

FIRST BANCSHARES INC /MS/
Form 10-Q
August 15, 2016

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: June 30, 2016

OR

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

COMMISSION FILE NUMBER: 33-94288

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

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

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

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

NONE

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

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

YES NO

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

YES NO

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

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

ON June 30, 2016, 5,458,508 SHARES OF THE ISSUER'S COMMON STOCK, PAR VALUE \$1.00 PER SHARE WERE ISSUED AND OUTSTANDING.

TRANSITIONAL DISCLOSURE FORMAT (CHECK ONE):

YES NO

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

YES NO

PART I - FINANCIAL INFORMATION

ITEM NO. 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(\$ amounts in thousands)

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

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Other real estate owned	4,716	3,083
Other assets	8,844	9,864
TOTAL ASSETS	\$ 1,224,900	\$ 1,145,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 194,950	\$ 189,445
Interest-bearing	837,413	727,250
TOTAL DEPOSITS	1,032,363	916,695
Interest payable	244	246
Borrowed funds	68,000	110,321
Subordinated debentures	10,310	10,310
Other liabilities	3,685	4,123
TOTAL LIABILITIES	1,114,602	1,041,695
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, \$1,000 per share liquidation, 10,000,000 shares authorized; 17,123 issued and outstanding at June 30, 2016 and December 31, 2015, respectively	17,123	17,123
Common stock, par value \$1 per share, 20,000,000 shares authorized and 5,458,508 shares issued at June 30, 2016; and 5,403,159 shares issued at December 31, 2015, respectively	5,459	5,403
Additional paid-in capital	44,865	44,650
Retained earnings	40,299	35,625
Accumulated other comprehensive income	3,016	1,099
Treasury stock, at cost, 26,494 shares at June 30, 2016 and at December 31, 2015	(464)	(464)
TOTAL STOCKHOLDERS' EQUITY	110,298	103,436
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,224,900	\$ 1,145,131

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

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

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

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TOTAL OTHER EXPENSES	8,921	8,092	17,314	15,910
INCOME BEFORE INCOME TAXES	3,691	2,978	7,265	5,739
INCOME TAXES	1,042	793	2,012	1,525
NET INCOME	2,649	2,185	5,253	4,214
PREFERRED STOCK ACCRETION AND DIVIDENDS	86	86	171	171
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	\$ 2,563	\$ 2,099	\$ 5,082	\$ 4,043
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS: BASIC	\$ 0.47	\$ 0.39	\$ 0.94	\$ 0.75
DILUTED	0.47	0.39	0.93	0.75
DIVIDENDS PER SHARE – COMMON	0.0375	0.0375	0.075	0.075

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ amounts in thousands)

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

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(unaudited)

(\$ in thousands)

	Common <u>Stock</u>	Preferred <u>Stock</u>	Stock <u>Warrants</u>	Additional Paid-in <u>Capital</u>	Retained <u>Earnings</u>	Accumulated Other Compre- hensive <u>Income(Loss)</u>	Treasury <u>Stock</u>	Total
Balance, January 1, 2015	\$ 5,343	\$ 17,123	\$ 284	\$ 44,137	\$ 27,975	\$ 1,818	\$ (464)	\$ 96,216
Net income	-	-	-	-	4,214	-	-	4,214
Other comprehensive loss	-	-	-	-	-	(1,351)	-	(1,351)
Dividends on preferred stock	-	-	-	-	(171)	-	-	(171)
Dividends on common stock, \$0.0375 per share	-	-	-	-	(405)	-	-	(405)
Repurchase of restricted stock for payment of taxes	(6)	-	-	(86)	-	-	-	(92)
Restricted stock grant	67	-	-	(67)	-	-	-	-
Compensation expense	-	-	-	362	-	-	-	362
Reversal of 2,514 common shares for BCB Holdings	(3)	-	-	(33)	-	-	-	(36)
Repurchase warrants	-	-	(284)	(19)	-	-	-	(303)
Balance, June 30, 2015	\$ 5,401	\$ 17,123	\$ -	\$ 44,294	\$ 31,613	\$ 467	\$ (464)	\$ 98,434
Balance, January 1, 2016	\$ 5,403	\$ 17,123	\$ -	\$ 44,650	\$ 35,625	\$ 1,099	\$ (464)	\$ 103,436
Net income	-	-	-	-	5,253	-	-	5,253
Other comprehensive income	-	-	-	-	-	1,917	-	1,917
Dividends on preferred stock	-	-	-	-	(171)	-	-	(171)
Dividends on common stock, \$0.0375 per share	-	-	-	-	(408)	-	-	(408)
Repurchase of restricted stock for payment of taxes	(5)	-	-	(100)	-	-	-	(105)
Restricted stock grant	61	-	-	(61)	-	-	-	-

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Compensation expense	-	-	-	376	-	-	-	376
Balance, June 30, 2016	\$ 5,459	\$ 17,123	\$ -	\$ 44,865	\$ 40,299	\$ 3,016	\$ (464)	\$ 110,298

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ Amounts in Thousands)

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

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Dividends paid on common stock	(391)	(389)
Dividends paid on preferred stock	(171)	(171)
Repurchase of restricted stock for payment of taxes	(105)	(92)
Repurchase of shares issued in BCB acquisition	-	(36)
Repurchase of warrants	-	(303)
NET CASH PROVIDED BY FINANCING ACTIVITIES	72,680	22,967
NET INCREASE IN CASH	13,518	17,403
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	41,259	44,618
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$54,777	\$62,021
SUPPLEMENTAL DISCLOSURES:		
CASH PAYMENTS FOR INTEREST	1,940	1,764
CASH PAYMENTS FOR INCOME TAXES	2,751	3,305
LOANS TRANSFERRED TO OTHER REAL ESTATE	2,276	506
ISSUANCE OF RESTRICTED STOCK GRANTS	61	67

See Notes to Consolidated Financial Statements

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2015.

NOTE B — SUMMARY OF ORGANIZATION

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

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

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

NOTE C – BUSINESS COMBINATION

The Mortgage Connection

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

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

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

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

NOTE D – PREFERRED STOCK AND WARRANT

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

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

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

NOTE E — EARNINGS APPLICABLE TO COMMON STOCKHOLDERS

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

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

For the Six Months Ended
June 30, 2016
Net
Income Shares Per
(Numerator) (Denominator) Share Data

Basic per share \$5,082,000 5,423,676 \$ 0.94

Effect of dilutive shares:
Restricted stock grants 58,578

Diluted per share \$5,082,000 5,482,254 \$ 0.93

For the Three Months Ended
June 30, 2015
Net
Income Shares Per
(Numerator) (Denominator) Share Data

Basic per share \$2,099,000 5,374,415 \$ 0.39

Effect of dilutive shares:
Restricted stock grants 57,747

Diluted per share \$2,099,000 5,432,162 \$ 0.39

For the Six Months Ended
June 30, 2015
Net
Income Shares Per
(Numerator) (Denominator) Share Data

Basic per share \$4,043,000 5,366,495 \$ 0.75

Effect of dilutive shares:
Restricted stock grants 57,747

Diluted per share \$4,043,000 5,424,242 \$ 0.75

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

NOTE F — FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

Available-for-Sale Securities

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

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fell as of June 30, 2016 and December 31, 2015 (in thousands):

June 30, 2016

(Dollars in thousands)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	\$ 9,128	\$ -	\$ 9,128	\$ -
Municipal securities	99,729	-	99,729	-
Mortgage-backed securities	111,958	-	111,958	-
Corporate obligations	21,091	-	18,683	2,408

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Other	949	949	-	-
Total	\$ 242,855	\$ 949	\$ 239,498	\$ 2,408

December 31, 2015

(Dollars in thousands)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U. S. Government Agencies	\$ 19,611	\$ -	\$ 19,611	\$ -
Municipal securities	97,889	-	97,889	-
Mortgage-backed securities	98,925	-	98,925	-
Corporate obligations	22,346	-	19,789	2,557
Other	961	961	-	-
Total	\$ 239,732	\$ 961	\$ 236,214	\$ 2,557

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

	Bank-Issued Trust Preferred Securities	
	2016	2015
Balance, January 1	\$2,557	\$2,801
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Other-than-temporary impairment loss included in earnings (loss)	-	-
Unrealized loss included in comprehensive income	(149)	(244)
Balance at June 30, 2016 and December 31, 2015	\$2,408	\$2,557

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

Trust Preferred Securities	Fair Value	Valuation Technique	Significant Unobservable	Range of Inputs
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Inputs

June 30, 2016	\$2,408	Discounted cash flow	Probability of default	1.20% - 2.98%
December 31, 2015	\$2,557	Discounted cash flow	Probability of default	1.08% - 2.77%

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

Impaired Loans

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

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

Other Real Estate Owned

Other real estate owned acquired through loan foreclosure is initially recorded at fair value less estimated costs to sell, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through non-interest expense. Operating costs associated with the assets are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other non-interest expense. Other real estate owned measured at fair value on a non-recurring basis at June 30, 2016, amounted to \$4.7 million. Other real estate owned is classified within Level 2 of the fair value hierarchy.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at June 30, 2016 and December 31, 2015.

(\$ in thousands)

June 30, 2016

Fair Value Measurements Using		
Quoted		
Prices		
in	Significant	
Active	Other	Significant
Markets	Observable	Unobservable
For	Inputs	Inputs
Identical		
Assets		

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	Fair Value	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ 8,722	\$ -	\$ 8,722	\$ -
Other real estate owned	4,716	-	4,716	-

December 31, 2015

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

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

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

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

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

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

Deposits – The fair values of demand deposits are, as required by ASC Topic 825, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and

money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

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

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

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

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

As of June 30, 2016
(\$ in thousands)

Fair Value Measurements

	Carrying Amount	Estimated Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Instruments:					
Assets:					
Cash and cash equivalents	\$54,777	\$ 54,777	\$54,777	\$ -	\$ -
Securities available-for-sale	242,855	242,855	949	239,498	2,408
Securities held-to-maturity	6,025	7,890	-	7,890	-
Other securities	9,578	9,578	-	9,578	-
Loans, net	825,761	848,470	-	-	848,470
Bank-owned life insurance	20,963				