NORTHWEST BANCORPORATION INC
Form 10-Q
May 12, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2009.**

¨ **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 000-24151

NORTHWEST BANCORPORATION, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1574174**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification No.)**

421 West Riverside, Spokane, WA 99201-0403

(Address of principal executive offices)

(509) 456-8888

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Yes ¨ No x

The Registrant has a single class of common stock, of which there were 2,367,246 shares issued and outstanding as of May 1, 2009.

Table of Contents

NORTHWEST BANCORPORATION, INC.

FORM 10-Q

For the Quarter Ended March 31, 2009

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	3
Item 1.	Financial Statements	3
	Consolidated Statements of Financial Condition	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Changes in Shareholders Equity and Comprehensive Loss	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	15
	Results of Operations	15
	Net Interest Income	16
	Loan Loss Provision and Allowance	21
	Non-Interest Income	23
	Non-Interest Expense	23
	Balance Sheet	23
	Loans	23
	Securities	24
	Deferred Tax Asset	24
	Deposits	24
	Junior Subordinated Debentures	25
	Capital Resources of the Company	25
	Off-Balance Sheet Arrangements and Commitments	26
	Liquidity	26
	Forward-Looking Statements	27
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	29
PART II	OTHER INFORMATION	29
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3.	Defaults Upon Senior Securities	29
Item 4.	Submission of Matters to a Vote of Security Holders	29
Item 5.	Other Information	29
Item 6.	Exhibits	30
SIGNATURES		31

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY

Consolidated Statements of Financial Condition

(unaudited)

(dollars in thousands)

	March 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 13,338	$ 9,363
Federal funds sold/interest bearing balances at other financial institutions	603	2,050
Securities available for sale (amortized cost of $12,976 and $18,299, respectively)	13,340	18,722
Securities held to maturity (fair value of $9,690 and $7,734, respectively)	9,462	7,512
Federal Home Loan Bank stock, at cost	1,106	1,106
Loans receivable, net of allowance for loan losses of $5,453 and $4,737, respectively	332,127	334,305
Loans held for sale	2,674	1,132
Accrued interest receivable	1,460	1,531
Foreclosed real estate and other repossessed assets	2,635	1,703
Premises and equipment, net	16,508	16,598
Bank owned life insurance	3,578	3,691
Other assets	2,358	2,518
TOTAL ASSETS	$ 399,189	$ 400,231
LIABILITIES		
Noninterest bearing demand deposits	$ 68,519	$ 46,900
Money market accounts	26,571	29,924
NOW accounts	14,766	14,278
Savings accounts	40,251	38,363
Time certificates of deposit, $100,000 and over	80,292	86,145
Time certificates of deposit, under $100,000	101,036	100,444
TOTAL DEPOSITS	331,435	316,054
Securities sold under agreement to repurchase	743	22,101
Federal funds purchased	1,900	3,465
Borrowed funds	19,711	23,382
Capital lease liability	599	599
Junior subordinated debentures issued in connection with trust preferred securities	5,155	5,155
Accrued interest payable	769	837
Other liabilities	1,808	1,719
TOTAL LIABILITIES	362,120	373,312
SHAREHOLDERS EQUITY		
Preferred stock - Series A Cumulative Perpetual; $1,000 par value; $1,000 liquidation value; 10,500 shares authorized and issued	9,924	

Preferred stock - Series B Cumulative Perpetual; $0.01 par value; $1,000 liquidation value; 525 shares authorized and issued	589	
Common stock, no par, 5,000,000 shares authorized; issued and outstanding 2,367,246 on March 31, 2009 and 2,367,246 on December 31, 2008	23,230	23,211
Retained earnings	3,086	3,429
Accumulated other comprehensive income, net of tax effect of ($124) for 2009 and ($145) for 2008	240	279
TOTAL SHAREHOLDERS EQUITY	37,069	26,919
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 399,189	$ 400,231

See accompanying notes.

3

Table of Contents

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(unaudited)

(dollars in thousands, except per share data)

	Three months ended March 31, 2009	2008
Interest income:		
Interest and fees on loans	$ 5,130	$ 5,376
Interest on securities	246	379
Interest on federal funds sold	3	75
Total interest income	5,379	5,830
Interest expense:		
Interest on deposits	1,918	2,324
Interest on securities sold under agreement to repurchase	6	99
Interest on borrowed funds	312	197
Total interest expense	2,236	2,620
Net interest income	3,143	3,210
Provision for loan losses	1,100	150
Net interest income after provision for loan losses	2,043	3,060
Noninterest income:		
Fees and service charges	305	237
Net gain from sale of loans	157	134
Other noninterest income	363	190
Total noninterest income	825	561
Noninterest expense:		
Salaries and employee benefits	1,730	1,705
Occupancy and equipment	321	291
Depreciation and amortization	245	173
Other operating	1,012	784
Total noninterest expense	3,308	2,953
(Loss) income before income taxes	(440)	668
Income tax (benefit) expense	(184)	228
Net (loss) income	($256)	$ 440
Preferred stock dividends	74	
Preferred stock discount accretion, net	13	
Net (loss) income applicable to common shares	($343)	$ 440
Earnings (loss) per common share - basic	$ (0.14)	$ 0.19
Earnings (loss) per common share - diluted	$ (0.14)	$ 0.18

Weighted average shares outstanding - basic	2,367,246	2,361,746
Weighted average shares outstanding - diluted	2,367,246	2,391,617

See accompanying notes.

Table of Contents

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders Equity and Comprehensive Loss

(unaudited)

(dollars in thousands)

	Total	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Loss
Balance, December 31, 2007	$ 27,346	$ 0	$ 23,039	$ 4,178	$ 129	
Net loss	(275)			(275)		($275)
Stock issued to directors	69		69			
Equity-based compensation expense, net	103		103			
Cash dividend ($0.20 per share)	(474)			(474)		
Change in unrealized gain on securities available for sale, net of taxes	150				150	150
Comprehensive loss						(125)
Balance December 31, 2008	26,919	0	23,211	3,429	279	
Net loss	(256)			(256)		(256)
Issuance of preferred stock series A	9,909	9,909				
Issuance of preferred stock series B	591	591				
Cash dividends declared on preferred stock	(74)			(74)		
Accretion of preferred stock discount, net	0	13		(13)		
Equity-based compensation expense, net	19		19			
Change in unrealized gain on securities available for sale, net of taxes	(39)				(39)	(39)
Comprehensive loss						($295)
Balance, March 31, 2009	$ 37,069	$ 10,513	$ 23,230	$ 3,086	$ 240	
Disclosure of 2009 reclassification amount:						
Unrealized holding gain on available for sale securities	($59)					
Reclassification adjustment for gains realized in income						
Net unrealized gain	(59)					
Tax effect	20					
Net of tax amount	($39)					

See accompanying notes.

5

Table of Contents

NORTHWEST BANCORPORATION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

(unaudited)

(dollars in thousands)

	Three months ended March 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	($256)	$ 440
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Provision for loan losses	1,100	150
Depreciation and amortization	245	173
Net (increase) decrease in loans held for sale	(1,542)	1,771
Net (increase) decrease in bank owned life insurance	113	(32)
Equity-based compensation expense	19	26
Change in assets and liabilities:		
Accrued interest receivable	71	(153)
Other assets	160	(462)
Interest payable	(68)	(292)
Other liabilities	15	(119)
Net cash (used) provided by operating activities	(143)	1,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in federal funds sold/interest bearing balances at other financial institutions	1,447	2,937
Net decrease in investment securities	3,393	7,393
Net increase in loans	(175)	(16,652)
Purchase of premises and equipment, net of gain or loss on asset disposal	(155)	(2,125)
Foreclosed real estate activity, net	321	(213)
Net cash provided (used) by investing activities	4,831	(8,660)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in deposits	15,381	16,873
Net decrease in securities sold under agreement to repurchase	(21,358)	(9,946)
Net (decrease) increase in federal funds purchased	(1,565)	1,000
Repayment of borrowed funds	(3,671)	(106)
Proceeds from issuance of preferred stock	10,500	
Net cash (used) provided by financing activities	(713)	7,821
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,975	663
Cash and cash equivalents, beginning of year	9,363	8,155
Cash and cash equivalents, end of period	$ 13,338	$ 8,818
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for:		
Interest	$ 2,334	$ 2,912
Income taxes	$	$

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Net change in fair value of securities available for sale	$	(39)	$	80
Acquisition of real estate and other repossessed assets in settlement of loans	$	1,253	$	219
Preferred stock dividend accrued and paid in subsequent period	$	74	$	

See accompanying notes.

6

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Northwest Bancorporation, Inc. (the Company) and its wholly-owned subsidiary, Inland Northwest Bank (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

The foregoing unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission (the SEC). Accordingly, these financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2008. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented. The results of operations for the three-month periods ended March 31, 2009 and 2008 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified to conform to the current year presentation. These reclassifications had no effect on retained earnings or net income as previously presented.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company s consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company s consolidated financial position and results of operations.

NOTE 2. Stock Based Compensation

On May 15, 2006, shareholders approved the Inland Northwest Bank 2006 Share Incentive Plan (the Plan) and the issuance of shares of common stock of the Company pursuant to the Plan. This Plan is an amendment and restatement of the Inland Northwest Bank Non-Qualified Stock Option Plan originally effective July 21, 1992, as revised December 21, 1993, December 21, 1999 and April 16, 2002. Prior to 2006, the Plan allowed only for the award of stock options; with the approval of the amendment and restatement of the Plan in May 2006, the Company was also authorized to grant restricted stock awards to key employees of the Bank.

Restricted stock-award activity in 2008 is detailed in Note 14 Stock Based Compensation in the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2008. There have been no restricted stock-award grants in 2009. Likewise, no shares have been issued in 2009 in connection with previously granted restricted stock-awards. The number of restricted stock-awards outstanding is as follows:

	Number of shares	Weighted average fair value
Outstanding, December 31, 2007	14,973	$ 15.84
Granted		0
Forfeited		0
Exercised		0
Outstanding, December 31, 2008	14,973	$ 15.84
Granted		0
Forfeited		0
Exercised		0
Outstanding, March 31, 2009	14,973	$ 15.84

Table of Contents

Stock options outstanding at the end of last year are also detailed in Note 14 Stock Based Compensation in the audited consolidated financial statements and the accompanying notes included in the annual report on Form 10-K for the year ended December 31, 2008. Since the adoption of the amendments to the Plan in May 2006, stock options are, for the most part, expected to be awarded during the process of recruiting new employees to the Bank.

Stock options vest over a five-year period and expire ten years from the date of the grant. The exercise price of each option equals the fair market value of the Company s stock on the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model uses a number of assumptions, including: a risk-free discount rate of interest, which is based on the U.S. Department of the Treasury (the Treasury Department) yield curve in effect at the time of grant; the expected life of options granted, which represents the period of time that options granted are expected to be outstanding; expected volatilities, based on the historical volatility of the Company s stock price; a historical forfeiture rate, which has been nominal; and, expected dividend yield, which reflects the Company s expected future dividend rate. The assumptions used in calculating the fair value of options granted in 2007 and 2008 are detailed in Note 14 Stock Based Compensation in the audited consolidated financial statements and the accompanying notes included in the Company s annual report on Form 10-K for the year ended December 31, 2008. No stock options have been awarded during 2009.

The number of stock options outstanding and exercisable as of March 31, 2009 is as follows:

	Shares actual	**Weighted-average exercise price**
Outstanding options, December 31, 2008	112,364	$ 10.06
Granted	0	0
Exercised	0	0
Forfeited	0	0
Outstanding options, March 31, 2009	112,364	$ 10.06
Options exercisable, March 31, 2009	99,794	

8

The method of accounting for stock-based compensation expense is also detailed in Note 14 Stock Based Compensation in the audited consolidated financial statements and the accompanying notes included in the Company s annual report on Form 10-K for the year ended December 31, 2008. The expense related to the grant of stock options is recognized over the vesting period of the stock options in accordance with results obtained using the Black-Scholes option pricing model. The Black-Scholes option pricing model provides for a greater recognition of expense in the early years of the vesting period, with decreasing amounts to be recognized in subsequent years.

NOTE 3. Securities

Most securities held by the Bank are classified as available for sale and are stated at fair value with unrealized holding gains and losses, net of related deferred taxes, reported as a separate component of shareholders equity. Realized gains or losses on available for sale securities sales are reported as part of non-interest income based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are recognized in interest income using the effective method over the period to maturity. There were no securities sold in the three-month, year-to-date periods ending March 31, 2009 and 2008; consequently, there were no gains or losses included in non-interest income. The amortized cost of securities and their approximate fair values at March 31, 2009 and December 31, 2008 were as follows:

	March 31, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	($ in thousands)			
Securities available for sale:				
U.S. government agency securities	$ 3,493	$ 3,601	$ 8,491	$ 8,646
U.S. treasury securities	2,998	2,998	2,998	3,000
Corporate debt obligations	500	409	500	482
Mortgage backed securities	5,985	6,332	6,310	6,594
	$ 12,976	$ 13,340	$ 18,299	$ 18,722
Securities held to maturity:				
State and municipal securities	$ 9,462	$ 9,690	$ 7,512	$ 7,734

NOTE 4. Loans

Loan detail by category is as follows:

	March 31, 2009	December 31, 2008
	($ in thousands)	
1-4 family and multi-family real estate	$ 43,888	$ 41,453
Commercial real estate	134,346	131,597
Commercial construction	49,080	53,039
Commercial non-real estate	63,666	65,656
Land and land development	37,334	37,927
Consumer	10,101	10,316
	338,415	339,988
Allowance for loan losses	(5,453)	(4,737)
Net deferred loan fees	(835)	(946)
	$ 332,127	$ 334,305

Table of Contents

NOTE 5. Allowance for Loan Losses

The Bank maintains an allowance for loan losses at a level considered adequate by management to provide for probable credit losses in the Bank s loan portfolio. Future credit losses are estimated through an analysis of various factors affecting the performance of the loan portfolio, including: individual review of problem loans, including an evaluation of the quality of underlying collateral; current business conditions and the Bank s historical loan loss experience; the term, in years, that the average loan is expected to remain on the Bank s books; and other factors that management determines to be relevant at the time of the analysis. In accordance with accounting and regulatory requirements, the portion of the allowance relating to unused loan commitments and other off-balance sheet items is reclassified to Other liabilities. Changes in the allowance for loan losses for the periods indicated were as follows:

	Three months ended	
	3/31/2009	**3/31/2008**
	($ in thousands)	
Balance, beginning of period	$ 4,737	$ 2,711
Add reserve for probable losses on unused loan commitments and off-balance sheet (OBS) items	262	267
Balance, beginning of period, including OBS reserve	4,999	2,978
Provision for loan losses	1,100	150
Loan charge-offs	(467)	(42)
Loan recoveries	3	4
Balance, end of period, prior to adjustment for OBS items	5,635	3,090
Reclassification of OBS reserve to Other liabilities	(182)	(211)
Balance, end of period	$ 5,453	$ 2,879

Table of Contents

NOTE 6. Borrowed Funds

Borrowed funds consist of the following:

	3/31/2009	12/31/2008
	($ in thousands)	
Federal Home Loan Bank (FHLB) advances	$ 19,711	$ 20,490
Other borrowed funds		2,892
	$ 19,711	$ 23,382

FHLB advances are secured by a blanket pledge on Bank assets and specifically by certain loan balances. Other borrowed funds consisted of a note payable to a local bank, which was paid in full on February 13, 2009.

The Bank has operating lines of credit with various correspondent banks. All of these lines are unsecured except the FHLB line which is secured by a blanket pledge on Bank assets as well as certain specific loans. Advances on the FHLB line may require additional purchases of FHLB stock. These lines of credit are available for short-term funding to meet current liquidity needs. Although general market trends in connection with the current distress in financial markets may impact the availability of such operating lines from other financial institutions, the Bank believes that the financial institutions with which it has relationships are stable and that the Bank will continue to have sufficient access to short term funding. There can be no assurance that short-term funding will continue to be available. The amount of federal funds purchased and outstanding balances on the credit lines for the periods covered in this report are detailed as follows:

	March 31, 2009		December 31, 2008	
	Line Amount	Outstanding Balance	Line Amount	Outstanding Balance
Federal Home Loan Bank	$ 36,469,227	$	$ 35,032,785	$
Pacific Coast Bankers Bank	10,000,000	1,900,000	10,000,000	3,465,000
Zions Bank	100,000		5,000,000	
Key Bank			10,000,000	
U.S. Bank			1,500,000	

During the first quarter of 2009, KeyBank and U.S. Bank cancelled the Bank s operating lines of credit. In addition, Zions Bank reduced the Bank s line of credit from $5 million to $100,000.

NOTE 7. Capital Lease Liability

The capital lease liability outstanding on March 31, 2009 and December 31, 2008 is related to a ground lease, with a purchase option, that the Bank entered into in early 2005 (a copy of the ground lease was filed as an Exhibit to the Company s annual report on Form 10-KSB filed on March 24, 2005). As a capitalized lease, the value of the property is included as an asset on the consolidated statement of financial condition in Premises and equipment, net and the net present value of future payments is included as a liability in Capital lease liability.

NOTE 8. Material Contract

In the third quarter of 2006, the Bank entered into an agreement with the Spokane Public Facilities District (PFD) for the purchase of naming rights to the Spokane Opera House; that facility is now known as the INB Performing Arts Center. Under the agreement, the Bank will pay the PFD $150 thousand per year for a period of ten years. The contract expires July 20, 2016; however, the Bank has the right to extend the contract for an additional ten years, at an annual rate that will not exceed the current annual rate by more than twenty-percent.

Table of Contents

Expenses related to the agreement total about $25 thousand per quarter and are recognized as Other operating expense .

In March of 2009, the Bank entered into a renegotiated lease with Diamond Plaza, LLC for its principal office and main branch, which is located in the Paulsen Center Building in downtown Spokane. The new lease is for a 10-year term with additional renewal options on approximately 22,971 feet. The initial lease rate is $30,839 per month and escalates approximately 3% per year. A copy of the lease agreement has been filed as Exhibit 99.1 to the current report on Form 8-K filed by the Company with the SEC on May 11, 2009.

NOTE 9. Junior Subordinated Debentures

In June 2005, the Company issued junior subordinated debentures with an aggregate value of $5.16 million to Northwest Bancorporation Capital Trust I (the Trust), with interest fixed at 5.95% through June 30, 2010, thereafter re-pricing quarterly at three-month LIBOR plus 1.70%. The Trust issued $155 thousand of common securities to the Company and capital securities with an aggregate liquidation amount of $5 million to third-party investors. The common securities are included in Other assets on the consolidated statement of financial condition; the subordinated debentures are detailed individually in this report and are included in Borrowed funds in the consolidated financial statements included in the annual report on Form 10-K for the year ended December 31, 2008. The subordinated debentures are includable as Tier I capital for regulatory purposes. The subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis, which are included in interest expense. The subordinated debentures will mature on June 30, 2035, at which time the capital securities must be redeemed. The subordinated debentures and capital securities can be redeemed prior to maturity, at the Company s discretion, in whole or in part, beginning June 30, 2010, at par value. The Company has provided a full and unconditional guarantee of the obligations of the Trust under the capital securities in the event of default. The Trust is not consolidated in these financial statements, pursuant to Financial Accounting Standards Board Interpretation No. 46(R), Consolidation of Variable Interest Entities. The Company reports the junior subordinated debentures within the liabilities section of the consolidated statements of financial condition.

The following table presents a summary of trust preferred securities at March 31, 2009 and December 31, 2008:

Name of Trust	Aggregate liquidation amount of trust preferred securities	Aggregate liquidation amount of common capital securities	Aggregate principal amount of junior subordinated debentures	Stated maturity date	Per annum interest rate	Extension period	Redemption option
		($ in thousands)					
Northwest Bancorporation Capital Trust I	$ 5,000	$ 155	$ 5,155	2035	5.95%	20 consecutive quarters	On or after 6/30/2010

NOTE 10. Common Stock

On April 15, 2008, the Board of Directors declared a twenty-cent ($0.20) per share annual cash dividend that was paid on June 13, 2008 to shareholders of record as of May 9, 2008. No cash dividends have been declared in 2009.

Table of Contents

NOTE 11. Fair Value Measurement

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement 157). The Statement provides enhanced guidance for measuring assets and liabilities using fair value and applies to situations where other standards require or permit assets or liabilities to be measured at fair value. Statement 157 also requires expanded disclosure of items that are measured at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings.

Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s assumptions about market value. These two types of inputs create a fair value hierarchy. Level 1 includes quoted prices for identical instruments in active markets. Level 2 includes quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable. Level 3 includes instruments whose significant value drivers are unobservable. A financial instrument level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes the Company s financial instruments that were measured at fair value on a recurring basis at March 31, 2009:

Description of Financial Instrument	Fair Value	Fair Value Measurement Level Level 1	Level 2	Level 3
		($ in thousands)		
Securities available for sale	$ 13,340	$ 2,998	$ 10,342	$

Certain financial assets are measured at fair value on a non-recurring basis from application of lower of cost or market accounting or write-downs of individual assets due to impairment. The following table summarizes the Company s financial instruments that were measured at fair value on a non-recurring basis at March 31, 2009, and the total loss recognized as a result of fair value adjustments for the three months ended March 31, 2009:

Description of Financial Instrument	Fair Value	Fair Value Measurement Level Level 1	Level 2	Level 3	Three months ended 3/31/2009 Total Loss
		($ in thousands)			
Impaired loans	$ 17,217	$	$	$ 17,217	$
Foreclosed real estate and other repossessed assets	2,635			2,635	

The following methods and significant assumptions were used to estimate fair values:

Securities available for sale. The fair values of securities available for sale are generally measured using information from a third-party pricing service. If quoted prices were available in an active market, securities were classified as Level 1 measurements and include Treasury Department securities. If quoted prices in active markets were not available, fair values were estimated using pricing models (quoted prices of securities with similar characteristics or discounted cash flows) and classified as Level 2 measurements.

Table of Contents

Foreclosed real estate and other repossessed assets. Fair values of foreclosed real estate and other repossessed assets are typically determined based on an independent appraisal. Appraised values may be discounted based on management s review and analysis, which may include historical knowledge, changes in market conditions, estimated selling and other anticipated costs, and/or expertise and knowledge of the customer and the customer s business. Any write-downs of foreclosed or repossessed assets subsequent to the initial classification are recorded as an expense in the Consolidated Statements of Operations and in the Total Loss column above.

Impaired loans. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans. The value of real estate collateral is determined based on an independent appraisal. The value of business equipment, inventory and accounts receivable collateral is typically based on the net book value on the business financial statements, but in some cases an appraisal is obtained for equipment and inventory. Appraised and reported values may be discounted based on management s review and analysis, which may include historical knowledge, changes in market conditions, estimated selling and other anticipated costs, and/or expertise and knowledge of the customer and the customer s business. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to increase, such increase is reported as a component of the provision for loan losses and is reported in the Total Loss column above.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains a review of Northwest Bancorporation, Inc. s (the Company) and its wholly-owned subsidiary, Inland Northwest Bank s (the Bank), consolidated operating results and financial condition for the three-month, year-to-date period ended March 31, 2009 (first-quarter 2009). When warranted, comparisons are made to the same three-month period in 2008 (first-quarter 2008) and/or to the immediately preceding three-month period (fourth-quarter 2008). The discussion should be read in conjunction with the consolidated financial statements (unaudited) and related notes contained elsewhere in this report. The reader is assumed to have access to the Company s annual report on Form 10-K for the year ended December 31, 2008, which contains additional statistics and explanations. All numbers, except per share data, are expressed in thousands of dollars, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. For a discussion about such statements, including the risks and uncertainties inherent therein, see Forward-Looking Statements. Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in the Company s 2008 annual report on Form 10-K.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The Securities and Exchange Commission (the SEC) defines critical accounting policies as those that require the application of management s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. The accounting policies that the Company s management have identified as critical to understanding the Company s financial statements and operating results are described in Note 1 of the Notes to Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2008.

Results of Operations

Summary

The Company recognized a net loss of $256 thousand for the quarter ended March, 31, 2009, compared to net income of $440 thousand for the comparable period ended March 31, 2008. The net loss of $256 thousand continues to reflect the influence of the national and regional economic factors that affect our customers and the inability of some to repay loans as agreed. The amount of the Bank s total assets, loans, deposits and non-interest income all increased from the amounts recorded for the same period in 2008, which represents a planned and continued positive trend. This was offset, however, by the fact that the Bank s provision for loan losses and non-interest expense all increased year-over-year, resulting in lower earnings for the quarter.

The largest factor contributing to the higher expenses for first quarter was the $1.1 million provision for loan losses allocated by management in response to the higher level of nonperforming loans identified by the Bank during the quarter. If performance does not occur in a reasonable time on nonperforming loans, then the Bank will incur legal and other expenses related to taking possession and selling the underlying collateral for the loan, causing these loans to be written down to a reasonably expected value or net realizable value. Bank management expects to recover a significant portion of the balances of these nonperforming loans, but has deemed it prudent to increase the provision because of the increased risk of nonperformance. Despite lower earnings, the Company remains well capitalized due in part to the additional $10.5 million of capital the Company received during the first quarter of 2009 from the U.S. Department of the Treasury (the Treasury Department) under its Capital Purchase Program.

Table of Contents

Financial Highlights

	Three months ended March 31,		
($ in thousands except per share data)	**2009**	**2008**	**% Change**
Results of Operations:			
Interest income	$ 5,379	$ 5,830	-7.7%
Interest expense	2,236	2,620	-14.7%
Net interest income	3,143	3,210	-2.1%
Provision for loan losses	1,100	150	633.3%
Net interest income after provision for loan losses	2,043	3,060	-33.2%
Noninterest income	825	561	47.1%
Noninterest expense	3,308	2,953	12.0%
Income (loss) before income taxes	(440)	668	-165.9%
Income tax expense (benefit)	(184)	228	-180.7%
Net income (loss)	$ (256)	$ 440	-158.2%
Share Data:			
Basic earnings (loss) per common share	$ (0.14)	$ 0.19	
Diluted earnings (loss) per common share	$ (0.14)	$ 0.18	
Selected Ratios:			
Return on average assets	-0.26%	0.50%	
Return on average equity	-3.20%	6.35%	
Net interest income to average earning assets	3.40%	3.92%	
Efficiency ratio	83.37%	78.30%	
Noninterest income to average assets	0.83%	0.64%	
Noninterest expense to average assets	3.33%	3.37%	
Ending shareholders equity to average assets	9.32%	7.96%	
Nonperforming loans to gross loans	4.91%	0.22%	
Allowance for loan losses to gross loans	1.62%	0.98%	

Net Interest Income

Net interest income is the primary source of the Bank s revenue. Net interest income is the difference between interest income derived from earning assets, primarily loans and investment securities, and interest expense associated with interest-bearing liabilities, primarily deposits, securities sold under agreement to repurchase and borrowed funds. The volume and mix of earning assets and funding sources, market rates of interest, demand for loans, and the availability of deposits affect net interest income.

As of March 31, 2009, the first-quarter net interest margin as a percentage of earning assets decreased to 3.40%, compared to net interest margin of 3.92% for the comparable period ended March 31, 2008. Average loan totals increased year-over-year but have been originated or renewed at interest rates that are on average 1.5% lower than they were a year ago. This decline in interest rates, combined with the fact that the Bank s average cost of funds only decreased 0.93%, resulted in a lower net interest spread (the difference between total interest-earning assets and total interest-bearing deposits).

16

Table of Contents

The following Table I presents, for the quarters indicated, average assets, liabilities and shareholders equity, for the Bank together with net interest income from average interest-earning assets and their corresponding yields.

TABLE I

	Three months ended March 31, 2009 [1]			2008 [1]		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
	($ in thousands)					
ASSETS						
Loans, gross [2,3]	$ 340,934	$ 5,130	6.02%	$ 285,187	$ 5,376	7.54%
Taxable investments	15,624	171	4.38%	24,520	302	4.93%
Nontaxable investments [4]	8,015	75	3.74%	7,243	75	4.14%
FHLB stock	1,106		0.00%	646	2	1.24%
Federal funds sold & interest-bearing deposits with banks	4,222	3	0.28%	9,593	75	3.13%
Total interest-earning assets	369,901	5,379	5.82%	327,189	5,830	7.13%
Less reserve for probable loan losses	(5,034)			(2,788)		
Cash and due from banks	7,424			7,702		
Other non-earning assets	25,320			18,301		
Total assets	$ 397,611			$ 350,404		
LIABILITIES AND SHAREHOLDERS EQUITY						
NOW accounts	14,036	16	0.46%	14,690	31	0.84%
Money market accounts	32,462	63	0.78%	32,350	151	1.87%
Savings accounts	40,288	132	1.31%	20,589	105	2.04%
Time certificates of deposit	187,551	1,707	3.64%	170,954	2,037	4.77%
Total interest-bearing deposits	274,337	1,918	2.80%	238,583	2,324	3.90%
Securities sold under repurchase agreements	9,035	6	0.27%	21,253	99	1.86%
Borrowed funds	21,017	234	4.45%	9,032	119	5.27%
Junior subordinated note [5]	5,155	78	6.05%	5,155	78	6.05%
Total borrowed funds	35,207	318	3.61%	35,440	296	3.34%
Total interest-bearing liabilities	309,544	2,236	2.89%	274,023	2,620	3.82%
Demand deposits	55,003			46,064		
Other liabilities	1,070			2,584		
Shareholders equity	31,994			27,733		
Total liabilities and shareholders equity	$ 397,611			$ 350,404		
Net interest income		$ 3,143			$ 3,210	
Net interest spread			2.93%			3.30%
Net interest income to average earning assets			3.40%			3.92%

Comments:

1. There were no out-of-period adjustments.

2. Nonaccrual loan balances are included in average loan balances; however, no interest income is imputed to nonaccrual loans.

3. Loan fee income in the amount of $149 thousand and $172 thousand is included in loan interest income for 2009 and 2008, respectively.

4. Yields have not been adjusted on tax-exempt investments to determine a tax-equivalent yield.

5. Junior subordinated note interest is fixed at 5.95%. Interest is computed using 360/365, which results in a higher annual percentage rate.

Table of Contents

Most of the interest that the Bank earns comes from its loan portfolio. Loan yield decreased by 1.52% to 6.02% from 7.54% for the quarters ended March 31, 2009 and 2008, respectively. Net interest margin as a percentage of earning assets was 3.40% for the quarter ended March 31, 2009, a decrease of 0.52% from the 3.92% net interest margin reported for the same period in 2008. The Bank did not introduce any new loan products during the quarter and did not change its loan pricing strategy except to begin instituting pricing floors on many variable rate loans. However, in the second half of 2008, the Bank significantly cut back lending for land acquisition and development, construction, and non-owner occupied real estate. Management also redirected the Bank s lending resources to emphasize commercial and industrial (C & I) lending as well as the collection and workout of problem credits. Changes in yield for other earning assets were primarily the result of changes in market interest rates.

Average earning assets increased approximately $43 million year-over-year to $370 million as of March 31, 2009 from $327 million as of March 31, 2008. Interest-bearing liabilities increased approximately $36 million to $310 million as of March 31, 2009 from $274 million as of March 31, 2008. The Bank funded its asset growth by growing deposits and by increasing borrowed funds.

The average balances for the three-month period ended March 31, 2009 compared to the same period of 2008 reflects solid growth in the loan portfolio. On average, loans increased approximately $56 million year-over-year, but with the lower yield stated above, net interest income for the first quarter 2009 was 2.1% lower than first quarter 2008.

The following table is a summary of changes in net interest income due to changes in average asset and liability balances (the Volume) and changes in average rates (the Rate) for the three-month periods ended March 31, 2009 and 2008.

Table II

	Three months ended March 31, 2009 vs. 2008 Increase (decrease) due to changes in:		
	Volume	**Rate**	**Total**
		($ in thousands)	
Interest-earning assets			
Loans	$ 7,616	$ (7,862)	$ (246)
Securities	(81)	(52)	(133)
Fed funds sold/interest-bearing balances	(27)	(45)	(72)
Total interest-earning assets	7,507	(7,958)	(451)
Interest-bearing liabilities			
NOW accounts	(1)	(14)	(15)
Money market accounts	1	(89)	(88)
Savings accounts	43	(16)	27
Time certificates of deposit	230	(560)	(330)
Securities sold under repurchase agreements	(37)	(56)	(93)
Borrowed funds	130	(15)	115
Total interest-bearing liabilities	366	(750)	(384)
Total increase (decrease) in net interest income	$ 7,141	$ (7,208)	$ (67)

Table of Contents

For the three-months ended March 31, 2009, net interest income before the provision for loan losses decreased by $67 thousand over the same period in the previous year, as a result of interest income decreasing $451 thousand while interest expense decreased $384 thousand. The decrease in interest income from lower loan rates was offset to a large extent by the Bank s ability to attract interest-bearing deposits at lower rates. Although there was a significant increase in loan volume, lower yields on the loans more than offset earnings from the increased volume. Lower volumes and rates on both securities and Federal Reserve funds sold reduced interest income by another 3.5% compared to prior periods. The increase in volume of time deposits also lowered net interest income despite lower rates paid by the Bank on these liabilities.

The Bank anticipates that competition from other financial institutions and reduced loan demand will continue to place pressure on its net interest margin. Current Federal Reserve policy has resulted in a Prime Rate of 3.25% during the first quarter of 2009 and the pressure on net interest margin is expected to continue so long as the Federal Reserve maintains its Federal funds target at a rate that ranges from 0.0% to 0.25%. Nevertheless, with the additional capital received from the Treasury Department, the Bank has budgeted for modest loan growth in 2009 with a slight improvement in net interest income anticipated as a result of an expected reduction in rates paid on deposits.

Rate Shock

Presented in the table below are the results of an analysis of interest rate risk vulnerability performed using the Bank s financial information as of March 31, 2009. Generally, the results of our analysis indicate that our exposure to interest rate volatility is within management s target of no more than plus or minus ten-percent when applying an interest rate shock of plus or minus two hundred basis points. Rate increases of 1.00%, 2.00% and 3.00% were modeled, while a decrease of 0.25% was modeled since the Federal Reserve s current Target Discount Rate is 0.25% and cannot go lower than 0%. The results of the net interest income analysis performed as of March 31, 2009, are within guidelines established by the Bank s Board of Directors, as shown in the table below.

It is management s goal to limit the negative impact of a change in rates of plus or minus two hundred basis points to no more that twenty-five percent of the economic value of equity. Management therefore modeled rate increases of 1.00%, 2.00%, 3.00% and a decrease of 0.25%. The results of the economic value of equity analysis performed as of March 31, 2009, are presented in the table below to illustrate the estimated effect of changing rates on book value of equity and are within limits established by the Bank s Board of Directors.

Table of Contents

March 31, 2009

Projected Interest Rate Scenario	Net Interest Income Estimated Value	$ Change from Base	% Change from Base	Economic Value of Equity Estimated Value	$ Change from Base	% Change from Base
	($ in thousands)					
+300	$ 14,122	$ 1,550	12.33%	$ 26,423	$ (10,646)	-28.72%
+200	12,844	272	2.16%	28,814	(8,255)	-22.27%
+100	12,592	20	0.16%	32,387	(4,682)	-12.63%
Base	12,572	0	0.00%	37,069	0	0.00%
-25	12,575	3	0.02%	38,281	1,212	3.27%

Compared to the results of a similar analysis performed on the Bank s financial information as of March 31, 2008, presented below, the potential effect of a significant (+300) change in market rates of interest on net interest income has increased by 4.6%, while the potential effect on economic value of equity decreased by 10.0%. Results for both periods are within the established guidelines of the Bank s Board of Directors.

March 31, 2008

Projected Interest Rate Scenario	Net Interest Income Estimated Value	$ Change from Base	% Change from Base	Economic Value of Equity Estimated Value	$ Change from Base	% Change from Base
	($ in thousands)					
+300	$ 14,836	$ 1,068	7.76%	$ 24,922	$ (5,741)	-18.72%
+200	14,516	748	5.43%	26,770	(3,893)	-12.70%
+100	14,194	426	3.09%	28,670	(1,993)	-6.50%
Base	13,768	0	0.00%	-	-	-

Benefits & Perquisites: BOLI Death Benefit	-	-	-	-	-	-
Restricted Stock Awards	283,003 (5)	283,003 (5)	-	-	283,003 (6)	283,003 (8)
Supplemental Executive Retirement Plan (SERP)	60,797 (14)	-	3,357 (12)	0 (13)	60,797 (12)	60,797 (13)
Douglas Eric Waldron (1) Compensation: Base Salary	-	-	-	-	-	-
Benefits & Perquisites: BOLI Death Benefit	-	-	-	-	-	-
Restricted Stock Awards	283,003 (5)	283,003 (5)	-	-	283,003 (6)	283,003 (8)
Supplemental Executive Retirement Plan (SERP)	59,695 (14)	680,000 (11)	3,217 (12)	0 (13)	59,695 (12)	59,695 (13)

29

The First Bancshares, Inc.

Potential Payments Upon Termination or Change-in-Control (Continued)

As of December 31, 2016

(1) W. Wade Neth, Ray L. Wesson, Jr., and Douglas Eric Waldron are executive officers of the bank and not the Company.

(2) In the event of disability of Executive, salary will continue for 6 months or, if earlier, until date payments begin under disability insurance policy.

(3) Lump sum severance payment and continuation of health benefits to end of term in the amount of $544,589 which includes eighteen times monthly salary totaling $541,935 plus health benefits of $2,654 through the end of the expiration of the second contract term, 5-31-17.

(4) Lump sum severance in the amount of 2x current annual salary, and bonuses, etc. that would have been paid.

(5) All non-vested restricted stock awards will become fully vested at the retirement or death of the NEO's. None of the NEO's have reached retirement age under the RSA Agreement. Calculated based on 12-31-16 stock closing price of $27.50 per share.

(6) All non-vested restricted stock awards will become fully vested in the event of a change of control in which the Company is not the survivor or if the acquirer does not assume the obligations. Calculated based on 12-31-16 stock closing price of $27.50 per share.

(7) Arrangement provides for 1 1/2 x current annual salary.

(8) All non-vested restricted stock awards will become fully vested if termination without cause occurs with 24 months of a change in control in which the Company is the survivor or the acquirer has assumed the obligations. Calculated based on 12-31-16 stock closing price of $27.50 per share.

(9) Upon Separation from Service following attainment of age 65, Normal Retirement Benefit shall be $164,110 per year for 15 years, payable in 180 equal monthly installments

(10) Upon Separation from Service following attainment of age 65, Normal Retirement Benefit shall be $89,140 per year for 15 years, payable in 180 equal monthly installments

(11) In the event of death while in active service of the bank, beneficiary(s) shall be paid $2,961,650 and $1,337,100, $680,000, $680,000, and $680,000 respectively. In the event of death during benefit payment period, beneficiary(s) shall receive remaining installment payments.

(12) The SERP Agreement includes a benefit provision for Change in Control and Disability. The actual benefit payable would be calculated upon such an event.

(13) Upon Separation from Service prior to age 65, the benefit shall be equal to the vested portion of the Accrued Liability Balance calculated as of the date of Separation from Service.

(14) Upon Separation from Service following attainment of age 65, Normal Retirement Benefit shall be $12,000 per year for 15 years, payable in 180 equal monthly installments.

30

Director Compensation

Fees Earned or Paid in Cash. Directors of the Company were paid an annual retainer of $3,500. In order to receive the retainer, directors of the Company must attend at least 75% of the scheduled board and committee meetings during the year. Company directors were paid $750 per meeting, which consisted of four regularly scheduled meetings and eight specially called meetings. Further, directors of the bank were paid an annual retainer of $8,000. In order to receive the retainer, directors of the bank must attend at least 75% of the scheduled board and committee meetings during the year. The bank directors were paid $600 per meeting which consisted of twelve regularly scheduled meetings and one specially called meeting. Directors who served on the audit committee of the Company were paid $400 per meeting; directors who served on the compensation committee of the Company were paid $300 per meeting; directors who served on the nominating committee of the Company were paid $300 per meeting; and directors who served on the executive committee of the Company were paid $400 per meeting. Directors who served on the risk committee of the bank board were paid $300 per meeting, and directors who served on the loan committee were paid $300 per meeting. The Chairman of the Board of the Company was paid a retainer of $7,000 per quarter. Each of the chairmen of the audit, personnel and nominating committees were paid a retainer of $500 per quarter. The chairman of the risk committee was paid a retainer of $500 per quarter, as well.

Stock Awards. Directors of both the Company and bank are awarded restricted stock grants of 1,000 shares and the Chairman of the Board, who is a director of both the Company and bank is awarded a restricted stock grant of 2,500 shares. Directors of the bank who are not directors of the Company are awarded a restricted stock grant of 250 shares, and directors of the Company who are not directors of the bank are awarded a restricted stock grant of 500 shares.

The First Bancshares, Inc.

Director Compensation Table

For the Year Ended December 31, 2016

The table below summarizes the total compensation paid to or earned by our non-management directors (1) during 2016.

	Fees Earned or Paid in Cash	Stock Awards ($)(2)	All Other Cash Compensation	Total
David W. Bomboy	$ 7,500.00	$ 17,150.00	$ 13,650.00	$ 38,300.00
E. Ricky Gibson	16,300.00	42,875.00	58,000.00	117,175.00
Charles R. Lightsey	18,300.00	17,150.00	28,200.00	63,650.00
Fred A. McMurry	14,300.00	17,150.00	23,600.00	55,050.00
Gregory H. Mitchell	14,500.00	17,150.00	12,400.00	44,050.00
Ted E. Parker	14,300.00	17,150.00	23,900.00	55,350.00
J. Douglas Seidenburg	15,750.00	17,150.00	21,600.00	54,500.00
Andrew D. Stetelman	11,750.00	17,150.00	24,800.00	53,700.00

(1) M. Ray (Hoppy) Cole, Jr. did not receive director stock awards. The director fees he received are shown in Summary Compensation Table under “All Other Compensation”.

(2) Value based on value at grant date of $17.15 per share for 1,000 shares to each director and 2,500 shares to the Chairman of the Board and valued in accordance with FASB Topic 718.

(3) Directors of the bank were paid an annual retainer of $8,000 based on attendance requirements.

32

SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of common stock in the Company owned by the directors, director nominees, and NEOs, as of March 15, 2017.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(2)		Unvested Restricted Stock(3)	Percent of Class(4)	
Rodney D. Bennett (7)	1,000		250	0.01	%
David W. Bomboy, M.D.	123,080		3,000	1.38	%
M. Ray (Hoppy) Cole, Jr.	40,975		32,212	0.80	%
E. Ricky Gibson	87,769		7,500	1.04	%
Charles R. Lightsey	78,156		3,000	0.89	%
Fred A. McMurry	87,519	(5)	3,000	0.99	%
Gregory H. Mitchell	7,001		2,500	0.10	%
Thomas E. Mitchell (7)	-		250	0.002	%
Ted E. Parker	78,672		3,000	0.89	%
J. Douglas Seidenburg	94,740	(6)	3,000	1.07	%
Andrew D. Stetelman	45,917		3,000	0.53	%
Donna (Dee Dee) Lowery	22,297		12,076	0.38	%
W. Wade Neth (1)	1,000		12,676	0.15	%
Ray L. Wesson, Jr. (1)	9,602		11,276	0.23	%
Douglas Eric Waldron (1)	5,354		11,276	0.18	%
Directors and Executive Officers as a group	666,126		72,288	8.08	%

(1) W. Wade Neth, Ray L. Wesson, Jr., and Douglas Eric Waldron are executive officers of the bank and not the Company.

(2) Includes shares for which the named person:

33

- has sole voting and investment power,
- has shared voting and investment power with a spouse, or
- holds in an IRA or other retirement plan program, unless otherwise indicated in these footnotes.

(3) Restricted Stock granted under The First Bancshares, Inc. 2007 Stock Incentive Plan

(4) Calculated based on 9,144,412 shares outstanding

(5) Includes 5,634 shares registered to Oak Grove Land Company, Inc. Fred A. McMurry, a Director of the Company, is a 33% owner of the Oak Grove Land Company, Inc. Fred A. McMurry disclaims beneficial ownership of the shares held by Oak Grove Land Company, Inc. except to the extent of his pecuniary interest therein.

(6) Includes 2,500 shares registered to M.D. Outdoor LLC. J. Douglas Seidenburg is a Member of M.D. Outdoor LLC and as such is the natural person having voting and dispositive power over the shares. Mr. Seidenburg is a Director of the Company. Mr. Seidenburg disclaims beneficial ownership of the shares held by M.D. Outdoor LLC except to the extent of his pecuniary interest therein.

(7) Director nominees received a grant of restricted stock in the amount of 250 shares each because of their service on the board of the bank.

Stock Ownership of Principal Stockholders

As of March 15, 2017, to the registrant’s knowledge, there were three beneficial owners of five percent (5%) or more of the outstanding common stock.

SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the beneficial ownership of common stock in the Company owned by the certain beneficial owners with more than five percent ownership in the Company’s stock as of March 15, 2017.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)	
Common Stock	Charles J. Moore, Banc Funds Company, L.L.C. and affiliates (2)	708,843	7.75	%

	20 North Wacker Drive, Suite 3300 Chicago, IL 60606			
Common Stock	RMB Capital Management, LLC, and affiliates (3) 15 S. LaSalle Street, 34th Floor Chicago, IL 60603	576,034	6.3	%
Common Stock	Joseph A. Stieven, Stieven Financial Investors, LP and affiliates (4) 12412 Powers Court Dr., Suite 250 St. Louis, MO 63131	461,393	5.05	%

34

(1) Calculated based on 9,144,412 shares outstanding

(2) Based on Schedule 13G/A filed February 14, 2017 by Banc Funds Company, LLC, and affiliates providing the following holdings based on sole dispositive power: Banc Fund VI L.P. (0 shares), Banc Fund VII L.P. (163,235 shares), Banc Fund VIII L.P. (354,554 shares), and Banc Fund IX L.P. (191,054 shares) (collectively, the "Funds"), representing total beneficial ownership of 708,843 shares. Banc Funds Company, L.L.C. ("Banc Funds") is the general partner of the general partner of each of the Funds. As reported in the Schedule 13G/A, Charles J. Moore, has sole voting and dispositive power with respect to all of the shares covered by the Schedule 13G, through his positions as manager of the Funds and principal of Banc Funds.

(3) Based on Schedule 13G filed February 13, 2017 by RMB Capital Management, LLC and affiliates providing the following holdings based on shared voting and dispositive power over 576,034 shares in the aggregate as follows: RMB Capital Holdings, LLC (576,034 shares), RMB Capital Management, LLC (576,034 shares), Iron Road Capital Partners, LLC (18,932 shares), RMB Mendon Managers, LLC (197,798 shares), Mendon Capital Advisors Corp. (359,304).

(4) Based on Schedule 13G filed January 9, 2017 by Stieven Capital Advisors, L.P. and affiliates providing the following holdings based on shared dispositive power: Stieven Financial Investors, L.P. (379,918 shares) and Stieven Financial Offshore Investors, Ltd. (81,475 shares) (collectively the "Stieven Funds"), representing total beneficial ownership of 461,393 shares. Stieven Capital Advisors, L.P. ("Stieven Capital Advisors") is the investment advisor to the Stieven Funds and has shared dispositive power with respect to 461,393 shares. As reported in the 13G, Joseph A. Stieven is Chief Executive Officer of Stieven Capital Advisors, and has shared dispositive power with respect to 461,393 shares.

Corporate Governance

Corporate Governance Guidelines. The Board of Directors' Nominating Committee has enacted guidelines to determine director independence and qualifications for directors which conform to the independence requirements of the NASDAQ Stock Exchange listing standards. The Nominating Committee Charter is published at the Corporation's website under the "*Corporate Governance*" at www.thefirstbank.com. The Board of Directors regularly reviews corporate governance developments and considers modifications to its governance charter to clarify and augment the Board of Directors' processes, including those relating to risk oversight.

The Board's Role in Risk Oversight. The Company believes that each member of the Company's Board of Directors in his or her fiduciary capacity has a responsibility to monitor and manage risks faced by the Company. At a minimum, this requires the members of the Company's Board of Directors to be actively engaged in board discussions, review materials provided to them, and know when it is appropriate to request further information from management and/or engage the assistance of outside advisors. Furthermore, because the banking industry is highly regulated, certain risks to the Company are monitored by the Board of Directors, and the Audit Committee and Risk Committee through the review of the Company's and bank's compliance with regulations set forth by its regulatory authorities and recommendations contained in regulatory examinations.

The Board of Directors of The First, A National Banking Association has a Risk Committee which is responsible for risk oversight and regularly reports to the Board of Directors on its findings. This Committee monitors compliance with regulations and policies. The other committees concentrate on specific risks for which they have an expertise, and each committee is required to regularly report to the Board of Directors on its findings. For example, the Audit Committee of the Board of Director of The First, A National Banking Association, and The First Bancshares, Inc. regularly monitors the Company's exposure to certain reputational risks by establishing and evaluating the effectiveness of company programs to report and monitor fraud and by monitoring the Company's internal controls over financial reporting. The Compensation Committee's role in monitoring the risks related to the Company's compensation structure is discussed in further detail below.

35

Director Independence. The First Bancshares, Inc. currently has eight independent directors out of nine. The independent directors are David W. Bomboy, E. Ricky Gibson, Charles R. Lightsey, Fred A. McMurry, Gregory H. Mitchell, Ted E. Parker, J. Douglas Seidenburg, and Andrew D. Stetelman. In addition, the two new director nominees have been determined by the Board of Directors to be independent. The Board of Directors has satisfied, and expects to continue to satisfy, its objective that at least a majority of the Board of Directors should consist of independent directors. For a director to be considered independent, the Board of Directors must determine that the director does not have any direct or indirect material relationship with the Company. The Board of Directors has established guidelines to assist it in determining director independence which conform to the independence requirements of the NASDAQ Stock Exchange listing standards. In addition to applying these guidelines, the Board of Directors will consider all relevant facts and circumstances in making an independence determination.

In the course of the Board of Director's determination regarding independence, it considers any transactions, relationships and arrangements as required by the Company's independence guidelines.

All members of the Audit Committee, Compensation Committee, and Nominating Committee must be independent directors as defined by NASDAQ. Members of the Audit Committee also must satisfy a separate Securities and Exchange Commission ("SEC") independence requirement, which provides that they may not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or its subsidiaries other than their compensation for serving as a director.

Director Candidates, Qualifications and Diversity. In considering whether to recommend any candidate for inclusion in the Board of Director's slate of recommended director nominees, including candidates recommended by shareholders, the Nominating Committee will consider a number of criteria, including, without limitation, financial, regulatory and business experience; familiarity with and participation in the local community; integrity, honesty and reputation; dedication to the Company and its shareholders; independence and any other factors the Nominating Committee deems relevant, including age, diversity, size of the Board of Directors and regulatory disclosure obligations. Although the Nominating Committee has no official policy regarding diversity, the Committee seeks well-qualified nominees, and believes its Board of Directors represents a wide variety of backgrounds.

Board Leadership Structure. The Board of Directors of the Company is currently made up of nine individuals, one of whom is an insider as an executive of the Company. The eight outside directors have a wide variety of business experience and bring that experience to bear in fulfilling their duties as directors of the Company. The Chairman and Chief Executive Officer positions are held separately. All independent directors have an equal voice in the business of the Company.

Standards of Conduct. All directors, officers and employees of The First Bancshares, Inc. must act ethically at all times and in accordance with the policies comprising of the Code of Ethics for Financial Officers, a copy of which can be found at the Company's internet website, www.thefirstbank.com.

Communicating Concerns to Directors. The Audit Committee and the non-management directors have established procedures to enable any employee who has a concern about The First Bancshares' conduct, policies, accounting, internal accounting controls or auditing matters, to communicate that concern directly to the Board of Directors through written notification directed to the Chairman of the Audit Committee, Doug Seidenburg, at P. O. Box 1197, Laurel, MS 39441, or by email to DougS@sburgcpa.com. Such communications may be confidential or anonymous. The Company's Whistleblower Policy is available on the Company's website, www.thefirstbank.com. The status of any outstanding concern, if any, is reported to the non-management directors of the Board of Directors periodically by the Chairman of the Audit Committee.

Shareholder Communications. Shareholders may communicate with all or any member of the Board of Directors by addressing correspondence to the "Board of Directors" or to the individual director and addressing such communication to Chandra B. Kidd, Secretary, The First Bancshares, Inc., P. O. Box 15549, Hattiesburg, Mississippi, 39404. All communications so addressed will be forwarded to the Chairman of the Board of Directors (in case of correspondence addressed to the "Board of Directors") or to the individual director without exception.

Additional Information Concerning Officers and Directors

Meetings of the Board of Directors

It is the policy of the Company that directors attend all meetings. During the year ended December 31, 2016 the Board of Directors of the Company held 12 meetings which included 8 specially called meetings. All of the directors of the Company attended at least 75% of the aggregate of the scheduled Board meetings and the scheduled meetings of each committee on which they served with the exception of David W. Bomboy who attended 50% of the scheduled board meetings of the Company. The Board of Directors of the Bank held 12 regularly scheduled meetings and one specially called meeting during the year ended December 31, 2016.

Annual Meeting Attendance

The Company encourages attendance of all of its directors at the annual meeting. All of the Board of Directors of the Company attended the 2016 Annual Meeting.

Committees of the Board of Directors

The Company's Board of Directors has appointed an Audit Committee, a Compensation Committee, a Nominating Committee and an Executive Committee.

The Audit Committee of the Company is composed of the following independent members: J. Douglas Seidenburg, E. Ricky Gibson, Gregory H. Mitchell, and Charles R. Lightsey. The Audit Committee met five times during the year ended December 31, 2016. On February 21, 2002, the Board adopted a written Audit Committee Charter, a copy of which can be found at the Company's internet website at www.thefirstbank.com under "Corporate Governance". The Audit Committee has the responsibility of reviewing the Company's financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities, and determining that all audits and examinations required by law are performed. The Committee also recommends to the Board of the Company the appointment of the independent auditors for the next fiscal year, reviews and approves the auditor's audit plans, and reviews with the independent auditors the results of the audit and management's responses. The Audit Committee is responsible for overseeing the entire audit function and appraising the effectiveness of internal and external audit efforts for the Company. The Audit Committee reports its findings to the Board of Directors of the Company. The Board of Directors has determined that the members of the Audit Committee are independent. The Board of Directors has also determined that there is at least one independent audit committee financial expert, J. Douglas Seidenburg, serving on the Audit Committee, as the terms independent and audit committee financial experts are used in pertinent Securities and Exchange Commission laws and regulations.

The Compensation Committee is responsible for establishing the compensation plans for the Company and the bank. Its duties include the development with management of all benefit plans for employees of the Company and the bank, the formulation of bonus plans, incentive compensation packages, and medical and other benefit plans. The Committee makes all compensation decisions for the named executive officers and approves recommendations regarding equity awards to all named executive officers of the Company. Decisions regarding the non-equity compensation of other executive officers are made by the Committee and the Chief Executive Officer. The Committee and the Chief Executive Officer annually review the performance of each of the named executive officers (other than the Chief Executive Officer whose performance is reviewed by the Committee). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives. On April 4, 2008, the Board of Directors adopted a written Compensation Committee Charter and a Compensation Philosophy, which can be found at the Company's internet website at www.thefirstbank.com under "Corporate Governance". The Compensation Committee met ten times during the year ended December 31, 2016. The Compensation Committee is composed of the following members: E. Ricky Gibson, David W. Bomboy, Ted E. Parker, and Andrew Stetelman, all of whom are independent directors.

37

The Nominating Committee is responsible for nominating individuals for election to the Company's Board of Directors. The Nominating Committee met four times during the year ended December 31, 2016, and consists of Charles R. Lightsey, Fred A. McMurry, Ted E. Parker, and Ricky Gibson, all of whom were independent directors. The Company adopted a Nominating Committee Charter on May 27, 2004. A copy of the Nominating Committee Charter can be found at the Company’s internet website at www.thefirstbank.com under “Corporate Governance”. The Nominating Committee welcomes recommendations made by shareholders of the Company.

Any recommendations for nominations for directors for consideration by the Nominating Committee in making its recommendations to the Board of Directors for the 2018 annual meeting of shareholders should be made in writing addressed to the Nominating Committee, c/o Chandra Kidd at 6480 U.S. Highway 98 West (39402), Post Office Box 15549, Hattiesburg, Mississippi, 39404-5549, by December 13, 2017. It is the Nominating Committee's policy to consider director candidates recommended by shareholders who appear to be qualified to serve on the Company's Board of Directors. The Nominating Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors and the Nominating Committee does not perceive a need to increase the size of the Board of Directors. The Nominating Committee will consider only those director candidates recommended in accordance with the Nominating Committee Shareholder Policies and Procedures, a copy of which was attached as Exhibit “C” to the Proxy Statement for the 2004 Annual Meeting. A copy of the Nominating Committee Shareholder Policies and Procedures can be found at the Company’s internet website at www.thefirstbank.com under “Corporate Governance”.

The Executive Committee’s primary purpose is to act on behalf of the Board of Directors between meetings of the Board of Directors. Membership consists of the Chairman, Vice-Chairman, CEO, and Chairman of Audit Committee, Chairman of Compensation Committee and Chairman of the Nominating Committee. Current members are Ricky Gibson, M. Ray (Hoppy) Cole, Jr., Doug Seidenburg, and Charles Lightsey. The Executive Committee met two times during the year ended December 31, 2016.

Additionally, the Board of Directors of the bank appointed a Risk Committee. The Risk Committee is responsible for risk oversight and regularly reports to the Board of Directors on its findings. This Committee monitors compliance with regulations and policies. Current Members are Charles Lightsey, Dr. Rodney Bennett (currently a director of the bank), M. Ray (Hoppy) Cole, Jr., and Fred McMurry. The committee met four times during the year ended December 31, 2016.

Report of the Audit Committee

The Audit Committee of the Company has:

- reviewed and discussed the audited financial statements with management of the Company.

- discussed with the independent auditors the matters required to be discussed under the Auditing Standard No. 1301 of the Public Company Accounting Oversight Board (PCAOB).

- received the written disclosures and the letter from the independent auditors required by the PCAOB from the auditors and have discussed with the independent auditors the auditors' independence.

- based on the review and discussions above, recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

The Board of Directors has determined that the members of the Audit Committee are independent as defined in pertinent NASDAQ rules.

Members of the Audit Committee:

J. Douglas Seidenburg

E. Ricky Gibson

Gregory H. Mitchell

Charles R. Lightsey

Certain Relationships and Related Transactions

Officers, directors and 10% beneficial owners of the Company and its associates, including members of their families or corporations, partnerships, or other organizations in which such officers or directors have a controlling interest, are customers of the bank and have transactions with the banks in the ordinary course of business, and may continue to do so in the future.

All outstanding loans and commitments included in such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than normal risk of collectability or present other unfavorable features. All directors other than M. Ray (Hoppy) Cole, Jr. are independent as defined in pertinent Nasdaq rules.

During 2016, Ellen N. Cole, President, Pascagoula Branch, was paid total gross compensation of $177,702 which included approximately $144,541 in salary, $9,631 in annual incentive bonus paid in cash, and a grant of 788 shares of time vesting restricted stock of the Company. Mrs. Cole is the mother of M. Ray (Hoppy) Cole, Jr., President and CEO of the Company and the bank, and also a director.

During 2016, Milton R. (Mit) Cole, III, President, Laurel Branch, was paid total gross compensation of $156,707, which included approximately $112,454 in salary, $7,570 in annual incentive bonus paid in cash and a grant of 1,749 shares of time vesting restricted stock of the Company. Mr. Cole is the son of M. Ray (Hoppy) Cole, Jr., President and CEO of the Company and the bank, and also a director.

Additionally, Chase Blankenship, Vice President and Commercial Lender, Hattiesburg, MS, is the son-in-law of Chairman of the Board and Director E. Ricky Gibson. Mr. Blankenship did not earn 2016 compensation in excess of the threshold that requires detailed disclosures under federal proxy rules.

There are other personnel throughout the Company related by birth or marriage, though none are related to Directors or Executive Officers of the Company.

Each year, directors, officers, and employees provide information regarding related party transactions. Although there is no formal written pre-approval procedure governing related party transactions, approval of the board is sought before engaging in any new related party transaction involving significant sums or risks. Approval of the board is also sought prior to hiring a family member of a director or executive officer.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers, and beneficial owners of more than 10% to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock. Executive officers and directors are required by Securities and Exchange Commission Regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended December 31, 2016, the Company's executive officers and directors complied with all applicable Section 16(a) filing requirements.

Independent Registered Public Accounting Firm

T.E. Lott & Company were the independent auditors for the Company during the fiscal year ending December 31, 2016. The Company expects a representative of this firm to attend the Meeting, to have the opportunity to make a statement if they desire to do so, and to be available to respond to appropriate questions from shareholders.

Fees and Related Disclosures for Accounting Services

The following is a summary of fees related to services performed for the Company by T.E. Lott & Company for the years ended December 31, 2016 and 2015:

	2016	2015
Audit Fees – Audit of the consolidated statements and internal control over quarterly review of Financial reporting, quarterly review of financial statements included in Form 10-Q and services in connection with consents and registration statements	$241,166	$136,020
Audit Related Fees – Services in connection with application of accounting pronouncements and acquisitions, SEC matters, and employee benefit plan audits	18,236	41,494
Tax Fees– Preparation of federal and state income tax and other returns, tax planning and consulting	23,248	16,557
All other fees	-	-
Total	$282,650	$194,071

The Audit Committee adopted pre-approval policies and procedures which require the Audit Committee to pre-approve the audit and non-audit services performed by the Company's independent registered public accounting firm in order to assure that they do not impair the auditor's independence. One hundred percent of the fees set forth above were approved by the Audit Committee. The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

PROPOSAL 2 – Ratification of Appointment of Independent Registered Public Accounting Firm

The Board of Directors has appointed T.E. Lott & Company, a firm of independent certified public accountants, as auditors for the fiscal year ending December 31, 2017.

The Company has been advised that neither the firm nor any of its partners has any direct or any material indirect financial interest in the securities of the Company or its subsidiaries, except as auditors and consultants on accounting procedures and tax matters. The Board of Directors anticipates that representatives of T.E. Lott & Company will be in attendance at the Meeting, to make a statement or be available to respond to questions.

Although not required to do so, the Board of Directors has chosen to submit its appointment of T.E. Lott & Company for ratification by the Company's shareholders. If this proposal does not pass, the Board of Directors will reconsider the matter.

Vote Required to Ratify the Appointment of our Independent Registered Public Accounting Firm.

Proposal will be approved if votes cast in favor of the proposal exceeds votes cast against it.

Recommendation of the Board of Directors

OUR BOARD RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PROPOSAL 3 – Advisory Vote on the Compensation of our Named Executive Officers

Pursuant to Section 14A of the Exchange Act, we provide our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers, as disclosed in this Proxy Statement in accordance with the rules of the SEC. This vote does not address any specific item of compensation but rather the overall compensation of our named executive officers and our compensation philosophy and practices as disclosed in the section titled "Executive Officer Compensation." This disclosure includes the "Compensation Discussion and Analysis" and the "Executive Compensation Tables," including the accompanying narrative disclosures. At the 2016 annual meeting of shareholders, we provided our shareholders with the opportunity to cast a non-binding advisory vote regarding the compensation of our named executive officers as disclosed in our proxy statement for the 2016 annual meeting of shareholders. Our shareholders approved the "say-on-pay" proposal by approximately 74% of our shareholders whose shares were present at the 2016 annual meeting and who voted or affirmatively abstained from voting (excluding broker non-votes). We are again asking our shareholders to vote on the following resolution:

RESOLVED, that the shareholders of First Bancshares Inc. (the "Company") approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the Proxy Statement for the Company's 2017 Annual Meeting of Shareholders pursuant to Item 402 of Regulation S-K of the rules of the Securities and Exchange Commission.

We understand that executive compensation is an important matter for our shareholders. Our core executive compensation philosophy and objectives continue to be designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and which aligns the interests of the executive officers with the Company's overall business strategy, values and management initiatives intended to reward executives for strategic management and the enhancement of shareholder value and support a performance-oriented environment that rewards achievement of internal goals. In considering how to vote on this proposal, we encourage you to review all the relevant information in this Proxy Statement, including the "Compensation Discussion and Analysis", the "Executive Compensation Tables," and the rest of the narrative disclosures regarding our executive compensation program in the section titled "Executive Officer Compensation".

While this advisory vote, commonly referred to as a “say-on-pay” vote, is not binding, the Board of Directors and the Compensation Committee value the opinion of our shareholders and will consider the outcome of the vote when making future compensation decisions for our named executive officers.

Vote Required to Approve, on an Advisory Basis, the Compensation of Our Named Executive Officers

Proposal will be approved if votes cast in favor of the proposal exceed votes cast against it.

Recommendation of the Board of Directors

OUR BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 4 – Advisory Vote on the Frequency of Future Advisory Votes on the Compensation of Our Named Executive Officers

Section 14A of the Exchange Act provides that shareholders must be given the opportunity to vote, on a non-binding, advisory basis, as to their preference on how frequently we should seek future “say-on-pay” votes on the compensation of our named executive officers as disclosed in this Proxy Statement. Accordingly, we are asking our shareholders to indicate, on a non-binding, advisory basis, whether they would prefer a “say-on-pay” vote on the compensation of our named executive officers to occur every one, two or three years. Shareholders also may, if they wish, abstain from casting a vote on this proposal.

The Board of Directors recommends that we hold a “say-on-pay” vote on the compensation of our named executive officers every year. In formulating its recommendation, the Board of Directors considered that an annual advisory vote on executive compensation will allow our shareholders to provide us with real-time and direct input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year. The Board of Directors also believes that an annual vote enhances transparency and is consistent with our efforts to engage in an ongoing dialogue with our shareholders on executive compensation and corporate governance matters.

As an advisory vote, this proposal is not binding on the Company, the Board of Directors, or the Compensation Committee. However, the Compensation Committee and the Board of Directors value the opinions expressed by our shareholders in their votes on this proposal and will consider the outcome of the vote when making future decisions regarding the frequency of conducting the advisory vote on executive compensation.

Vote Required to Approve, on an Advisory Basis, the Frequency of Future Advisory Votes on the Compensation of Our Named Executive Officers

Shareholders have the opportunity to choose among four options (holding the vote every one, two or three years, or abstaining) and, therefore, shareholders will not be voting to approve or disapprove the recommendation of the board. Because this advisory vote has three possible substantive responses (every one year, every two years, or every three years), we will consider shareholders to have “approved” the frequency selected by a plurality of the votes cast.

Recommendation of the Board of Directors

OUR BOARD RECOMMENDS THAT YOU VOTE THAT WE HOLD AN ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS EVERY YEAR.

SOLICITATION OF PROXIES

The cost of soliciting proxies from shareholders will be borne by the Company. The initial solicitation will be by mail. Thereafter, proxies may be solicited by directors, officers and employees of the Company or the bank, by means of telephone, email or other electronic means, advertisements or personal contact, but without additional compensation therefore. The Company will reimburse brokers and other persons holding shares as nominees for their reasonable expenses in sending proxy soliciting material to the beneficial owners.

PROPOSALS OF SHAREHOLDERS

Any proposal of a shareholder to be presented for action at the annual meeting of shareholders to be held in the year 2018 must be received at the Company's principal executive office no later than December 13, 2017, if it is to be included in the Company’s proxy statement. After this date, any proposal to be presented at the annual meeting but not included in the Company’s proxy statement will be considered untimely if not delivered on a date on or before the later of: (1) 60 days prior to the 2018 annual meeting or (2) 10 days after a notice of the meeting is provided to the shareholders. To ensure prompt receipt by the Company, the proposal should be sent certified mail, return receipt requested. Proposals must comply with the Company's bylaws relating to shareholder proposals and certain Securities and Exchange Commission Regulations in order to be included in the Company's proxy materials.

The accompanying Proxy is being solicited by the Company.