First Bancshares, Inc.

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January 25, 2018

Dear Shareholder,

The Board of Directors have declared and paid a fourth quarter dividend of twenty-four cents ($0.24) per share that is enclosed or has been direct-deposited per your instructions. This is a two cent or nine percent increase from the third quarter payout of 2017. This will increase the additional shares purchased for our dividend reinvestment participants for this period.

We are attaching the December 31, 2017 financial results for your review. These statistics are compared to our final numbers for the full year of 2016. The bank performed very well during the year and finished with strong earnings. The actual bottom line was lower due to the changes in the tax code just prior to year-end. While we will experience lower tax rates in 2018 and beyond, this change required us to adjust our tax expense on tax deferred assets and liabilities resulting in a one-time charge of roughly $393,000. This affects our net income for the year however it does benefit us in the longer term in two ways. The obvious benefit is the lower tax rate on our income in future years. Secondarily, expensing the tax on a large deferred tax asset that we expect to liquidate at par value in the next couple of years calls for that expense to be taken in 2017 and will allow us to report the gain on that future sale and not be taxed on the income at that time.

Net interest income rose again in 2017 by almost 15% over the prior year and non-interest income increased by over 40%. In 2016, you may recall the bank had a large recovery on a problem loan that resulted in a credit to the allowance for loan loss. We did have a small expense in 2017 that culminated in net income after allowance to be lower in 2017 than it was in 2016. We were able to manage expenses during the year and only saw a slight increase of just over 1%. After all these changes, we are able to report net income before taxes that are over $243,000 or 9% greater than 2016. As mentioned earlier, the tax adjustment did impact the bottom line results for the full year.

We are very pleased with the results in 2017 given that we are still absorbing the overhead of opening a new branch office during the year and expensing a large tax item that is out of our control. We are optimistic that 2018 will continue to see solid growth in our balance sheet along with continued improvement in net earnings. While we still need to retain capital to support our balance sheet growth, our board is committed to returning a solid dividend to reward your commitment to the company with your investment in First Bancshares, Inc.

Our employees are also dedicated to providing a quality customer experience to our clients that helps translate into retaining our customer base along with additional business opportunities for us. This also attracts new business to our company as prospects become aware of the service level we provide. As always, we thank you for your support and welcome any questions or comments you may have.

Sincerely,

Steven L. Mays, DVM
Chairman

Dean J. Miller
President and CEO