and interest-bearing balances at other banks increased to \$230.6 million at March 31, 2024 from \$130.9 million at December 31, 2023. The Company's investment portfolio increased \$10.6 million, or 0.6%, to \$1.745 billion at March 31, 2024 compared to December 31, 2023. The increase is attributed to \$128.5 million in securities purchased offset by \$111.7 million in securities that matured, prepaid, sold or were called offset by a \$5.7 million change in the net unrealized loss of the security portfolio. The investment portfolio had a net unrealized loss of \$127.6 million at March 31, 2024 as compared to a net unrealized loss of \$121.9 million at December 31, 2023. The Company carries available-for-sale investments at their fair market values and held-to-maturity investments at their amortized costs. The fair value of available-for-sale securities totaled \$1.089 billion at March 31, 2024 compared to \$1.042 billion at December 31, 2023. The fair value of held-to-maturity investments totaled \$577.3 million and \$615.9 million at March 31, 2024 and December 31, 2023, respectively. 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 the tables shown in Note 9 – "Securities" to the Consolidated Financial Statements for information on the Company's amortized cost and fair market value of its investment portfolio by investment type.

LOAN PORTFOLIO

Loans Held for Sale ("LHFS")

The Bank originates fixed rate single family, residential first mortgage loans on a presold basis. The Bank issues a rate lock commitment to a customer and concurrently "locks in" with a secondary market investor under a best efforts delivery mechanism. Such loans are sold without the mortgage servicing rights being retained by the Bank. The terms of the loan are dictated by the secondary investors and are transferred within several weeks of the Bank initially funding the loan. The Bank recognizes certain origination fees and service release fees upon the sale, which are included in other income on loans in the consolidated statements of income. Between the initial funding of the loans by the Bank and the subsequent purchase by the investor, the Bank carries the loans held for sale at fair value in the aggregate as determined by the outstanding commitments from investors. Associated servicing rights are not retained. At March 31, 2024, LHFS totaled \$4.2 million, compared to \$2.9 million at December 31, 2023.

Loans Held for Investment ("LHFI")

LHFI, net of deferred fees and costs, were \$5.086 billion at March 31, 2024, a decrease of \$30.0 million, or 0.6%, from \$5.116 billion at December 31, 2023. The decrease in LHFI is related to a decrease in loans for the first quarter of 2024. PPP loans were \$320 thousand at March 31, 2024, a decrease of \$66 thousand, or 17.1%, from \$386 thousand at December 31, 2023.

The following table presents the Company's composition of LHFI, net of deferred fees and costs, in dollar amounts and as a percentage of total gross loans.

(\$ in thousands)	March 31, 2024		December 31, 2023	
	Amount	Percent of Total	Amount	Percent of Total
Commercial, financial and agriculture (1)	\$ 772,124	15.0 %	\$ 800,324	15.5 %
Commercial real estate	3,059,784	59.6 %	3,059,155	59.2 %
Consumer real estate	1,254,397	24.4 %	1,252,795	24.2 %
Consumer installment	53,647	1.0 %	57,768	1.1 %
Total loans	5,139,952	100.0 %	5,170,042	100.0 %
Allowance for credit losses	(53,959)		(54,032)	
Net loans	\$ 5,085,993		\$ 5,116,010	

(1) Loan amount includes \$320 thousand and \$386 thousand in PPP loans at March 31, 2024 and December 31, 2023, respectively.

Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes that the risk elements of its loan portfolio have been reduced through strategies that diversify the lending mix.

LOAN CONCENTRATIONS

Diversification within the loan portfolio is an important means of reducing inherent lending risk. As of March 31, 2024, management does not consider there to be any significant credit concentrations within the loan portfolio. Although the Bank's loan portfolio, as well as existing commitments, reflects the diversity of its primary market area, a substantial portion of a borrower's ability to repay a loan is dependent upon the economic stability of the area.

The following table presents the concentration by borrower type of the Company's commercial real estate ("CRE") loan balances as of March 31, 2024.

(\$ in thousands)	March 31, 2024	
	Balance	Percentage of Total
Owner occupied CRE by property type:		
Convenience stores	\$ 98,899	3.2 %
Medical facilities	120,453	3.9 %
Office space	280,502	9.2 %
Residential	61	— %
Retail	264,540	8.7 %
Special purpose facility	232,531	7.6 %
Warehouse/industrial	167,880	5.5 %
Other	177,869	5.8 %
Total owner occupied CRE	1,342,735	43.9 %
Non-owner occupied by property type:		
Convenience stores	\$ 13,298	0.4 %
Medical facilities	54,396	1.8 %
Motel/hotel	282,441	9.2 %
Multifamily	248,287	8.1 %
Office space	243,805	8.0 %
Residential	1,787	0.1 %
Retail	401,603	13.1 %
Special purpose facility	61,537	2.0 %
Warehouse/industrial	78,983	2.6 %
Other	330,912	10.8 %
Total non-owner occupied CRE	1,717,049	56.1 %
Total CRE	\$ 3,059,784	100.0 %

The following table presents the geographic concentrations of the Company's CRE loan balances by property type as of March 31, 2024.

(\$ in thousands)	March 31, 2024					
	Alabama	Florida	Georgia	Louisiana	Mississippi	Total
Owner occupied CRE by property type:						
Convenience stores	\$ 12,239	\$ 20,622	\$ 31,658	\$ 6,943	\$ 27,437	\$ 98,899
Medical facilities	18,353	9,412	66,073	7,716	18,899	120,453
Office space	28,370	41,977	107,405	52,859	49,891	280,502
Residential	61	—	—	—	—	61
Retail	18,701	25,562	108,898	33,141	78,238	264,540
Special purpose facility	30,321	40,687	99,375	21,117	41,031	232,531
Warehouse/industrial	14,830	37,936	43,015	27,753	44,346	167,880
Other	26,287	50,794	41,291	21,219	38,278	177,869
Total owner occupied CRE	149,162	226,990	497,715	170,748	298,120	1,342,735
Non-owner occupied by property type:						
Convenience stores	\$ 3,702	\$ 2,379	\$ 2,975	\$ 2,747	\$ 1,495	\$ 13,298
Medical facilities	9,194	25,788	7,300	10,276	1,838	54,396
Motel/hotel	25,176	67,659	132,432	29,161	28,013	282,441
Multifamily	21,013	43,763	117,754	41,370	24,387	248,287
Office space	24,138	22,596	94,950	32,495	69,626	243,805
Residential	—	110	1,460	188	29	1,787
Retail	64,847	66,947	107,768	34,484	127,557	401,603
Special purpose facility	6,450	14,296	27,072	7,584	6,135	61,537
Warehouse/industrial	4,866	11,453	36,462	8,712	17,490	78,983
Other	32,220	63,071	105,464	56,589	73,568	330,912
Total non-owner occupied CRE	191,606	318,062	633,637	223,606	350,138	1,717,049
Total CRE	\$ 340,768	\$ 545,052	\$ 1,131,352	\$ 394,354	\$ 648,258	\$ 3,059,784
Percentage of total CRE	11.1 %	17.8 %	37.0 %	12.9 %	21.2 %	100.0 %

NON-PERFORMING ASSETS

Non-performing assets ("NPAs") are comprised of loans for which the Company is no longer accruing interest, and foreclosed assets including mobile homes and other real estate owned. Loans are placed on nonaccrual status when they become ninety days past due (principal and/or interest) unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled \$11.0 million at March 31, 2024, an increase of \$271 thousand from December 31, 2023.

Other real estate owned is carried at fair value, determined by an appraisal, less estimated costs to sell. Other real estate owned totaled \$6.7 million at March 31, 2024, a decrease of \$1.6 million as compared to \$8.3 million at December 31, 2023.

The following table presents comparative data for the Company's non-performing assets as of the dates noted.

(\$ in thousands)	March 31, 2024	December 31, 2023
Nonaccrual Loans		
Commercial, financial and agriculture	\$ 1,682	\$ 1,318
Commercial real estate	4,310	4,437
Consumer real estate	4,929	4,904
Consumer installment	40	31
Total Nonaccrual Loans	10,961	10,690
Other real-estate owned	6,743	8,320
Total NPAs	\$ 17,704	\$ 19,010
Past due 90 days or more and still accruing	\$ 687	\$ 1,163
Total NPAs as a % of total loans & leases net of unearned income	0.3 %	0.4 %
Total nonaccrual loans as a % of total loans & leases net of unearned income	0.2 %	0.2 %

NPAs totaled \$17.7 million at March 31, 2024, compared to \$19.0 million at December 31, 2023, a decrease of \$1.3 million. The ACL/total loans ratio was 1.05% at March 31, 2024, and 1.05% at December 31, 2023. Total valuation accounting adjustments were \$23.4 million on acquired loans at March 31, 2024. The Company recorded a \$33.2 million credit loss and yield mark related to the HSBI acquisition in 2023. The ratio of annualized net charge-offs (recoveries) to total loans was 0.006% for the quarter ended March 31, 2024 compared to 0.061% for the quarter ended December 31, 2023.

ALLOWANCE FOR CREDIT LOSSES

The ACL is a valuation account that is deducted from loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environment conditions, such as changes in unemployment rates, property values, or other relevant factors. Management may selectively apply external market data to subjectively adjust the Company's own loss history including index or peer data. Management evaluates the adequacy of the ACL quarterly and makes provisions for credit losses based on this evaluation. See Note 10 - "Loans" for a description of the Company's methodology and the quantitative and qualitative factors included in the calculation.

At March 31, 2024, the ACL was \$54.0 million, or 1.05% of LHF, a decrease of \$73 thousand, or 0.1% when compared to December 31, 2023. The 2023 provision for credit losses includes \$10.7 million associated with a day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments and a \$3.2 million initial allowance on PCD loans related to the HSBI acquisition. At December 31, 2023, the allowance for credit losses was \$54.0 million, which was 1.05% of LHF.

At March 31, 2024, management believes the allowance is appropriate and should any of the factors considered by management in evaluating the appropriateness of the allowance for credit losses change, management's estimate of inherent losses in the portfolio could also change, which would affect the level of future provisions for credit losses.

The table that follows summarizes the activity in the allowance for credit losses for the three months ended March 31, 2024 and 2023.

\$ in thousands

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Balances:		
Average LHFI outstanding during period:	\$ 5,158,071	\$ 4,975,663
LHFI outstanding at end of period:	\$ 5,139,952	\$ 4,969,776
Allowance for Credit Losses:		
Balance at beginning of period	\$ 54,032	\$ 38,917
Initial allowance on PCD loans	—	3,176
Provision:		
Initial provision for acquired non-PCD loans	—	10,219
Provision for credit losses charged to expense	—	281
Charge-offs:		
Commercial, financial and agriculture	395	3
Consumer installment	345	338
Total Charge-offs	740	341
Recoveries:		
Commercial, financial and agriculture	6	43
Commercial real estate	432	15
Consumer real estate	20	18
Consumer installment	209	122
Total Recoveries	667	198
Net loan charge offs (recoveries)	73	143
Balance at end of period	\$ 53,959	\$ 52,450
RATIOS		
Net Charge-offs (recoveries) to average LHFI (annualized)	0.01 %	0.01 %
ACL to LHFI at end of period	1.05 %	1.06 %
Net Loan Charge-offs (recoveries) to PCL	0.00 %	50.89 %

Due to a decrease in loans, the Company recorded no provision for credit losses for the three months ended March 31, 2024 compared to \$10.5 million for the three months ended March 31, 2023. During January 2023, loans totaling \$1.159 billion, net of purchase accounting adjustments, were acquired in the HSBI acquisition. The initial ACL on PCD loans recorded in March 2023, of \$3.2 million was related to the HSBI acquisition. The 2023 provision for credit losses includes \$10.7 million associated with day one post-merger accounting provision recorded for non-PCD loans and unfunded commitments acquired in the HSBI acquisition.

The following table summarizes the ACL at March 31, 2024 and at December 31, 2023.

(\$ in thousands)	March 31, 2024	December 31, 2023
Commercial, financial and agriculture	\$ 8,455	\$ 8,844
Commercial real estate	29,557	29,125
Consumer real estate	15,280	15,260
Consumer installment	667	803
Total	\$ 53,959	\$ 54,032

ALLOWANCE FOR CREDIT LOSSES ON OBSC EXPOSURES

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The ACL on OBSC exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Company recorded no provision for credit losses on OBSC exposures for the three month periods ended March 31, 2024, compared to \$500 thousand for the three month periods ended March 31, 2023. The ACL on OBSC exposures for the three months ended March 31, 2023 includes the day one provision for unfunded commitments related to the HSBI acquisition and an increase in unfunded commitments.

OTHER ASSETS

The Company's balance of non-interest earning cash and due from banks was \$109.3 million at March 31, 2024 and \$224.2 million at December 31, 2023. 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 ("FHLB"). 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.

Total other securities decreased \$3.7 million to \$34.1 million at March 31, 2024 compared to \$37.8 million at December 31, 2023. The decrease in other securities is related to a decrease in stock held at the FHLB. The Company's net premises and equipment at March 31, 2024 was \$173.2 million and \$174.3 million at December 31, 2023; a decrease of \$1.1 million, or 0.6% for the first three months of 2024. Operating right-of-use assets at March 31, 2024 totaled \$6.6 million compared to \$6.4 million at December 31, 2023, an increase of \$232 thousand. Financing right-of-use assets at March 31, 2024 totaled \$1.4 million compared to \$1.5 million at December 31, 2023, a decrease of \$116 thousand. Bank-owned life insurance at March 31, 2024 totaled \$135.1 million compared to \$134.2 million at December 31, 2023, an increase of \$899 thousand. Goodwill at March 31, 2024 and December 31, 2023 remained unchanged at \$272.5 million. Other intangible assets, consisting primarily of the Company's core deposit intangible ("CDI"), decreased by \$2.4 million to \$66.4 million as of March 31, 2024, compared to \$68.8 million at December 31, 2023.

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually, and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. At March 31, 2024, management has determined that no impairment exists.

Other real estate owned decreased by \$1.6 million, or 19.0%, to \$6.7 million at March 31, 2024 compared to \$8.3 million at December 31, 2023.

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 \$967.8 million at March 31, 2024 and \$921.6 million at December 31, 2023, although it is not likely that all of those commitments will ultimately be drawn down. Unused commitments represented approximately 18.8% of gross loans at March 31, 2024 and 17.8% at December 31, 2023. The Company also had undrawn similar standby letters of credit to customers totaling \$29.5 million at March 31, 2024 and \$28.7 million at December 31, 2023. 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 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 7 "Financial Instruments with Off-Balance Sheet Risk" to the Consolidated Financial Statements.

In addition to unused commitments to provide credit, the Company is utilizing a \$355.0 million letter of credit issued by the FHLB on the Company's behalf as of March 31, 2024. That letter of credit is backed by loans which are pledged to the FHLB by the Company.

LIQUIDITY AND CAPITAL RESOURCES

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 its 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 through FHLB lines of credit, utilize the bank term funding program, or solicit brokered deposits if deposits are not immediately obtainable from local sources. The net availability on lines of credit from the FHLB totaled \$2.106 billion at March 31, 2024. 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 agreements to repurchase those investments in its portfolio which are not pledged as collateral. As of March 31, 2024, the market value of unpledged debt securities plus pledged securities in excess of current pledging requirements comprised \$587.9 million of the Company's investment balances, compared to \$661.8 million at December 31, 2023. Other forms of balance sheet liquidity include but are not necessarily limited to any outstanding federal funds sold and vault cash. The Company has a higher level of actual balance sheet liquidity than might otherwise be the case since it utilizes a letter of credit from the FHLB rather than investment securities for certain pledging requirements.

The Company's liquidity ratio as of March 31, 2024 was 14.6%, as compared to internal liquidity policy guidelines of 10% minimum. Other liquidity ratios reviewed include the following along with policy guidelines:

	March 31, 2024	Policy Maximum	Policy Compliance
Loans to Deposits (including FHLB advances)	75.7 %	90.0 %	In Policy
Net Non-core Funding Dependency Ratio	3.5 %	20.0 %	In Policy
Fed Funds Purchased / Total Assets	0.0 %	10.0 %	In Policy
FHLB Advances / Total Assets	0.0 %	20.0 %	In Policy
Bank Term Funding Program / Total Assets	1.4 %	10.0 %	In Policy
Pledged Securities to Total Securities	70.7 %	90.0 %	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.

As of March 31, 2024, cash and cash equivalents were \$340.0 million. In addition, loans and investment securities repricing or maturing within one year or less were approximately \$1.446 billion at March 31, 2024. Approximately \$967.8 million in loan commitments could fund within the next three months and includes other commitments, primarily commercial and \$29.5 million in similar letters of credit, at March 31, 2024.

Management continually evaluates our liquidity position and currently believes the Company has adequate funding to meet our financial needs.

The Company's primary uses of funds are ordinary operating expenses and shareholder dividends, and its primary source of funds is dividends from the Bank since the Company does not conduct regular banking operations. Both the Company and the Bank are subject to legal and regulatory limitations on dividend payments, as outlined in Item 1. Business "Supervision and Regulation" in the Company's 2023 Form 10-K.

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 for the three-month periods ended March 31, 2024 and 2023 are included in the Average Balances, Tax Equivalent Interest and Yield/Rates tables appearing above, under the heading "Net Interest Income and Net Interest Margin."

Deposit Distribution	March 31, 2024		December 31, 2023	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
(\$ in thousands)				
Non-interest-bearing demand deposits	\$ 1,795,925	—	\$ 2,012,935	—
Interest bearing deposits:				
NOW accounts and other	2,076,360	2.03 %	2,017,154	1.41 %
Money market accounts	1,121,587	3.00 %	1,013,701	1.79 %
Savings accounts	528,233	0.22 %	606,421	0.18 %
Time deposits	1,077,097	3.77 %	904,629	2.61 %
Total interest-bearing deposits	4,803,277	2.45 %	4,541,905	1.57 %
Total deposits	\$ 6,599,202	1.78 %	\$ 6,554,840	1.09 %

As of March 31, 2024, average deposits increased by \$44.4 million, or 0.7% to \$6.599 billion from \$6.555 billion at December 31, 2023. The average cost of interest-bearing deposits and total deposits was 2.45% and 1.78% at March 31, 2024 compared to 1.57% and 1.09% at December 31, 2023. The increase in the average cost of interest-bearing deposits during the first three months of 2024 compared to December 31, 2023 is attributed to the increase in volume coupled with an increase in rates attributable to the higher rate environment.

The Company's estimated uninsured deposits totaled \$2.410 billion at March 31, 2024, compared to \$2.145 billion at December 31, 2023, representing 35.9% and 33.2% of total deposits at March 31, 2024, and December 31, 2023, respectively. These estimates were derived using the same methodologies and assumptions used for the Bank's regulatory reporting.

OTHER INTEREST-BEARING LIABILITIES

The Company's non-deposit borrowings may, at any given time, include federal funds purchased from correspondent banks, borrowings from the FHLB, advances from the Federal Reserve Bank, securities sold under agreements to repurchase, and/or junior subordinated debentures. The Company uses short-term FHLB advances, and federal 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 noninterest-bearing deposit liabilities decreased by \$12.1 million, or 0.7%, in the first three months of 2024. As of March 31, 2024, junior subordinated debentures increased \$86 thousand, net of issuance costs, to \$123.5 million. Subordinated debt is discussed more fully in the below Capital section of this report.

BANK TERM FUNDING PROGRAM BORROWINGS

On March 12, 2023, the Federal Reserve Board announced the Bank Term Funding Program ("BTFP"), which offers loans to banks with a term up to one year. The loans are secured by pledging the banks' U.S. treasuries, agency securities, agency mortgage-backed securities, and any other qualifying asset. These pledged securities will be valued at par for collateral purposes. The BTFP offers up to one year fixed-rate term borrowings that are prepayable without penalty.

The Bank had outstanding BTFP debt of \$110.0 million and pledged securities with a fair value of \$327.5 million at March 31, 2024. The securities pledged have a par value of \$366.6 million. The Bank's BTFP borrowings, which were drawn on December 28, 2023, bear interest rate of 4.83% and is set to mature one year from its issuance date.

LEASE LIABILITIES

As of March 31, 2024, operating lease liabilities increased \$233 thousand, or 3.6% to \$6.8 million from \$6.6 million at December 31, 2023. The increase in operating lease liabilities is attributed to one new lease added in first quarter of 2024. Finance lease liabilities decreased \$46 thousand, or 2.6% to \$1.693 million from \$1.739 million at December 31, 2023.

OTHER LIABILITIES

Other liabilities are principally comprised of accrued interest payable and other accrued but unpaid expenses. Other liabilities decreased by \$14.2 million, or 21.6%, during the first three months of 2024. The decrease is primarily related to a \$9.0 million decrease in accrued interest payable. As of March 31, 2024, accrued interest payable decreased \$9.0 million, or 39.6% to \$13.7 million from \$22.7 million at December 31, 2023, due to the repayment of \$280 million in BTFP borrowings from the FRB. The ACL on OBSC exposures remained unchanged at \$2.1 million at March 31, 2024 and December 31, 2023.

CAPITAL

At March 31, 2024, the Company had total shareholders' equity of \$959.9 million, comprised of \$32.5 million in common stock, \$41.1 million in treasury stock, \$775.4 million in surplus, \$313.0 million in undivided profits, and \$119.9 million in accumulated comprehensive loss on available-for-sale securities. Total shareholders' equity at the end of 2023 was \$949.0 million. The increase of \$10.9 million, or 1.1%, in shareholders' equity during the first three months of 2024 is primarily attributable to capital added through net earnings of \$20.6 million offset by \$2.3 million increase in accumulated comprehensive loss related to the effect of rising interest rates on the market value of our available-for-sale securities and \$7.8 million in cash dividends paid.

On February 28, 2023, the Company announced that its Board of Directors authorized a new share repurchase program (the "2023 Repurchase Program"), pursuant to which the Company may purchase up to an aggregate of \$50 million in shares of the Company's issued and outstanding common stock during the 2023 calendar year. Under the program, the Company may, but is not required to, from time to time, repurchase up to \$50 million of shares of its own common stock in any manner determined appropriate by the Company's management. The actual timing and method of any purchases, the target number of shares and the maximum price (or range of prices) under the program, will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock, general market and economic conditions, and applicable legal and regulatory requirements. The 2023 Repurchase Program expired on December 31, 2023.

On February 28, 2024, the Company announced that its Board of Directors has authorized a new share repurchase program (the "2024 Repurchase Program"), pursuant to which the Company may purchase up to an aggregate of \$50.0 million in shares of the Company's issued and outstanding common stock during the 2024 calendar year. Under the program, the Company may, but is not required to, from time to time, repurchase up to \$50.0 million of shares of its own common stock in any manner determined appropriate by the Company's management. The actual timing and method of any purchases, the target number of shares and the maximum price (or range of prices) under the program, will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock, general market and economic conditions, and applicable legal and regulatory requirements. The 2024 Repurchase Program will expire on December 31, 2024.

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 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 requirement of the standards initially adopted by the Basal Committee on Banking Supervision in December 2010 (which standards are commonly referred to as "Basel III") to

include accumulated other comprehensive income in risk-based capital. The following table sets forth the Bank's and the Company's regulatory capital ratios as of the dates indicated.

Regulatory Capital Ratios The First Bank	March 31, 2024	December 31, 2023	Minimum Required to be Well Capitalized	Minimum Capital Required Basel III Fully Phased In
Common Equity Tier 1 Capital Ratio	14.0 %	13.8 %	6.5 %	7.0 %
Tier 1 Capital Ratio	14.0 %	13.8 %	8.0 %	8.5 %
Total Capital Ratio	15.0 %	14.8 %	10.0 %	10.5 %
Tier 1 Leverage Ratio	10.8 %	10.7 %	5.0 %	7.0 %

Regulatory Capital Ratios The First Bancshares, Inc.	March 31, 2024	December 31, 2023	Minimum Required to be Well Capitalized	Minimum Capital Required Basel III Fully Phased In
Common Equity Tier 1 Capital Ratio*	12.2 %	12.1 %	N/A	N/A
Tier 1 Capital Ratio**	12.6 %	12.5 %	N/A	N/A
Total Capital Ratio	15.2 %	15.0 %	N/A	N/A
Tier 1 Leverage Ratio	9.7 %	9.7 %	N/A	N/A

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

** The numerator includes Trust Preferred.

Our capital ratios remain very strong relative to the median for peer financial institutions, and at March 31, 2024 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. Basel III rules require a "capital conservation buffer" for both the Company and the Bank. The capital conservation buffer is subject to a three-year phase-in period that began January 1, 2016 and was fully phased-in on January 1, 2019 at 2.5%. Under this guidance banking institutions with a CET1, Tier 1 Capital Ratio and Total Risk Based Capital above the minimum regulatory adequate capital ratios but below the capital conservation buffer will face constraints on their ability to pay dividends, repurchase equity and pay discretionary bonuses to executive officers, based on the amount of the shortfall.

As of March 31, 2024, management believes that each of the Bank and the Company met all capital adequacy requirements to which they are subject. 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.

Total consolidated equity capital at March 31, 2024 was \$959.9 million, or approximately 12.1% of total assets. The Company currently has adequate capital to meet the minimum capital requirements for all regulatory agencies.

On June 30, 2006, the Company issued \$4.1 million of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 2 ("Trust 2"). The debentures are the sole asset of Trust 2, and the Company is the sole owner of the common equity of Trust 2. Trust 2 issued \$4.0 million of Trust Preferred Securities 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 2'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 term Secured Overnight Financing Rate ("SOFR") plus 1.65% plus a tenor spread adjustment of .026161% 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 \$6.2 million of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 3 ("Trust 3"). The Company owns all of the common equity of Trust 3, and the debentures are the sole asset of Trust 3. Trust 3 issued \$6.0 million of Trust Preferred Securities 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 3'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 term SOFR plus 1.40% plus a tenor spread adjustment of .026161% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities.

In 2018, as a result of the acquisition of FMB Banking Corporation ("FMB"), the Company became the successor to FMB's obligations in respect of \$6.2 million of floating rate junior subordinated debentures issued to FMB Capital Trust 1 ("FMB Trust"). The debentures are the sole asset of FMB Trust, and the Company is the sole owner of the common equity of FMB Trust. FMB Trust issued \$6.0 million of Trust Preferred Securities to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of FMB Trust's obligations under the preferred securities. The preferred securities issued by the FMB Trust are redeemable by the Company at its option. The preferred securities must be redeemed upon maturity of the debentures in 2033. Interest on the preferred securities is the three-month term SOFR plus 2.85% plus a tenor spread adjustment of .026161% and is payable quarterly.

On January 1, 2023, as a result of the acquisition of HSBI, the Company became the successor to HSBI's obligations in respect of \$10.3 million of subordinated debentures issued to Liberty Shares Statutory Trust II ("Liberty Trust"). The debentures are the sole asset of Liberty Trust, and the Company is the sole owner of the common equity of Liberty Trust. Liberty Trust issued \$10.0 million of preferred securities to an investor. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of Liberty Trust's obligations under the preferred securities. The preferred securities issued by the Liberty Trust 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 term SOFR plus 1.48% plus a tenor spread adjustment of .026161% and is payable quarterly.

In accordance with the provisions of ASC 810, *Consolidation*, the trusts are not included in the consolidated financial statements.

Subordinated Notes

On April 30, 2018, the Company entered into two Subordinated Note Purchase Agreements pursuant to which the Company sold and issued \$24.0 million in aggregate principal amount of 5.875% fixed-to-floating rate subordinated notes due 2028 (the "Notes due 2028") and \$42.0 million in aggregate principal amount of 6.40% fixed-to-floating rate subordinated notes due 2033 (the "Notes due 2033"). In May of 2023, the Company redeemed all \$24.0 million of the outstanding 5.875% fixed-to-floating rate subordinated notes due 2028.

The Notes due 2033 are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. Principal and interest on the Notes are subject to acceleration only in limited circumstances. The Notes due 2033 are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is *pari passu* in right to payment with respect to the other Notes. The Notes due 2033 have a fifteen year term, maturing May 1, 2033, and will bear interest at a fixed annual rate of 6.40%, payable quarterly in arrears, for the first ten years of the term. Thereafter, the interest rate will re-set quarterly to an interest rate per annum equal to a benchmark rate (which is expected to be three-month term SOFR plus 3.39% plus a tenor spread adjustment of .026161%), payable quarterly in arrears. As provided in the Notes due 2033, under specified conditions the interest rate on the Notes due 2033 during the applicable floating rate period may be determined based on a rate other than Three-Month Term SOFR. The Company is entitled to redeem the Notes due 2033, in whole or in part, on any interest payment date on or after May 1, 2028, and to redeem the Notes due 2033 at any time in whole upon certain other specified events.

On September 25, 2020, the Company entered into a Subordinated Note Purchase Agreement with certain qualified institutional buyers pursuant to which the Company sold and issued \$65.0 million in aggregate principal amount of its 4.25% Fixed to Floating Rate Subordinated Notes due 2030 (the "Notes due 2030"). The Notes due 2030 are unsecured and have a ten-year term, maturing October 1, 2030, and will bear interest at a fixed annual rate of 4.25%, payable semi-annually in arrears, for the first five years of the term. Thereafter, the interest rate will reset quarterly to an interest rate per annum equal to a benchmark rate (which is expected to be the Three-Month Term SOFR plus 412.6 basis points), payable quarterly in arrears. As provided in the Notes due 2030, under specified conditions the interest rate on the Notes due 2030 during the applicable floating rate period may be determined based on a rate other than Three-Month Term

SOFR. The Company is entitled to redeem the Notes due 2030, in whole or in part, on any interest payment date on or after October 1, 2025, and to redeem the Notes due 2030 at any time in whole upon certain other specified events.

The Company had \$123.5 million of subordinated debt, net of \$1.6 million deferred issuance costs and \$2.1 million unamortized fair value mark, at March 31, 2024, compared to \$123.4 million, net of \$1.6 million deferred issuance costs and \$2.1 million unamortized fair value mark, at December 31, 2023.

Reconciliation of Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP in the United States and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of our performance. This Quarterly Report on Form 10-Q includes operating net earnings; net interest income, FTE; average tax equivalent yield on investment securities, core net interest margin and certain ratios derived from these non-GAAP financial measures. The Company believes that the non-GAAP financial measures included in this Quarterly Report on Form 10-Q allow management and investors to understand and compare results in a more consistent manner for the periods presented herein. Fully-tax equivalent, or "FTE", financial metrics are measures used by management to evaluate the corresponding GAAP financial metrics in a manner that takes into account the tax benefits associated with income sources that are exempt from state or federal taxes. Core net interest margin is used by management to measure the net return on earnings assets, which includes investment securities, loans, and leases but excludes certain income and expense items that the Company's management considers to be non-core/adjusted in nature. Similarly, "operating" financial metrics, including operating efficiency ratio and operating earnings per share, are used by management to evaluate operating results exclusive of items that are not indicative of ongoing operations and impact period-to-period comparisons. Management uses "tangible" financial metrics, including tangible common equity and tangible book value, to measure the value of the Company's assets net of intangible assets, such as goodwill. The tax equivalent adjustment to net interest income and average yield on investment securities recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 25.3% tax rate. Management believes that it is a standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and believes it enhances the comparability of income and expenses arising from taxable and nontaxable sources. Operating net earnings excludes acquisition and charter conversion charges, initial provision for acquired loans. Non-GAAP financial measures should be considered supplemental and not a substitute for the Company's results reported in accordance with GAAP for the periods presented, and other bank holding companies may define or calculate these measures differently. The most comparable GAAP measures to these measures are earnings per share, net interest income, earnings, total interest income, and average yield on investment securities, respectively. These non-GAAP financial measures should not be considered in isolation and do not purport to be an alternative to the efficiency ratio, net income, earnings per share, net interest income, net interest margin, average yield on investment securities, average yield on all earning assets, common equity, book value per common share or other GAAP financial measures as a measure of operating performance. A reconciliation of these non-GAAP financial measures to the most comparable GAAP measure is provided below.

Operating Net Earnings

(\$ in thousands)	Three Months Ended	Three Months Ended
	March 31, 2024	March 31, 2023
Net income available to common shareholders	\$ 20,628	\$ 16,271
Acquisition and charter conversion charges	8	3,793
Tax on acquisition and charter conversion charges	(2)	(960)
Initial provision for acquired loans	—	10,727
Tax on initial provision for acquired loans	—	(2,714)
Net earnings available to common shareholders, operating	<u>\$ 20,634</u>	<u>\$ 27,117</u>

Net Interest Income, Fully Tax Equivalent

(\$ in thousands)	Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
Net interest income	\$	57,341	\$	64,926
Tax-exempt investment income		(2,946)		(2,948)
Taxable investment income		3,944		3,946
Net interest income, FTE	\$	58,339	\$	65,924
Average earning assets	\$	7,158,932	\$	7,150,667
Annualized net interest margin		3.20 %		3.63 %
Annualized net interest margin, FTE		3.26 %		3.69 %

Core Net Interest Margin

(\$ in thousands)	Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
Net interest income (FTE)	\$	58,339	\$	65,924
Less purchase accounting adjustments		2,627		3,469
Net interest income, net of purchase accounting adj	\$	55,712	\$	62,455
Total average earning assets	\$	7,158,932	\$	7,150,667
Add average balance of loan valuation discount		24,675		42,945
Avg earning assets, excluding loan valuation discount	\$	7,183,607	\$	7,193,612
Core net interest margin		3.10 %		3.47 %

Average Tax Equivalent Yield on Investment Securities

(\$ in thousands)	Three Months Ended March 31, 2024		Three Months Ended March 31, 2023	
Interest income investment securities	\$	11,248	\$	11,707
Tax-exempt investment income		(2,946)		(2,948)
Taxable investment income		3,944		3,946
Interest income investment securities, FTE	\$	12,246	\$	12,705
Average investment securities	\$	1,811,076	\$	2,028,341
Yield on Investment Securities		2.48 %		2.31 %
Yield on investment securities, FTE		2.70 %		2.51 %

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

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).

The following table shows the estimated changes in net interest income at risk and market value of equity along with policy limits:

March 31, 2024	Change in Interest Rates	Net Interest Income at Risk		Market Value of Equity	
		% Change from Base	Policy Limit	% Change from Base	Policy Limit
Up 400 bps		(15.0)%	(20.0)%	(7.1)%	(40.0)%
Up 300 bps		(6.1)%	(15.0)%	(2.0)%	(30.0)%
Up 200 bps		(0.3)%	(10.0)%	1.7 %	(20.0)%
Up 100 bps		1.8 %	(5.0)%	2.8 %	(10.0)%
Down 100 bps		(0.6)%	(5.0)%	(5.1)%	(10.0)%
Down 200 bps		0.3 %	(10.0)%	(9.8)%	(20.0)%

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 March 31, 2024, 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:

March 31, 2024	Net Interest Income at Risk – Sensitivity Year 1						
(\$ in thousands)	-200 bp	-100 bp	STATIC	+100 bp	+200 bp	+300 bp	+400 bp
Net Interest Income	244,441	242,304	243,793	248,090	242,986	228,980	207,139
Dollar Change	648	(1,489)		4,297	(807)	(14,813)	(36,654)
NII @ Risk - Sensitivity Y1	0.3 %	(0.6)%		1.8 %	(0.3)%	(6.1)%	(15.0)%
Policy Limits	(10.0)%	(5.0)%		(5.0)%	(10.0)%	(15.0)%	(20.0)%

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 approximately \$648 thousand higher than in a stable interest rate scenario, for a positive variance of 0.3%.

Net interest income would likely decline by \$807 thousand, or (0.3)%, if interest rates were to increase by 200 basis points relative to a stable interest rate scenario, with the unfavorable 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 would expect to benefit from a material upward shift in the yield curve.

The Company's one-year cumulative GAP ratio is approximately 149.0%, 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 financial institutions should improve with rising rates and decrease with declining rates.

If interest rates change in the modeled amounts, our assets and liabilities may not perform as anticipated. Measuring interest rate risk has inherent limitations including model assumptions. For example, changes in market indices

as modeled in conjunction with changes in the shapes of the yield curves could result in different net interest income. We consider many factors in monitoring our interest rate risk, and management adjusts strategies for the balance sheet and earnings as needed.

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. Recently, the Company underwent a study of its deposit base and loan prepayment speeds to provide more clarity on the specific movement of its balance sheet during a flat and rising rate environment. The study is updated periodically. The results of the study have been incorporated into the 2024 modeling. In the event the Company exceeds the tolerance for any particular shock, management reviews strategies as to the cause of the breach and institutes actions accordingly. Board level data is provided on a regular basis for all of the modeling results as well as any breach of tolerance levels.

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 March 31, 2024, under different interest rate scenarios relative to a base case of current interest rates:

March 31, 2024		Balance Sheet Shock					
(\$ in thousands)	STATIC						
	-200 bp	-100 bp	(Base)	+100 bp	+200 bp	+300 bp	+400 bp
Market Value of Equity	1,226,362	1,290,373	1,359,181	1,396,703	1,382,163	1,331,637	1,263,131
Change in EVE from base	(132,819)	(68,808)		37,522	22,982	(27,544)	(96,050)
% Change	(9.8) %	(5.1) %		2.8 %	1.7 %	(2.0) %	(7.1) %
Policy Limits	(20.0) %	(10.0) %		(10.0) %	(20.0) %	(30.0) %	(40.0) %

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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2024, (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) and 15d-15(e) promulgated under the Exchange Act. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the Evaluation Date, 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.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act, during the fiscal quarter ended March 31, 2024 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company and/or The First may be named as defendants in various lawsuits arising out of the normal course of business. At present, with the exception of the matter described below, the Company is not aware of any legal proceedings that it anticipates may materially adversely affect its business.

Nancy Hall, et al. v. The First Bancshares, Inc., Case No. 2:23-cv-192, United States District Court, Southern District of Mississippi.

On December 7, 2023, Nancy Hall, individually and on behalf of all others similarly situated ("Plaintiff"), sued The First Bancshares, Inc., as successor in interest to Heritage Southeast Bank, in a putative class action complaint in federal district court for the Southern District of Mississippi. Plaintiff asserts claims based on the alleged improper assessment and collection of overdraft fees. Specifically, Plaintiff's claims relate to overdraft fees resulting from alleged "authorized positive, settle negative" or APSN debit card transactions. The complaint asserts causes of action of breach of contract, including the covenant of good faith and fair dealing, and unjust enrichment. The complaint also asserts a claim for alleged violations of Regulation E of the Electronic Funds Transfer Act. The complaint seeks an unspecified amount of damages, restitution, costs, attorney's fees, and interest, as well as injunctive relief.

On February 1, 2024, the Company filed its Answer and Affirmative Defenses. On March 5, 2024, the Company filed a Motion to Stay Proceedings and Compel Arbitration. The court has entered an order staying the case. Plaintiff has filed a motion to extend the time for responding to the arbitration motion and for arbitration-related discovery. The Company has not yet responded to Plaintiff's motion. At this stage of the proceedings, it is not feasible to predict the outcome or a range of loss, should a loss occur, from this proceeding. However, the Company accrued \$250 thousand for this litigation in the first quarter of 2024.

ITEM 1A. RISK FACTORS

There have been no material changes in the Risk Factors described in the Company's 2023 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Current Programs	
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (a)
January 1 - January 31	700	\$ 29.06	—	\$ 50,000
February 1 - February 29	—	—	—	50,000
March 1 - March 31	11,812	24.83	—	50,000
Total	12,512	(b) \$ 25.07	—	

(a) On February 28, 2024, the Company announced that its Board of Directors authorized a new share repurchase program (the "2024 Repurchase Program"), pursuant to which the Company may purchase up to an aggregate of \$50 million in shares of the Company's issued and outstanding common stock. The 2024 Repurchase Program expires on December 31, 2024.

- (b) The 12,512 shares purchased in the first quarter were withheld by the Company in order to satisfy employee tax obligations for vesting of restricted stock awards.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

During the quarter ended March 31, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of April 26, 2022, by and between The First Bancshares, Inc. and Beach Bancorp, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on May 2, 2022).
2.2	Agreement and Plan of Merger, dated as of July 27, 2022, by and between The First Bancshares, Inc. and Heritage Southeast Bancorporation, Inc. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on August 1, 2022).
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	Amendment to the Amended and Restated Articles of Incorporation of The First Bancshares, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q filed on August 9, 2018).
3.3	Amendment to the Amended and Restated Articles of Incorporation of the First Bancshares, Inc. (as incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 26, 2023).
3.4	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).
3.5	Amendment No. 1 to the Amended and Restated Bylaws of The First Bancshares, Inc. effective as of May 7, 2020 (incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2020).
4.1	Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 333-220491 on Form S-3 filed on September 15, 2017).
4.2	Form of Global Subordinated Note for The First Bancshares, Inc. 5.875% Fixed-to-Floating Rate Subordinated Notes Due 2028 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 1, 2018).
4.3	Form of Global Subordinated Note for The First Bancshares, Inc. 6.4% Fixed-to-Floating Rate Subordinated Notes Due 2033 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on May 1, 2018).
4.4	Indenture by and between The First Bancshares, Inc. and U.S. Bank National Association, dated September 25, 2020 (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on September 25, 2020).
4.5	Form of Global Subordinated Note for The First Bancshares, Inc. 4.25% Fixed-to-Floating Rate Subordinated Notes Due 2030 (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on September 25, 2020).
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
	104.Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

THE FIRST BANCSHARES, INC.

(Registrant)

May 10, 2024	/s/ M. RAY (HOPPY) COLE, JR.
_____ (Date)	M. Ray (Hoppy) Cole, Jr. Chief Executive Officer and President (Principal Executive Officer), Chairman of the Board

May 10, 2024	/s/ DONNA T. (DEE DEE) LOWERY
_____ (Date)	Donna T. (Dee Dee) Lowery, Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

Certification of Chief Executive Officer

I, M. Ray (Hoppy) Cole, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of The First Bancshares,
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

/s/ M. Ray (Hoppy) Cole, Jr.

M. Ray (Hoppy) Cole, Jr.

Chief Executive Officer and President (Principal Executive Officer),
Chairman of the Board

Certification of Chief Financial Officer

I, Dee Dee Lowery, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The First Bancshares, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

/s/ Donna T. (Dee Dee) Lowery

Donna T. (Dee Dee) Lowery, Executive Vice

President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of The First Bancshares, Inc. (the "Company") for the period ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Ray (Hoppy) Cole, Jr., the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	<u>/s/ M. Ray (Hoppy) Cole, Jr.</u>
Name:	M. Ray (Hoppy) Cole, Jr.
Title:	Chief Executive Officer and President (Principal Executive Officer), Chairman of the Board
Date:	May 10, 2024

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

In connection with the Quarterly Report on Form 10-Q of The First Bancshares, Inc. (the "Company") for the period ended March 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dee Dee Lowery, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) the Report fully complies with the requirements of Section 13(a) or Section 15 (d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donna T. (Dee Dee) Lowery

Name:	Donna T. (Dee Dee) Lowery
Title:	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)
Date:	May 10, 2024