



# The First Bancshares, Inc.

## 2019-2020

### Corporate Social Responsibility Report

## A Message from Our President and CEO

In 1996, a group of local business leaders in Hattiesburg, MS sat on a back porch to discuss their idea for a new financial institution. This new bank would be focused on supporting the communities it served and building sustainable long-term relationships with clients in those communities. The vision was to foster economic growth and generate superior returns to our stakeholders.



From a back porch in rural Mississippi to a \$5 billion asset multi-state financial institution, with 84 locations and 800 team members across the southeast, our success has been based upon the vision of our founders. They believed that our Company had a responsibility to improve economic growth in all segments of the markets we serve, and that the success of our Company would be closely tied to the success of our markets.

The First has a primary mission to invest and serve under-served markets. We are one of the largest Certified Community Development Institutions (CDFI) in the country. This is a designation by the U.S. Treasury for financial institutions in which 60% of its business activities are in distressed markets. We have been a CDFI since 2010 and have been awarded over \$5.2 million grants for our investments in these communities to help support economic growth and job creation.

Our Company believes that supporting its markets by investing in distressed communities, providing financial education and generating access to affordable housing are fundamental building blocks to improve the standard of living across all of our markets.

This report is our first publication documenting how we accomplish our mission of supporting our communities helping to provide long-term sustainable changes in those markets. Although this is our first report, our Company has a long history of being mission driven and of being a good corporate citizen. It is embedded in our culture as set out by the vision of our original founders.

On behalf of our 800 team members and our Board of Directors, it is a pleasure to serve you.

Sincerely,

A handwritten signature in dark ink, appearing to read 'M. Ray Cole, Jr.' with a stylized flourish at the end.

M. Ray "Hoppy" Cole, Jr.

President and CEO

The First Bancshares, Inc.

The First A National Banking Association

## Overview

This report highlights material topics and impacts of our Environmental, Social and Corporate Social Responsibility activities. Throughout this report, "The First" or "the bank" refers to The First, A National Banking Association. "FBMS" or "the Company" refers to The First Bancshares, Inc. "We," "us" or "our" refers to both FBMS and The First.

## Forward-Looking Statements


This documents contain statements that constitute "forward looking statements" within the meaning of, and subject to the protections of, the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the information known to, and current beliefs and expectations of, the Company's management and are subject to significant risks and uncertainties. There are several factors that could cause results to differ materially from those described in the forward-looking statements. For a discussion of such factors, as well as a discussion of the risks and uncertainties that may affect our business, can be found in our Annual Report on Form 10-K and in other filings we make with the Securities and Exchange Commission, which are available on the SEC's website, <http://www.sec.gov>. Undue reliance should not be placed on forward-looking statements. The First Bancshares, Inc. disclaims any obligation to update such factors or to publicly announce the results of any revisions to any of the forward-looking statements included herein to reflect future events or developments.

# Contents

## Contents

Highlights.....	1
Community Involvement .....	2
<i>Local Engagement</i> .....	3
<i>Engagement Through Product Offerings</i> .....	6
Employees.....	8
<i>Benefits Highlights</i> .....	8
<i>Employee Development</i> .....	8
Environment.....	8
Governance .....	9
<i>Director Independence</i> .....	9
<i>Voicing Concerns To The Board</i> .....	9
<i>Clawback Policy</i> .....	9
<i>Stock Ownership Guidelines</i> .....	9
<i>Hedging</i> .....	10
<i>Diversity and Inclusion</i> .....	10
Risk Management and Cybersecurity .....	10





The First is a certified community development financial institution with a primary mission to promote community development in the communities we serve by providing financial products and services to residents and businesses located there, and to provide technical assistance in conjunction with its provision of financial products and services, all while maximizing shareholder value. In fulfilling this mission, we strive to:

1. Continue to maintain public confidence by managing a safe and sound bank.
2. Meet the financial needs of our customers with quality financial products and services.
3. Invest in the communities we serve to foster economic growth with particular emphasis on the under-served markets within our franchise area.
4. Ensure that the makeup of our employees, management team, and board of directors are reflective of the diversity of the communities we serve.
5. Focus on profitable, controlled growth thereby enhancing shareholder value.
6. Create opportunities for our employees to attain personal goals and professional achievement while fostering an inclusive environment through policies and procedures designed to nurture and develop the diverse talents of all of our associates.
7. Contribute to the quality of life in our communities by being a good corporate citizen.

## Highlights

### 2019 ABA Foundation Community Commitment Awards Certificate – Economic Inclusion

The ABA Foundation Community Commitment Awards is a national program that recognizes and promotes the many valuable ways banks of all sizes and charters contribute to economic growth, community development and enhancing the quality of life in their communities. The First was acknowledged for our support of Economic Inclusion through our First AID program. Since 2011, The First has offered a small dollar loan program that partners with nonprofit financial education organizations for mandatory counseling before a loan is originated. A second chance checking account is also offered within the program.

### In July 2019 The First was named “Best Bank” in Signature Magazine’s Best of the Pine Belt

The Best of the Pine Belt Awards Show is a gala, red-carpet evening and one of the highlights of FestivalSouth. The award show is held at the historic Saenger Theater in downtown Hattiesburg, featuring special guests, awards presentations, live music and more. It is one of the hottest tickets of the festival. More than 634,000 votes created a guide to the Pine Belt’s favorite people, places and things that make the area great.

### In December 2019, our First Florida Bank group was selected as the 2019 Best Bank- 2019 Best of Destin Award

Winners receive the honor of being named the BEST IN DESTIN and are listed in VIP Destin Magazine as the reader’s choice for their respective categories in certain issues. Winners are provided use of the BEST IN DESTIN logo for one year. Winners are acknowledged and celebrated at VIP Destin Magazine’s annual Black Tie Ball.

### 2020 ABA Foundation Community Commitment Awards Honorable Mention – Supporting Military Families

The First was acknowledged at the 2020 ABA Foundation Community Commitment Awards for its support of military families. Hattiesburg is the home of Camp Shelby, which is the largest US National Guard training base in the nation. The First, in coordination with The City of Hattiesburg, The University of Southern Mississippi, William Carey University, Camp Shelby, Federal Home Loan Bank of Dallas and other non-profit partners, has established a program designed to address housing gaps in the City of Hattiesburg, many of which directly support military families and veterans.

FBMS has recorded 9 years of record earnings. During its growth over the past 9 years, the Company has continuously diversified its balance sheet.



## Community Involvement

In furtherance of fulfilling our mission to provide financial services to the communities we serve while maximizing shareholder value, we invest in the communities we serve to foster economic growth. We put a particular emphasis on investing in the under-served markets within our franchise area and contributing to the quality of life in our communities by being a good corporate citizen.

### ***CDFI Designation***

In 2010, the Company became a certified Community Development Financial Institution (CDFI). CDFI's play an important role in generating economic growth and opportunity in low-income communities by providing access to financial products and services for local residents and businesses. In 2019 and 2020, The First received \$2,022,665 from the CDFI Fund, a division of the US Treasury, to assist our communities with financial products and services. We leveraged that support for over \$25,000,000 in direct financial services.

### ***FHLB Grants***

The First is a member of the Federal Home Loan Bank (FHLB) of Dallas. FHLB Dallas is a member-owned cooperative that supports housing and economic development in the communities served by their member financial institutions in Arkansas, Louisiana, Mississippi, New Mexico, and Texas. The FHLB operates the Affordable Housing Program (AHP), which assists families with their affordable housing needs. In 2019 and 2020, The First deployed \$920,000 in funding for affordable housing efforts. The FHLB Homebuyer Equity Leverage Partnership (HELP) program assisted 24 first time homebuyers in 2019 and 38 in 2020 for a total of \$173,495 in 2019 and \$216,500 in 2020, respectively. The HELP program is a set-aside program that provides down payment and closing cost assistance to very low- to moderate-income, first-time homebuyers. The First utilized the FHLB Special Needs Rehabilitation Assistance Program (SNAP), a set-aside program that provides rehabilitation assistance to very low- to moderate-income, special needs homeowners. In 2019, The First utilized \$77,405 in SNAP funding to assist 13 special needs homeowners with needed home rehabilitation. 10 homeowners received \$57,897 in 2020. The First also partnered with six nonprofits to provide \$26,175 in the Partnership Grant Program which is a 5:1 matched program for housing related nonprofits.

### ***BankOn***

The Cities for Financial Empowerment (CFE) Fund works directly with national and regional financial institutions to encourage the widespread availability of safe, low cost transactional products. One key challenge facing unbanked and underbanked individuals has been a lack of safe and appropriate accounts offered by mainstream financial institutions, particularly those without overdraft. The CFE Fund has worked closely with the BankOn National Advisory Board and other key stakeholders to develop the BankOn National Account Standards. Inspired by the Federal Deposit Insurance Corporation's Model Safe Accounts Template, these standards provide local programs with a benchmark for account partnerships with financial institutions, including their local partners. In 2019, The First's First AID checking account was certified by the Cities for Financial Empowerment Fund as an account that met the newly updated BankOn National Account Standards. Accounts certified as meeting these Standards support local Bank On coalition efforts to expand access to safe and appropriate financial products and services to the over 63 million people outside of the mainstream financial system. The First's First AID checking account was re-recertified by the Cities for Financial Empowerment Fund in 2020.

The First's partners with Bank On coalition programs in Hattiesburg, Mississippi; Mobile, Alabama; and Baton Rouge, Louisiana. The First was the founding member of Bank On Hattiesburg and the lead bank. Bank On South Alabama supports Mobile and Baldwin Counties. Bank On Baton Rouge supports the entire Baton Rouge MSA. These coalitions are made up of member banks and credit unions that perform various outreach efforts that promote financial literacy and education to unbanked and underbanked communities.



### ***American Banking Association***

The First participated in 'Teach a Child to Save Day' a national initiative that encourages children to develop good saving habits. The First had employees visit 47 schools and non-profits across our 5 state footprint, reaching 3,073 students. The First also participated in 'Get Smart about Credit' Day, a national campaign created by the American Banking Association designed to help counsel young people on responsible credit habits. The First had employees visit 54 schools across our 5 state footprint, reaching 3,716 students. The American Bankers Association Foundation, a 501(c)(3), provides free programs and resources to help banks support the financial well-being of their customers and communities. Of the 54 schools, 32 were CRA qualified. Despite the difficulties presented by the COVID-19 pandemic in 2020, we continued to provide financial education throughout the year through virtual programming.

### ***Partnerships with Universities***

The Economic Outlook Forum is a program for the Hattiesburg Pine Belt region to learn about the economy within our area. The First is a sponsor, partnering with the University of Southern Mississippi. The annual event has hosted Top Economic Leaders in the country, Federal Reserve Economist, State Economist and Economic Development specialist.

On March 5, 2020, The First and the University of Southern Mississippi announced that The First donated \$150,000 toward the construction of a new athletic academic center. Simultaneously with the gift, The First also announced that it would begin a financial literacy program for all Southern Miss student-athletes. Both the donation and financial literacy program are demonstrative of The First's commitment to financial education and building strong communities

### ***Partnerships with Early Childhood Education***

In 2013, the Mississippi Department of Education created the Early Learning Collaborative Act, a model through which school districts, nonprofit groups, Head Start centers and private childcare providers partner to deliver high-quality education to 4-year-olds in their communities. In 2020, The First awarded \$800,000 to the Petal School District, the Hattiesburg Public School District, the Picayune School District and the Lamar County School District to further early learning efforts in those districts.



## **Local Engagement**

### ***Mississippi***

#### ***Area Development Partnership – Hattiesburg***

The ADP is a private, non-profit organization dedicated to improving the quality of life for citizens of Forrest, Lamar and Perry counties through community and economic development. The ADP unites hundreds of individuals, businesses and organizations, creating a unique agency working to enhance the region's economy and build a better community. In 2019, The First's President and CEO, Hoppy Cole, was installed as the Chairman of the Board of Directors of the ADP to implement programs for 2020. The First over the years has sponsored many of the ADP's Programs. In 2019, The First sponsored ADP's Annual Meeting, Corporate Golf Challenge, Mission: Possible and Jumpstart to Success. Jumpstart to Success is an interactive career expo for 8th and 9th graders in Forrest, Lamar, and Perry Counties. It is part of the ADP's Post Graduate Success Support Initiative to expose students to career opportunities available in the region. Jumpstart to Success showcases local businesses, universities, community colleges, and more to encourage students to take the first steps in planning for their future. The First has two employees that serve on the ADP's Leadership Pinebelt Steering Committee and one employee elected into the class of 2020 emerging leaders.





### *Revitalizing Mississippi – The Mississippi Aquarium*

On August 29, 2020 the Mississippi Aquarium opened in downtown Gulfport. Opening on that date holds much significance for the state of Mississippi, as 15 years ago, Hurricane Katrina transformed the coastline. The Mississippi Aquarium has now transformed the Coast making Mississippi stronger than ever. The Mississippi Aquarium is a \$93 million revitalization of Coastal Mississippi. Mississippi Aquarium will tell the incredible story of all of Mississippi's aquatic resources from the Delta to the coastline and the remarkable connection that ties all of the state's natural resources uniquely together. Featuring the warm waters of the Gulf of Mexico and beyond, the roaring waters of the mighty Mississippi River and the wetlands and marshes of the tranquil bayous, the story of Mississippi's natural resources had never been told in this extraordinary way. The Aquarium understands that living in Mississippi is about the outdoor experience and the relationships of its people. Mississippi Aquarium represents education, conservation and community. The Aquarium will provide visitors many opportunities to be entertained and fully immersed in the aquatic wonder that Mississippi has to offer. The First became a lead sponsor with a \$250,000 gift.

### *Extra Table*

Extra Table is a non-profit organization committed to ending hunger by providing food pantries and soup kitchens with the new and healthy food they need to feed the hungry in their community. In 2020 The First became the title sponsor of the Tackle Hunger Giving Challenge.

With the changes brought about by the COVID-19 pandemic, Extra Table – a Hattiesburg nonprofit organization that works with a variety of food distributors and brokers to provide nutritious meals to food pantries around Mississippi – has scrapped its calendar of events for 2020 and replaced them with the Tackle Hunger Giving Challenge, a football-related fundraising competition designed to ensure Mississippians have food throughout the fall and into 2021.

## **Alabama**

### *Prodissee Pantry Volunteer Food Drive*

Prodissee Pantry is a non-profit community ministry providing emergency food and disaster relief. Providing food to single parents, unemployed and under-employed households, families in transition, homeless, retirees and grandparents raising grandchildren is always deemed an emergency. Food distribution is every Tuesday 9am - 11:30am for all Baldwin County Residents. The First has seven branches in Baldwin County and support Prodissee Pantry through a multi-layered approach. Prodissee Pantry offers its clients other community services such as financial assistance and medical referrals by partnering with other non-profits as well as community organizations. Our team members participate during the distribution days by providing financial counseling to those that are looking for assistance with budgeting and financial challenges. Our team also volunteers at the Prodissee Pantry during the distribution day by assisting clients with getting registered, completing food request lists, and distributing food to clients. Finally, all Baldwin County branches participate in a Holiday Food Drive where we collected over 450 pounds of food which translates, according to Prodissee Pantry, to \$1,246.50 (\$2.77 per pound).



## **Florida**

### *Florida Prosperity Partnership Roundtable*

November 6, 2019 - The First sponsored the Florida Prosperity Partnership Roundtable in Tallahassee, Florida at the INIE – The Institute for Nonprofit Innovation and Excellence. The First took the lead on inviting nonprofits for a participating session with the theme: Financial 5 and the Future of Floridians. All types of Community Developers and Financial Capability practitioners participated in an action planning session to share insights about the past &



future of Leon County. In attendance were community leaders from the Capital Area Community Action Agency, Head Start Program, Big Brothers Big Sisters, 2nd Harvest Food Bank, United Way, Leon County School Board, Florida Department of Education and many other Community Liaisons. On November 7, 2019, The First sponsored the same event in Pensacola, Florida at Habitat for Humanity. The theme was the same and several partnerships were developed within these two programs.

### ***Georgia***

July 15th – August 3, 2019 – The Thomasville, Georgia branch held a Back to School Supply Drive for two local County Schools - Cross Creek Elementary School and Thomas County High School. Both of these Schools have 100% Free Lunch programs and the documented poverty rates are well above 75% in each of these schools. The First worked with the schools to help students get ready for the 2019-2020 Academic School Year. The First hosted boxes inside their branch office. The staff helped collect school supplies from customers and employees during this time. The First purchased backpacks to complete the donation process. Employees then filled all the backpacks with the donated items to deliver over 100 filled backpacks to the Annual County Drive for the two chosen schools. Additional school supplies, such as extra pencils, pens, markers and notebook filler paper were passed out to students for the upcoming year. There was also a Bash Day that hosted students along with their families to visit the event and pick out supplies needed for back to school from their specific School table.



### ***Louisiana***

Mid City Redevelopment Alliance (the "MCRA") is a 501(3)(c) nonprofit organization located in Baton Rouge that develops and promotes the growth and revitalization of the area by attracting new, and retaining current, residents and businesses. One of the ways this happens is through the Home Ownership Center initiative, which provides home buyer workshops to persons and families in the community as well as the surrounding areas. The First and its partners collaborate with MCRA to provide mortgage loan officer(s) to speak with future homeowners on the process of buying a home. The purpose of the home buyer workshop is to aid in removing the complications of the home buying process. We cover key points of the home buying process. By having this level of conversation during the home buyer workshop, we are able to give potential home buyers a good idea of how much home can actually be afforded and what to expect from the loan process. This year, due to COVID-19 and instituted restrictions, workshops are happening virtually and still provide an opportunity for us to assist our community partner agencies in serving our local communities.

## **Engagement through product offerings**

The First offers many products that are designed to assist those in need in its community, including:

### ***First AID Checking and Lending Programs***

The First AID program was developed to assist customers who need a small, short-term loan and second chance checking account. The products were designed for customers to learn more about financial education to enhance credit. The loan program is modeled after the FDIC Small dollar loan program requires financial education and has a portfolio of 157 loans and over \$127,000 since 2017. The First AID Checking account has been certified by the Cities for Financial Empowerment Fund having met the Bank On National Account Standards since 2018. These standards help reduce the barriers to open a checking account.





### ***VA Home Loans***

A mortgage loan available through a program established by the United States Department of Veterans Affairs - available to active and Veteran service personnel and their families with no down payment. The program allows up to 103.3% financing with no PMI. The First has originated 233 loans for \$57,678,937 since 2017. In 2020, we originated 63 loans for \$17,596,676.

### ***FHA Home Loans***

A mortgage insured by the FHA, designed for lower-income borrowers. Primarily for people who cannot afford a conventional down payment or otherwise do not qualify for PMI. The First has originated 678 loans for \$184,464,467 since 2017. In 2020, we originated 193 loans for \$108,652,764.

### ***USDA Rural Development Loans***

A zero down payment mortgage for eligible rural and suburban homebuyers. Known as the USDA Rural Development Guaranteed Housing Loan Program by the United States Department of Agriculture. The program allows seller to pay for closing costs and the property purchased must be in an eligible area. The First has originated 258 loans for \$54,672,314 since 2017. In 2020, we originated 113 loans for \$19,556,034.

### ***Mortgage Revenue Bonds***

Mortgage Revenue Bonds are bonds issued by local or state Housing Finance Agencies (HFAs). The HFA issues the tax-free bonds to investors. Funding from the sale of these bonds is to finance affordable mortgages for low-and moderate-income individuals. The First has originated 157 loans for \$27,253,824 since 2017. In 2020, we originated 73 loans, \$10,312,805

### ***Mortgage Credit Certificates***

A Mortgage Credit Certificate issued by a state or government that allows a taxpayer to claim a tax credit for some portion of the mortgage interest. The program is designed to help first-time homebuyers offset a portion of their mortgage interest on a new mortgage as a way to help qualify for a loan. The First has originated 28 loans for \$6,956,935 since 2017. In 2020, we originated 13 loans for \$4,579,742.

### ***Visa Secured Credit Card and College Real Rewards Card***

The Secured Credit Card is used to build or rebuild credit. This card is secured by cash and reports to the credit bureau. The card is linked to a savings account. The First started this program in January 2018, and the program currently has 255 secured cards.

## **COVID-19 Pandemic Response**

When the COVID-19 pandemic hit, The First moved quickly to protect the health of our employees and to work with our customers experiencing difficulties as a result of this virus. To that end, we:

- Informed employees of CDC and internal recommendations, procedures and protocols concerning: social distancing, business travel, sanitation and disinfection; weekly system wide calls to re-enforce procedures and keep team members up to date on current developments
- Distributed inventory of masks, sanitizers and disinfectants system-wide across our branch network
- Increased the frequency of facility janitorial services
- Originally restricted access to lobbies to "by appointment only" and maintained full drive thru service – lobbies resumed normal hours and access in early October
- Moved as many employees to work by remote access
- Rotated access as much as practical for employees whose function could not be performed remotely



- Provided lunch daily to on site personnel to limit their off premise exposure during the day; rotated purchasing our meals from our restaurant clients in each market to help support them during this emergency
- Assisted customers by granting modifications, peaking at \$676 million at April 30, 2020 or ~22% of loans; modifications have since declined to \$109 million as of September 4, 2020 or 3.7% of loans
- Improved and upgraded electronic delivery and execution of documents system wide to limit in person exposure but maintain business volume
- Participated actively in the Paycheck Protection Program to assist our commercial customers
  - As of July 23, we have processed and funded 3,230 loans totaling \$258.6 million (~6% of total loans)
  - Funded loans to a variety of industries including Hotels, Restaurants, Retail, Convenience Stores and Healthcare
  - Average loan size of \$82,000

## PPP Success Story

Robert St. John has spent almost four decades in the restaurant business. Thirty of those years have been as the owner of the Purple Parrot, Crescent City Grill, Mahogany Bar, Branch, Tabella, Ed's Burger Joint, The Midtowner, and Midtown Donut in Hattiesburg, Mississippi. His restaurant—The Purple Parrot Café—has been named the best fine dining restaurant in Mississippi and just received its ninth Four-Diamond rating from the AAA Travel Guide. Additionally, in 2011, AAA named Purple Parrot Café the second-best fine-dining restaurant in the South (just behind Commander's Palace). Tabella has been voted "Best Italian" in Mississippi, Crescent City Grill has been voted one of "Mississippi's Top Ten" restaurants, and the Mahogany Bar has been voted among the "Best Beer Bars in America" for the past three consecutive years. St. John has been named the state's top chef three consecutive years and was honored as Mississippi Restaurateur of the Year. St. John has been featured in USA TODAY and appeared on The Food Network, The Travel Channel, National Public Radio, Martha Stewart Living, and the Turner South network. In 2009, St. John founded Extra Table, a statewide non-profit organization that ships over 20 tons of healthy food to over 32 Mississippi soup kitchens and mission pantries every month.

"Two weeks into the shutdown I was extremely worried", "The restaurant business is a volatile and risky business in normal times. Throw a global pandemic into the mix and it's a three-alarm dumpster fire in the express lane of the hot-mess express. There was a point in time, in the early days, when it looked like all of our businesses were going to close, I was going to have to declare bankruptcy, and the 300 team members who depend on the decisions I make to feed their families were going to be looking for new jobs" stated St. John.

The government stepped up and the Paycheck Protection Program saved our businesses in many ways. We have six restaurants and two bars. Three of the companies were able to take advantage of the PPP. In the case of a couple of the others, it didn't make practical business sense at the time. The PPP was a lifesaver, although it was a temporary lifesaver. It was an eight-week solution—which was later modified to a 24-week solution—to what we know now is an 18-month problem.

"Dealing with The First during this crisis has been a Godsend. When we were applying for PPP loans for our restaurants, their officers and staff worked all weekend—day and night—on our behalf, and went way beyond the call of duty to make sure everything was handled properly, professionally, and efficiently." The First is the consummate example of a community bank. They live the "local" philosophy. As someone who has spent almost 40 years in the restaurant industry, I know hospitality and service when I see it. The First could offer a master class in both."



## Employees

In fulfilling our mission, we strive to provide opportunities for our employees to attain personal goals and professional achievement.

### ***Benefits Highlights***

In addition to providing benefits we believe should be standard for any company (e.g., Health Insurance, Dental and Vision Insurance, 401(k)'s), we strive to provide a healthy work environment for its employees. A strong example of such commitment is our Grief Counseling and Confidential Assistance Program, which provides counseling services to employees on a confidential basis to ensure our employees get the help they need. In addition, we provide free banking services to our employees, and also provide beneficial loan and overdraft policies to help them achieve their financial goals.

### ***Employee Development***

Our Intranet Portal, known at FirstStop, utilizes technology to allow staff to work more efficiently in support of our strategic goals, enhances the effectiveness of our communication across the organization, and provides access to documents and knowledge in an organized, consistent fashion. FirstStop increases employee engagement and collaboration throughout the organization. The First uses tools such as videos, discussion boards, and image files to increase familiarity with other employees throughout the organizational footprint. Our future goals include adding Management Blogs to increase communication between all levels of employees and implementing eLearning courses to share knowledge more efficiently.

### ***Diversity and Inclusion***

We believe in the importance of diversity and value the benefits that diversity can bring, and we are dedicated to fostering and maintaining an inclusive culture that solicits multiple perspectives and views and is free of conscious or unconscious bias and discrimination. To that end, we have implemented and maintain a detailed Diversity, Equity and Inclusion Policy.

## Environment

We are dedicated to doing our part to reduce our environmental impact.

### ***E-Statements***

We encourage our customers to enroll in our paperless e-statement program free of charge. Approximately 44% of our customers have enrolled in the service, reducing the amount of paper that we use in connection with our product and service offerings.

### ***Digital Banking***

We also offer mobile and digital banking to our customers without any additional charge. These services enable our customers to perform account inquiries, deposit checks, transfer between accounts, pay bills, and manage their debit cards without the need to make a trip to the branch. We have 29,488 clients who are enrolled in mobile banking.

### ***Commercial Remote Deposit Capture***

Our Commercial Remote Deposit Capture service also reduces the need for our commercial clients to visit our branches to deposit checks. We currently have 243 active commercial clients who utilize this service.

### ***Energy Efficiency***

We are actively working to improve the energy efficiency at each of our branch locations. To date, we have replaced the original lighting in fifteen of our branch locations with high-efficiency LED lighting, and intend to implement similar projects at each of our branch locations.





## Governance

### *Director Independence*

As a part of our commitment to maintaining corporate governance best practices, and the independence of our board of directors, 10 out of 11 directors of FBMS are independent. In addition, the positions of Chief Executive Officer and Chairman of the Board of Directors are separated, with the Chairman of the Board being an independent, non-executive director.

### *Voicing concerns to the board*

The Audit Committee of FBMS and the non-management directors have established procedures to enable any employee who has a concern about the Company's conduct, policies, accounting, internal accounting controls or auditing matters, to communicate that concern directly to the Board of Directors of the Company through written notification directed to the Chairman of the Audit Committee.

### *Clawback policy*

As a matter of policy, the Company believes that incentive compensation awards that are made on the basis of financial metrics should contain clawback provisions that would allow the Company to recoup awards under certain circumstances, such as a material misstatement of financial results. The Compensation Committee of the Company implemented a clawback policy applicable to all short-term and long-term incentives beginning in 2018. The Company's philosophy provides that the Company will not reprice options, stock appreciation rights, or other equity awards, or buy back "underwater" stock options from those who hold option grants for cash. The Company's Board of Directors approved an amendment to the 2007 Plan to prohibit repricing of equity awards granted under the plan and to prohibit cash buyback or exchange for other stock awards of underwater options and stock appreciation rights.

### *Stock ownership guidelines*

The Company has established expectations for ownership of its common stock by the Chief Executive Officer and Chief Financial Officer. Under these guidelines, the Company's Chief Executive Officer is expected to attain an investment position in FBMS's common shares equal to two times his or her base salary and the Company's Chief Financial Officer is expected to attain an investment position in FBMS's common shares equal to one times his or her base salary. Exceptions to these ownership guidelines may be approved by Compensation Committee of the Company for good reason. At December 31, 2019, all of the Company's Named Executive Officers were in compliance with the ownership guidelines.

### *Hedging*

Certain transactions in the Company's equity securities, or which are linked to the value of the Company's equity securities, may be considered short term or speculative in nature. The Board of Directors of the Company discourages directors and officers from engaging in derivative or speculative transactions involving unvested Company stock, including hedging, holding unvested stock in a margin account, or pledging unvested stock as collateral for a loan. The Board of Directors of the Company has not yet implemented a policy that prohibits directors and officers from engaging in derivative or speculative transactions, but plans to do so in the near future.

## Diversity and Inclusion

### *Policy for board nominations*

The Board of Directors of the Company has adopted a written Diversity Policy to assist in its search for qualified individuals to serve on the Board of Directors of the Company and The First. The Diversity Policy states that the Corporate Governance Committee of the Company should strive for inclusion of diverse groups, knowledge, and



viewpoints. For purposes of the composition of the Board of Directors, diversity includes, but is not limited to, business experience, geography, age, gender, ethnicity, race, sexual orientation, marital and family status, gender identity, personal style, disabilities, nationality, religion, veteran and active armed service status, or other similar characteristics. To accomplish this, the Corporate Governance Committee of the Company may retain an executive search firm to help further the its diversity objectives. The Company's Corporate Governance Committee will also periodically review the Board Diversity Policy and the director selection process to assess the policy's effectiveness in promoting a diverse Board of Directors and to ensure that diverse candidates are included in the consideration and selection process.

## Risk Management and Cybersecurity

The Board of Directors of The First (the "Board") recognizes the need to monitor the various types of risk inherent within the business of banking. As such, the Board has created a Risk Department to aid in the identification, evaluation, measurement, monitoring and reporting of risks associated with the activities conducted by The First. The Risk Department helps management address and understand their responsibilities and requirements in fulfilling risk management duties that aid in maintaining a safe and sound institution while enhancing shareholder value.

The First's cybersecurity strategy includes:

- Top-down focus on cybersecurity, led by the Board, executive management, and senior leadership
- Implementation of cybersecurity through highly skilled personnel, leveraging proven technologies to identify and mitigate threats
- Deployment of multilayered defenses to identify, protect, detect, respond, and recover from any threats
- Robust governance and oversight to enforce adherence to cybersecurity policies and standards
- Promotion of cybersecurity through employee awareness and job-specific training
- Collaboration with threat intelligence organizations, law enforcement agencies, and partners to keep abreast of cybersecurity threats

The Board takes a positive approach to risk management, not only looking at the negative risks applicable to the banking industry, but also reviewing the impact of not taking opportunities or not capitalizing on corporate strengths. All risk management activity is aligned to the aims, objectives and priorities of The First, and is designed to protect and enhance the reputation and standing of The First. The Risk Department aids in ensuring that the Board is apprised of the aggregate amount of risk identified in its ongoing risk monitoring processes.

The Risk Management department helps to ensure that the management of risk in the organization is proactive and reasonable. Risks are identified, objectively assessed, and appropriately managed. The aim is to anticipate and, where possible, control risks rather than dealing with their consequences. All risk is not equal, the Company recognizes the variances of risk and also considers the significance of each issue in terms of financial, reputation and regulatory consequences. For some key areas, the likelihood of a risk occurring is relatively low but the impact on the bank is high. Those areas are still monitored, even though the risk appears small. This allows The First to minimize the negative effect of unlikely events which might occur.

The First is committed to protecting the personal and financial information of its customers. Our policies, processes, and controls regarding information security are subject to numerous federal laws and regulations, including the Sarbanes-Oxley Act and the Gramm Leach Bliley Act. Examinations and audits are conducted on a regular basis to ensure appropriate safeguards are in place. All employees receive information security training annually. Cybersecurity controls are reviewed and updated routinely to ensure appropriate threat mitigants are in place. The First's networks and systems are monitored 24/7, every day of the year. The First makes ongoing investments in new and improved cybersecurity solutions as they become available in order to protect the confidentiality and integrity of customer data.