Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, C. Michael Scott
Name of the Holding Company Director and Official

Vice President/Director
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

03/28/2019
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☒ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

none
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

First San Benito Bancshares, Corporation
Legal Title of Holding Company

1151 W Highway 77 / P.O. Box 2030
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
San Benito	TX	78586

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Carlos Muniz	Treasurer

956-276-5623
Area Code / Phone Number / Extension

956-399-0212
Area Code / FAX Number

cmuniz@fcbtx.com
E-mail Address

www.fcbweb.net
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? (0=No, 1=Yes) 0

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

First San Benito Bancshares, Corporation
San Benito, Texas
Fiscal Year Ending December 31, 2018

Report Item

2a. Organizational chart

FIRST SAN BENITO BANCSHARES, CORPORATION
San Benito, Texas
Incorporated in Texas
LEI: N/A

100%	**100%**
FIRST COMMUNITY BANK **San Benito, Texas** **Incorporated in Texas** **LEI: N/A**	**FIRST SAN BENITO** **STATUTORY TRUST I** **Hartford, Connecticut** **Incorporated in Connecticut** **LEI: N/A**

Form FR Y-6

First San Benito Bancshares, Corporation
San Benito, Texas
Fiscal Year Ending December 31, 2018

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018		
(1)(a) Name & Address (City, State, Country)	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(2)(a)** Name & Address (City, State, Country)	**(2)(b)** Country of Citizenship or Incorporation	**(2)(c)** Number and Percentage of Each Class of Voting Securities
Simmons, Leonard P. (San Benito, TX, USA)	USA	172,070 9.11% Common Stock	None		
Simmons, MD Cecil R. (San Benito, TX, USA)	USA	261,635 13.85% Common Stock			
Boswell, Anita (Harlingen, TX, USA)	USA	125,229 6.63% Common Stock			
Frank Russell (San Benito, TX, USA)	USA	100,000 5.29% Common Stock			

Form FR Y-6

First San Benito Bancshares, Corporation
San Benito, Texas
Fiscal Year Ending December 31, 2018

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Anita Boswell	**N/A**	**Secretary**	**EVP & CAO**	**N/A**	**6.63%**	**N/A**	**None**
(Harlingen, TX, US)			(First Community Bank)				
Dr. Francisco Loya	**Physician**	**Director**	**None**	**Owner**	**2.38%**	**N/A**	
(Harlingen, TX, US)				Jumpcast, LLC			Jumpcast, LLC (50%)
				Oracion Health, LLC	100%		Oracion Health, LLC (100%)
Frank Russell	**Farming**	**Director**	**None**	**Owner**	**5.29%**	**N/A**	
(San Benito, TX, US)				281 South			281 South (97.50%)
				One Percent Mgt			One Percent Mgt (90%)
				Russell Plantation Gin, Inc.			Russell Plantation Gin (25%)
				J & F Russell			J & F Russell (25%)
				RP II Farming			RP II Farming (25%)
				RP II Sugar			RP II Sugar (25%)
				RGV Adventure			RGV Adventure (50%)
				RUSC, LLC			RUSC, LLC (25%)
				RP Limited Partnership			RP Limited Partnership (25%)
Michael Scott	**N/A**	**Vice President/ Director**	**President & CEO**	**N/A**	**3.25%**	**N/A**	
(Raymondville, TX, US)			(First Community Bank)	La Avioneta LLC			La Avioneta LLC (50%)
Simmons, MD Cecil R.	**Physician**	**Director**	**None**	**Associate/Owner**	**13.85%**	**N/A**	**None**
(San Benito, TX, US)							
Leonard Simmons	**Farming/Real Estate Investments**	**President**	**None**	**VP/Owner**	**9.11%**	**N/A**	
(San Benito, TX, US)				801 Farms, Inc.			801 Farms, Inc.(50%)
				Simmons Oak Farms			Simmons Oak Farms(35%)
				Simmons Family Partnership			Simmons Family Partnership (25%)
Joaquin Lopez	**Banker**	**Principal Securities Holder**	**SVP & COO**	**N/A**	**0.16%**	**N/A**	**None**
(Edinburg, TX, US)			(First Community Bank)				
Carlos Muniz	**N/A**	**Treasurer**	**SVP & CFO**	**N/A**	**0.23%**	**N/A**	**None**
(Harlingen, TX, US)			(First Community Bank)				
Phil Teinert	**Banker**	**Principal Securities Holder**	**SVP & CLO**	**N/A**	**1.03%**	**N/A**	**None**
(Harlingen, TX, US)			(First Community Bank)				
Luis Muzquiz	**N/A**	**Director**	**None**	**Owner**	**1.39%**	**N/A**	
(Brownsville, TX, US)				Muzquiz and Muzquiz LLC			Muzquiz and Muzquiz LLC 50%
				United Commodities LLC			United Commodities LLC 50%

Results: A list of branches for your depository institution: FIRST COMMUNITY BANK (ID_RSSD: 334264).
This depository institution is held by FIRST SAN BENITO BANCSHARES CORPORATION (1107009) of SAN BENITO, TX.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	334264	FIRST COMMUNITY BANK	1151 W HWY 77	SAN BENITO	TX	78586-4376	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3932698	BROWNSVILLE BRANCH	470 EAST MORRISON ROAD	BROWNSVILLE	TX	78526	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3540253	HARLINGEN BRANCH	806 SOUTH 77 SUNSHINE STRIP	HARLINGEN	TX	78550	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3482250	STUART PLACE ROAD BRANCH	405 N STUART PLACE RD	HARLINGEN	TX	78552	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	3540262	LOS FRESNOS BRANCH	205 EAST OCEAN BOULEVARD	LOS FRESNOS	TX	78566	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	4722403	MCALLEN BRANCH	8000 NORTH 10TH STREET	MCALLEN	TX	78504	HIDALGO	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
Change	12/1/2012	Full Service	4455635	RAYMONDVILLE BRANCH	729 EAST HIDALGO AVENUE	RAYMONDVILLE	TX	78580	WILLACY	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	Branch Relocated
OK		Full Service	3540271	EXPRESSWAY BRANCH	600 SOUTH SAM HOUSTON BOULEVARD	SAN BENITO	TX	78586	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	
OK		Full Service	2783772	SOUTH PADRE ISLAND BRANCH	2701 PADRE BLVD	SOUTH PADRE ISLAND	TX	78597	CAMERON	UNITED STATES	Not Required	Not Required	FIRST COMMUNITY BANK	334264	

2018 | ANNUAL REPORT

FIRST SAN BENITO BANCSHARES CORPORATION

"Helping our communities grow and succeed"

SHAREHOLDER'S LETTER

By all measures, 2018 was a great year for First San Benito Bancshares Corporation and its wholly owned subsidiary, First Community Bank. Growth in deposits and loans, coupled with higher interest rates, increases in non-interest income and lower taxes, provided for consolidated net earnings growth of 53%. Company earnings totaled $5,650,400 for the year, or $2.99 per share. That equated to a return on average shareholder equity of 19.3%.

Deposits grew organically by almost $38 million for the year, marking a 10.65% increase. Per FDIC published reports, First Community Bank continued to build market share for deposits in Cameron and Willacy Counties. As of June 30, 2018 FCB held almost $330 million in deposits in Cameron County, placing us firmly ahead of all other community banks. At mid-year we controlled over 37% of the deposit market in Willacy County, and deposits there continued to grow for the balance of the year. Additionally, new deposit product offerings were well received by our customers, which in turn generated significant increases in non-interest income.

Loan growth for the year appears modest, at just over $5 million. However, much of the loan growth in 2017 came in the latter part of the year. That carried over into 2018 with continued steady growth for the first six months of the year. On average, year to year, loans were up just over $22 million. That is evidenced by loan interest income, which was up $1.7 million for 2018, or 11.4%. Strong credit quality remained a focus for the year, which resulted in lower levels of problem loans and minimal provisions to loan loss reserves. The lending team reported heightened lending activity late in the year, with a significant pipeline of loan closings expected in the first quarter of 2019.

With the signing of the Tax Cuts and Jobs Act in late 2017, the federal corporate tax rates were reduced from 34% to 21%, effective January 1, 2018. While this change created a $280 thousand tax increase for 2017, it provided for tremendous tax savings in 2018. Additionally, as a result of cost segregation studies performed, tax expense was decreased by an additional $149 thousand. Combining these benefits with the reductions in tax related to tax exempt interest, the overall net tax expense for the Company was 16%.

The strong earnings for 2018, combined with the newfound tax savings, were utilized in three important ways. First and foremost, an appropriate portion of earnings were retained as capital to support the bank's growth and overall risk profile. Second, Company debt related to previous acquisitions was reduced significantly. In fact, a total of $2,350,000 in principal reductions were made during the year. Finally, and most importantly, cash dividends payable to our shareholders were increased by 50% in 2018, which was commensurate with the overall increase in Company earnings. The Bank and the Company are well positioned for future growth.

All of these accomplishments were the result of our entire team of banking professionals working together for a common goal. We are proud of each and every one of them and thankful for their service. Our Board of Directors and Employees remain committed to meeting and exceeding the needs of our customers, serving our communities and increasing the long term franchise value of our Company. Finally, we are deeply appreciative for the loyal support of our shareholders.

Sincerely,

Leonard Simmons
President
First San Benito Bancshares Corporation

C. Michael Scott
President/CEO
First Community Bank

BOARD OF DIRECTORS

Cecil Simmons

Michael Scott

Leonard Simmons
Chairman of the Board

Anita Boswell

Frank Russell

Francisco Loya

Luis Muzquiz

EXECUTIVE TEAM

Michael Scott, President
Chief Executive Officer

Ricky Leal, Senior Vice President/Manager
Harlingen - Stuart Place

Anita Boswell, Executive Vice President
Chief Administrative Officer

Phil Teinert, Senior Vice President
Chief Lending Officer

Carlos Muniz, Senior Vice President
Chief Financial Officer

Joaquin Lopez, Senior Vice President
Chief Operations Officer

Brandon Ede, Vice President/IT Manager
San Benito

OFFICERS

Albert Muñiz, Vice President/Lending
Harlingen - Stuart Place

Sandra Lopez-Langley, Vice President/
Business Development, Brownsville

Rosemary Varnam, Vice President/Accounting
Harlingen - Stuart Place

Gordon Magdalena, Senior Vice President/
Lending, Harlingen

Raul Marroquin, Vice President/
Loan Portfolio Management, San Benito

Marco Perez, Vice President/Lending
McAllen

OFFICERS

Kim White, Vice President/Manager
Harlingen

Walter Pawkett, Senior Vice President/Lending
Brownsville

Horacio Maya, Vice President/Lending
Brownsville

Cynthia Gamez, Vice President/
Corporate Adminstration, Harlingen

Luis Cortinas, Senior Vice President/Lending
McAllen

Jennifer Sanchez, Vice President/Manager
San Benito

OFFICERS

John Reed, Senior Vice President/Manager
South Padre Island

Kyle Orgera, Vice President/Lending
Harlingen

Jennifer Naranjo, Vice President/
Senior Credit Analyst, San Benito

Flora Fagan, Vice President/Manager
McAllen

Bob Walker, Vice President/Lending
Brownsville

Mark Hernandez, Vice President/Lending
McAllen

OFFICERS

Norma Boland, Vice President/Lending
San Benito

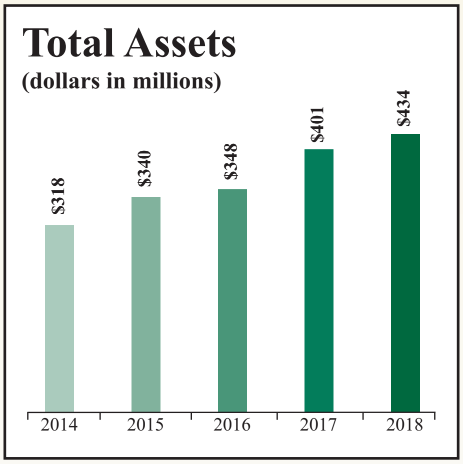
Jerry Salazar, Vice President/Lending
McAllen

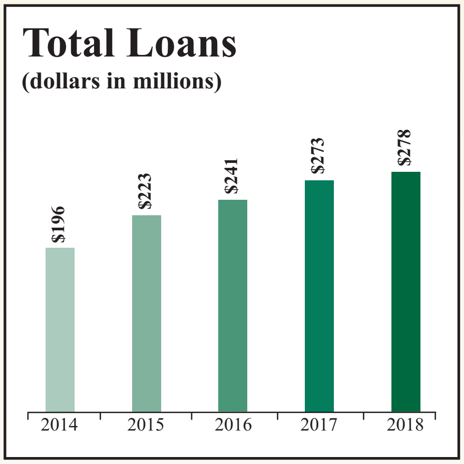
Steven Rivera, Vice President/Loan Operations
San Benito

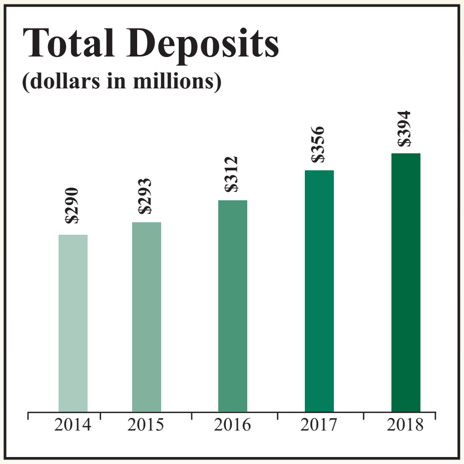
Diana Salazar, Vice President/Manager
Los Fresnos

FINANCIAL HIGHLIGHTS

(Dollars in Thousands)	December 31, 2018	2017
Balances at Year End		
Total Assets	$ 434,330	$ 400,697
Loans	277,961	272,728
Securities	89,746	84,745
Interest-Earning Assets	367,707	357,473
Deposits	394,497	356,499
Stockholder's Equity	32,135	27,918
Average Balances for the Year		
Total Assets	$ 419,049	382,753
Loans	275,998	253,899
Securities	81,349	75,218
Interest-Earning Assets	391,042	354,772
Deposits	379,461	343,592
Stockholder's Equity	29,278	26,530



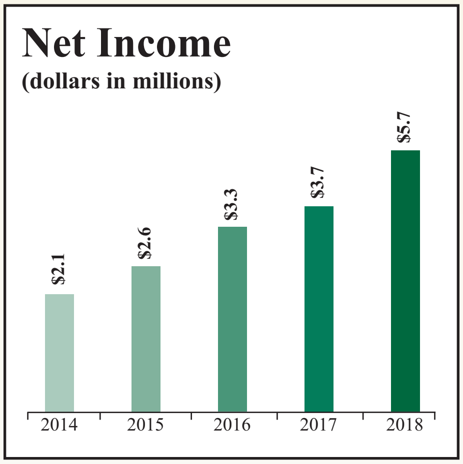


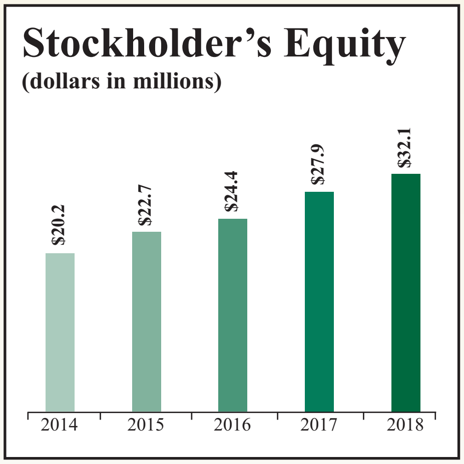


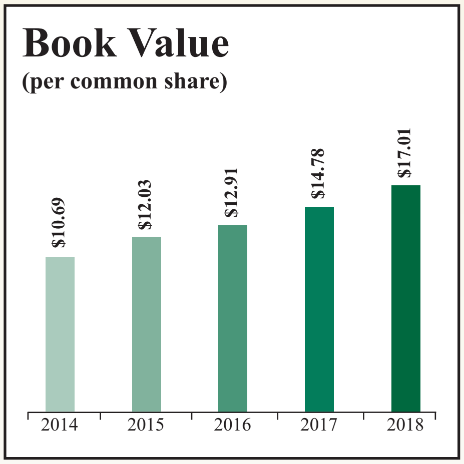
FINANCIAL HIGHLIGHTS

(Dollars in Thousands, Except per Share Data)	December 31, 2018	2017
For the Year		
Net Income	$ 5,650	$ 3,675
Return on Average Assets	1.35%	0.96%
Return on Average Shareholders' Equity	19.30%	13.85%
Net Interest Margin	4.39%	4.40%
Efficiency Ratio	67.14%	70.50%
Per Common Share Data		
Net Income	$ 2.99	1.95
Book Value at Period - End	17.01	14.78
Weighted Average Shares	1,889,280	1,889,280

Capital Ratios at Year End (First Community Bank, National Association)		
Total Risk-Based Capital Ratio	13.3%	13.3%
Tier I Risk-Based Capital Ratio	12.0%	12.1%
Leverage Capital Ratio	8.6%	8.6%
Equity to Asset Ratio	8.4%	8.6%







BANKING CENTERS

BROWNSVILLE 470 E. Morrison Road

HARLINGEN 405 N. Stuart Place Road

HARLINGEN 806 S. 77 Sunshine Strip

LOS FRESNOS 205 E. Ocean Boulevard

McALLEN 8000 N. Tenth Street

RAYMONDVILLE 729 E. Hidalgo Avenue

SAN BENITO 1151 W. Highway 77

SAN BENITO 600 S. Sam Houston

SOUTH PADRE ISLAND 2701 Padre Boulevard

REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS

FIRST SAN BENITO BANCSHARES CORPORATION

December 31, 2018 and 2017

MOSSADAMS

Table of Contents

MOSSADAMS

Report of Independent Auditors

To the Board of Directors
First San Benito Bancshares Corporation

We have audited the accompanying consolidated financial statements of First San Benito Bancshares Corporation and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First San Benito Bancshares Corporation and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Dallas, Texas
April 9, 2019

ASSETS

	As of December 31, 2018	As of December 31, 2017
Cash and due from banks	$ 26,010,801	$ 14,688,839
Federal funds sold	20,225,000	8,950,000
Total cash and cash equivalents	46,235,801	23,638,839
Available-for-sale securities	89,746,288	84,744,810
Loans	277,960,922	272,728,381
Less allowance for loan losses	(3,753,795)	(3,818,777)
Net loans	274,207,127	268,909,604
Premises and equipment, net	13,421,955	13,991,653
Non-marketable equity securities	1,066,352	1,049,652
Foreclosed assets held for sale, net	203,430	317,500
Interest receivable	1,894,781	1,763,220
Cash surrender value of life insurance	5,716,166	4,298,676
Goodwill	471,005	471,005
Core deposits intangible asset	195,000	234,000
Other assets	1,171,983	1,277,640
Total assets	$ 434,329,888	$ 400,696,599

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
Liabilities		
Deposits		
Demand	$ 140,104,727	$ 135,452,902
Savings, NOW and money market	169,942,193	157,267,903
Time deposits	84,449,982	63,778,086
Total deposits	394,496,902	356,498,891
Short-term borrowings	1,778,806	3,546,741
Other borrowings	4,293,000	11,643,000
Interest payable and other liabilities	1,625,804	1,089,917
Total liabilities	402,194,512	372,778,549
Stockholders’ Equity		
Common stock; $0.10 par value; authorized 10,000,000 shares; issued and outstanding 2018 and 2017 - 1,889,280 shares	188,928	188,928
Additional paid-in capital	4,606,345	4,606,345
Retained earnings	28,750,452	23,666,836
Accumulated other comprehensive loss	(1,410,349)	(544,059)
Total stockholders' equity	32,135,376	27,918,050
Total liabilities and stockholders’ equity	$ 434,329,888	$ 400,696,599

First San Benito Bancshares Corporation
Consolidated Statements of Income

	For Years Ended December 31, 2018	2017
INTEREST INCOME		
Loans	$ 16,564,396	$ 14,864,309
Securities		
Taxable	869,573	742,816
Tax-exempt	997,235	839,833
Federal funds sold and other	793,646	489,242
Total interest income	19,224,850	16,936,200
INTEREST EXPENSE		
Deposits	1,788,414	1,059,333
Other interest expense	269,548	271,883
Total interest expense	2,057,962	1,331,216
NET INTEREST INCOME	17,166,888	15,604,984
PROVISION FOR LOAN LOSSES	120,000	90,000
	17,046,888	15,514,984
NONINTEREST INCOME		
Service charges on deposit accounts	2,086,401	1,664,696
ATM and debit card income	1,118,715	923,514
Loan fee income	713,065	717,689
Net realized gains on sales of available-for-sale securities	6,513	58,343
Net realized loss on sales of premises and equipment	(78,303)	-
Net realized loss on foreclosed assets	(10,779)	(32,500)
Other	45,702	44,741
Total noninterest income	3,881,314	3,376,484
NONINTEREST EXPENSE		
Salaries and employee benefits	8,251,181	7,773,030
Occupancy and equipment expense	1,870,214	1,948,900
Data processing fees	635,005	556,211
ATM and debit card processing and expenses	653,793	546,247
Advertising and public relations	446,317	380,444
Office supplies	222,628	199,608
Deposit insurance premiums	229,851	255,787
Director fees	192,000	192,000
Expenses of foreclosed assets	39,067	19,023
Other	1,647,565	1,493,030
Total noninterest expense	14,187,621	13,364,279
INCOME BEFORE INCOME TAX	6,740,581	5,527,189
PROVISION FOR INCOME TAXES	1,090,181	1,851,836
NET INCOME	$ 5,650,400	$ 3,675,353

Consolidated Statements of Comprehensive Income

	For Years Ended December 31, 2018	For Years Ended December 31, 2017
NET INCOME	$ 5,650,400	$ 3,675,353
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized appreciation on available-for-sale securities, net of taxes of ($230,279) and $122,097 for 2018 and 2017, respectively	(861,145)	275,518
Reclassification adjustment for realized gains included in net income, net of taxes of $1,368 and $19,837 for 2018 and 2017, respectively	(5,145)	(38,506)
	(866,290)	237,012
COMPREHENSIVE INCOME	$ 4,784,110	$ 3,912,365

First San Benito Bancshares Corporation
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
BALANCE, January 1, 2017	1,889,280	$ 188,928	$ 4,606,345	$ 20,279,810	$ (691,542)	$ 24,383,541
Net income	-	-	-	3,675,353	-	3,675,353
Other comprehensive income					237,012	237,012
Tax rate effect reclassification	-	-	-	89,529	(89,529)	-
Dividends on common stock, $0.20 per share BALANCE,	-	-	-	(377,856)	-	(377,856)
December 31, 2017	1,889,280	188,928	4,606,345	23,666,836	(544,059)	27,918,050
Net income	-	-	-	5,650,400	-	5,650,400
Other comprehensive loss	-	-	-	-	(866,290)	(866,290)
Dividends on common stock, $0.30 per share BALANCE,	-	-	-	(566,784)	-	(566,784)
December 31, 2018	1,889,280	$ 188,928	$ 4,606,345	$ 28,750,452	$ (1,410,349)	$ 32,135,376

First San Benito Bancshares Corporation
Consolidated Statements of Cash Flows

	For Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,650,400	$ 3,675,353
Items not requiring (providing) cash		
Depreciation	704,455	720,275
Provision for loan losses	120,000	90,000
Amortization of premiums and discounts on securities	838,565	849,994
Amortization of intangible assets	39,000	39,000
Deferred income taxes	220,202	262,203
Increase in cash surrender value of life insurance	(84,156)	(92,914)
Stock dividends on nonmarketable equity securities	(16,700)	(8,800)
Net realized gains on sales of available-for-sale securities	(6,513)	(58,343)
Net realized losses on premises and equipment	78,303	-
Net realized losses on foreclosed assets	10,779	32,500
Changes in		
Interest receivable	(131,561)	(235,587)
Other assets	115,735	4,009
Interest payable and other liabilities	535,887	(531,403)
Net cash provided by operating activities	8,074,396	4,746,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(70,162,368)	(36,555,431)
Proceeds from maturities of available-for-sale securities	7,474,307	7,265,082
Proceeds from sales of available-for-sale securities	55,757,962	10,891,598
Net change in loans	(5,684,018)	(31,415,450)
Purchase of premises and equipment	(213,060)	(509,222)
Net purchases of nonmarketable equity securities	-	356,300
Proceeds from sales of foreclosed assets	369,786	-
Purchase of life insurance	(1,333,334)	-
Net cash used in investing activities	(13,790,725)	(49,967,123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand, NOW, savings and money market deposits	17,326,114	39,884,800
Net increase in time deposits	20,671,896	3,483,748
Net change in short-term borrowings	(1,767,935)	10,000,000
Proceeds of other borrowings	-	3,500,000
Repayment of other borrowings	(7,350,000)	(7,350,000)
Dividends paid	(566,784)	(377,856)
Net cash provided by financing activities	28,313,291	49,140,692
INCREASE IN CASH AND CASH EQUIVALENTS	22,596,962	3,919,856
CASH AND CASH EQUIVALENTS, beginning of year	23,638,839	19,718,983
CASH AND CASH EQUIVALENTS, end of year	$ 46,235,801	$ 23,638,839
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	$ 1,929,979	$ 1,162,880
Income taxes paid	$ 1,160,000	$ 1,705,758
Real estate acquired in settlement of loans	$ 266,495	$ -
Tax rate effect reclassification	$ -	$ 89,529

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations
First San Benito Bancshares Corporation (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary First Community Bank (Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Cameron, Willacy and Hidalgo Counties in Texas. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable Interest Entities
A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE. The Company owns 100 percent of the common securities of First San Benito Statutory Trust I (the Trust). The Trust is considered a VIE; however, the Trust is not consolidated because the Company is not the primary beneficiary. There are no other VIEs in which the Company has an interest.

All facts and circumstances are taken into consideration when determining whether the Company has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Company's consolidated financial statements. In many cases, it is qualitatively clear based on whether the Company has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Company is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Company monitors the consolidated and unconsolidated VIEs to determine if any reconsideration events have occurred that could cause any of them to no longer be a VIE. The Company reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Company becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Company ceases to be the primary beneficiary or the entity is no longer a VIE.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, other-than-temporary impairments (OTTI) and fair values of financial instruments.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of federal funds sold.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees and certain direct origination costs are generally recognized in the period in which fees were received and/or costs were incurred. Under accounting principles generally accepted in the United States of America, such fees and costs are deferred and recognized over the life of the loan as an adjustment of the yield. As of December 31, 2018 and 2017, management believes that the effect of not deferring such fees and costs, and amortizing them over the life of the related loan does not materially affect the financial position of the Company.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment
Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings and improvements	35 – 40 years
Leasehold improvements	5 – 10 years
Equipment and automobiles	3 – 10 years

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Long-Lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Non-Marketable Equity Securities

Non-marketable equity securities consist of common stock in the Federal Home Loan Bank (FHLB) and The Independent Bankers Bank (TIB). The FHLB stock is required investments for institutions that are members of the FHLB systems. The required investment in this common stock is based on a predetermined formula. The common stock in TIB was purchased to obtain advantageous rates on correspondent services offered by TIB to its shareholders. The securities are carried at cost and periodically evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (continued)

Short-Term Borrowings
At December 31, 2018 and 2017, short-term borrowings consisted of repurchase agreements totaling $1,778,806 and $3,546,741, respectively. Securities sold under agreements to repurchase consist of obligations of the Company to other parties. The obligations are secured by available-for-sale securities, and such collateral is held by Frost Bank.

Income Taxes
The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and enacted changes in tax rates and laws and are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated federal income tax returns with its subsidiary.

Comprehensive Income
Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities.

Transfers Between Fair Value Hierarchy Levels
Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Reclassifications
Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on net income and equity.

Note 2 – Restriction on Cash and Due from Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2018, was $11,653,000.

Note 3 – Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities				
December 31, 2018				
U.S. government and federal agency	$ 1,001,813	$ 249	$ -	$ 1,002,062
Government sponsored enterprises (GSE) residential mortgage-backed securities	47,255,749	34,157	(1,255,474)	46,034,432
State and political subdivisions	43,273,977	124,575	(688,758)	42,709,794
	$ 91,531,539	$ 158,981	$ (1,944,232)	$ 89,746,288
December 31, 2017				
U.S. government and federal agency	$ -	$ -	$ -	$ -
Government sponsored enterprises (GSE) residential mortgage-backed securities	41,506,774	446	(714,455)	40,792,765
State and political subdivisions	43,926,719	423,471	(398,145)	43,952,045
	$ 85,433,493	$ 423,917	$ (1,112,600)	$ 84,744,810

The amortized cost and fair value of available-for-sale securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 441,065	$ 441,418
One to five years	5,969,500	5,970,385
Five to ten years	14,357,452	14,135,385
After ten years	23,507,773	23,164,668
	44,275,790	43,711,856
Mortgage-backed securities	47,255,749	46,034,432
Totals	$ 91,531,539	$ 89,746,288

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $65,025,540 and $54,271,056 at December 31, 2018 and 2017, respectively.

Gross gains of $50,147 and $114,397 and gross losses of $43,634 and $56,054 resulting from sales of available-for-sale securities were realized for 2018 and 2017, respectively.

Note 3 – Securities (continued)

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2018 and 2017, was $66,781,693 and $61,531,521, which is approximately 74 percent and 73 percent, respectively, of the Company's available-for-sale portfolio. These declines primarily resulted from recent changes in market interest rates from those at the time the securities were purchased.

Management believes the declines in fair value for these securities are temporary.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
GSE residential mortgage-backed securities	$ 5,051,699	$ 22,446	$ 31,916,004	$ 1,233,030	$ 36,967,703	$ 1,255,476
State and political subdivisions	9,948,044	80,502	19,865,946	608,254	29,813,990	688,756
Total temporarily impaired securities	$ 14,999,743	$ 102,948	$ 51,781,950	$ 1,841,284	$ 66,781,693	$ 1,944,232
December 31, 2017						
GSE residential mortgage-backed securities	$ 22,140,684	$ 274,585	$ 17,809,131	$ 439,870	$ 39,949,815	$ 714,455
State and political subdivisions	15,525,643	192,436	6,056,063	205,709	21,581,706	398,145
Total temporarily impaired securities	$ 37,666,327	$ 467,021	$ 23,865,194	$ 645,579	$ 61,531,521	$ 1,112,600

Residential Mortgage-Backed Securities
The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by interest rate increases subsequent to the purchase. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018.

State and Political Subdivisions
The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases subsequent to the purchase. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2018.

Note 4 – Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	2018	2017
Commercial and industrial	$ 51,924,648	$ 50,644,493
Real estate		
Commercial real estate	89,644,709	86,333,048
Residential real estate	67,532,822	71,092,528
Agricultural real estate	15,676,918	12,284,547
Construction	35,995,221	33,333,349
Agricultural production	10,207,386	10,406,904
Consumer and other	6,979,218	8,696,970
	277,960,922	272,791,839
Less		
Net deferred loan fees	-	(63,458)
Allowance for loan losses	(3,753,795)	(3,818,777)
Net loans	$ 274,207,127	$ 268,909,604

Note 4 – Loans and Allowance for Loan Losses (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31:

2018	Commercial and Industrial	Real Estate	Agricultural Production	Consumer and Other	Unallocated	Total
Allowance for loan losses						
Balance, beginning of year	$ 802,880	$ 2,755,706	$ 129,531	$ 40,660	$ 90,000	$ 3,818,777
Provision charged to expense	-	12,250	-	-	107,750	120,000
Losses charged off	-	(86,331)	-	(130,009)	-	(216,340)
Recoveries	11,529	165	-	19,664	-	31,358
Balance, end of year	$ 814,409	$ 2,681,790	$ 129,531	$ (69,685)	$ 197,750	$ 3,753,795
Allowance balances						
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, collectively evaluated for impairment	814,409	2,681,790	129,531	(69,685)	197,750	3,753,795
Ending balance	$ 814,409	$ 2,681,790	$ 129,531	$ (69,685)	$ 197,750	$ 3,753,795
Loans						
Ending balance, individually evaluated for impairment	$ -	$ 2,375,018	$ -	$ -	$ -	$ 2,375,018
Ending balance, collectively evaluated for impairment	51,924,648	206,474,652	10,207,386	6,979,218	-	275,585,904
Ending balance	$ 51,924,648	$ 208,849,670	$ 10,207,386	$ 6,979,218	$ -	$ 277,960,922

2017	Commercial and Industrial	Real Estate	Agricultural Production	Consumer and Other	Unallocated	Total
Allowance for loan losses						
Balance, beginning of year	$ 769,098	$ 2,755,704	$ 129,531	$ 115,848	$ -	$ 3,770,181
Provision charged to expense	-	-	-	-	90,000	90,000
Losses charged off	(3,612)	-	-	(95,106)	-	(98,718)
Recoveries	37,395	-	-	19,919	-	57,314
Balance, end of year	$ 802,881	$ 2,755,704	$ 129,531	$ 40,661	$ 90,000	$ 3,818,777
Allowance balances						
Ending balance, individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, collectively evaluated for impairment	802,880	2,755,706	129,531	40,660	90,000	3,818,777
Ending balance	$ 802,880	$ 2,755,706	$ 129,531	$ 40,660	$ 90,000	$ 3,818,777
Loans						
Ending balance, individually evaluated for impairment	$ -	$ 1,997,333	$ -	$ -	$ -	$ 1,997,333
Ending balance, collectively evaluated for impairment	50,644,493	201,046,139	10,406,904	8,696,970	-	270,794,506
Ending balance	$ 50,644,493	$ 203,043,472	$ 10,406,904	$ 8,696,970	$ -	$ 272,791,839

Note 4 – Loans and Allowance for Loan Losses (continued)

Internal Risk Categories
Loan grades are numbered 1 through 7. Grades 1 through 3 are considered satisfactory grades. The grade of 5 or Special Mention, represents loans of lower quality and is considered criticized. The grades of 6 or Substandard, or 7, Doubtful, refer to assets that are classified. The use of and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

Pass (1–3) – The Bank has three levels within this category to provide granularity between loans.

Pass Watch (4) – Pass watch grade is used to identify credits which may have some of the following characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack current or complete financial data and/or analysis, needs additional monitoring, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others.

Special Mention (OAEM) (5) – These assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6) – These loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful (7) – Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Risk characteristics applicable to each segment and class of the loan portfolio are described as follows:

Commercial and Industrial
The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Residential Real Estate
The residential 1–4 family real estate are generally secured by nonowner-occupied 1–4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial and Agricultural Real Estate
Commercial and agricultural real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Note 4 – Loans and Allowance for Loan Losses (continued)

Construction and Land Development Real Estate
Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's market areas.

Agricultural Production
The agriculture portfolio consists of lines of credit and term loans extended for the purpose of working capital and equipment purchases for borrowers engaged in farming operations. The loans in this category are repaid primarily from the cash flow of the farming operation. Credit risk in these loans is driven by commodity prices, weather and creditworthiness of the borrower.

Consumer and Other
The consumer loan portfolio consists of various term and line of credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Company's market area) and the creditworthiness of a borrower.

The following table presents the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31:

	2018			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 51,530,135	$ 394,513	$ -	$ 51,924,648
Real estate				
Commercial real estate	82,062,177	4,107,142	3,475,390	89,644,709
Residential real estate	66,891,555	-	641,267	67,532,822
Agricultural real estate	15,175,259	-	501,659	15,676,918
Construction	35,995,221	-	-	35,995,221
Agricultural production	10,057,386	150,000	-	10,207,386
Consumer and other	6,897,788	-	81,430	6,979,218
Total	$ 268,609,521	$ 4,651,655	$ 4,699,746	$ 277,960,922

	2017			
	Pass	Special Mention	Substandard	Total
Commercial and industrial	$ 49,223,590	$ 520,511	$ 900,392	$ 50,644,493
Real estate				
Commercial real estate	76,853,130	5,912,760	3,567,158	86,333,048
Residential real estate	71,092,528	-	-	71,092,528
Agricultural real estate	11,815,050	-	469,497	12,284,547
Construction	33,333,349	-	-	33,333,349
Agricultural production	10,256,904	150,000	-	10,406,904
Consumer and other	8,661,492	-	35,478	8,696,970
Total	$ 261,236,043	$ 6,583,271	$ 4,972,525	$ 272,791,839

Note 4 – Loans and Allowance for Loan Losses (continued)

The following tables present the Company's loan portfolio aging analysis as of December 31:

	2018					
	30-90 Days Past Due	Greater 90 Days Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Commercial and industrial	$ 115,545	$ -	$ -	$ 115,545	$ 51,809,103	$ 51,924,648
Real estate						
Commercial real estate	-	-	101,490	101,490	89,543,219	89,644,709
Residential real estate	297,823	-	86,860	384,683	67,148,139	67,532,822
Agricultural real estate	501,659	-	-	501,659	15,175,259	15,676,918
Construction	712	-	104,191	104,903	35,890,318	35,995,221
Agricultural production	-	-	-	-	10,207,386	10,207,386
Consumer and other	36,047	185	1,276	37,508	6,941,710	6,979,218
Total	$ 951,786	$ 185	$ 293,817	$ 1,245,788	$ 276,715,134	$ 277,960,922

	2017					
	30-90 Days Past Due	Greater 90 Days Accruing	Nonaccrual	Total Past Due	Current	Total Loans Receivable
Commercial and industrial	$ -	$ -	$ -	$ -	$ 50,644,493	$ 50,644,493
Real estate						
Commercial real estate	-	-	1,997,333	1,997,333	84,335,715	86,333,048
Residential real estate	-	-	-	-	71,092,528	71,092,528
Agricultural real estate	-	26,400	-	26,400	12,258,147	12,284,547
Construction	104	-	-	104	33,333,245	33,333,349
Agricultural production	-	-	-	-	10,406,904	10,406,904
Consumer and other	12,631	530	4,257	17,418	8,679,552	8,696,970
Total	$ 12,735	$ 26,930	$ 2,001,590	$ 2,041,255	$ 270,750,584	$ 272,791,839

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

Note 4 – Loans and Allowance for Loan Losses (continued)

The following tables present impaired loans for the years ended December 31, 2018 and 2017:

	2018						
	Unpaid Contractual Balance	Recorded Investment with No Specific Allowance	Recorded Investment with Specific Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate							
Commercial real estate	101,490	101,490	-	101,490	-	101,419	11,407
Residential real estate	594,678	594,678	-	594,678	-	600,356	8,906
Agricultural real estate	-	-	-	-	-	-	-
Construction	1,678,850	1,666,600	12,250	1,678,850	-	1,682,880	15,808
Agricultural production	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 2,375,018	$ 2,362,768	$ 12,250	$ 2,375,018	$ -	$ 2,384,655	$ 36,121

	2017						
	Unpaid Contractual Balance	Recorded Investment with No Specific Allowance	Recorded Investment with Specific Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate							
Commercial real estate	1,997,333	1,997,333	-	1,997,333	-	2,070,882	-
Residential real estate	-	-	-	-	-	-	-
Agricultural real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Agricultural production	-	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-	-
Total	$ 1,997,333	$ 1,997,333	$ -	$ 1,997,333	$ -	$ 2,070,882	$ -

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. These loans had originally been classified as troubled debt restructurings in previous years. The primary reason for the troubled debt restructuring classifications were modifications of terms to allow interest-only payments or an amortization period that was in excess of loans with similar characteristics. At December 31, 2018 and 2017, the Company had $2,083,023 and $0, respectively, of troubled debt restructurings that were classified as impaired. There were no troubled debt restructurings that defaulted in the subsequent year.

Note 5 – Foreclosed Assets Held for Sale

Activity in the allowance for losses on foreclosed assets was as follows:

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 81,761	$ 49,261
Provision charged to expense	5,000	32,500
Sales of properties with allowances	86,761	-
Balance, end of year	$ -	$ 81,761

Expenses applicable to foreclosed assets at December 31 include the following:

	2018	2017
Net losses (gains) on sales of real estate	$ 10,779	$ -
Provision for losses	5,000	32,500
Operating expenses, net of rental income	39,067	19,022
	$ 54,846	$ 51,522

Note 6 – Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2018	2017
Land	$ 3,101,004	$ 3,078,504
Buildings and improvements	13,295,025	13,295,026
Automobile	163,852	163,852
Construction in progress	-	167,128
Equipment	6,786,962	6,507,576
	23,346,843	23,212,086
Less accumulated depreciation	9,924,888	9,220,433
Net premises and equipment	$ 13,421,955	$ 13,991,653

Depreciation expense for the years ended December 31, 2018 and 2017 totaled $704,455 and $720,275, respectively.

Note 7 – Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, were:

	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 390,000	$ 195,000	$ 390,000	$ 156,000

Note 7 – Other Intangible Assets (continued)

Amortization expense for the years ended December 31, 2018 and 2017, was $39,000. Estimated amortization expense for each of the following five years and thereafter is:

Years Ending December 31,	
2019	$ 39,000
2020	39,000
2021	39,000
2022	39,000
2023	39,000
	$ 195,000

Note 8 – Interest-bearing Deposits

Interest-bearing time deposits in denominations of more than $250,000 were approximately $26,161,114 and $21,817,000 on December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of time deposits are as follows:

Years Ending December 31,	
2019	$ 57,290,672
2020	25,922,285
2021	1,237,025
	$ 84,449,982

Note 9 – Other Borrowings

Other borrowings consisted of the following components:

	2018	2017
FHLB advances	$ -	$ 5,000,000
Junior subordinated deferrable interest debentures	3,093,000	3,093,000
Promissory notes - Frost Bank	1,200,000	3,550,000
Total	$ 4,293,000	$ 11,643,000

FHLB Advances

The FHLB advances are secured by a blanket lien on all qualifying first lien real estate loans, the FHLB capital stock owned by the Company, and any funds on deposit with the FHLB. The Company had one advance at December 31, 2017, in the amount of $5,000,000, which was payable on January 12, 2018, with interest of 1.38 percent.

Note 9 – Other Borrowings (continued)

Promissory Note
In October 2016, the Company entered into a loan agreement with Frost Bank for $2,400,000. Principal and interest payments are due quarterly and began in January 2017. The interest rate is fixed at 3.977 percent. The note matures in October 2020. The Company has pledged collateral of 125,000 shares (100 percent) of the Bank's common stock. The agreement contains restrictions regarding, among other matters, the minimum maintenance of certain regulatory and operating ratios, the issuance of additional debt and changes in ownership. At December 31, 2018, the Company was in compliance with all of the debt covenants. The balance outstanding at December 31, 2018 was $1,200,000.

In May 2017, the Company entered into a loan agreement with Frost Bank for $5,000,000 or so much as may be outstanding. Principal was due in one payment on May 25, 2019, and interest is due quarterly and began in August 2017. The rate is variable at Wall Street Journal Prime Rate which was 5.50 percent at December 31, 2018. The Company has pledged collateral of 125,000 shares (100 percent) of the Bank's common stock. The balance outstanding at December 31, 2018 was $0.

Junior Subordinated Deferrable Interest Debentures
The Company has issued a total of $3,093,000 of junior subordinated deferrable interest debentures to the Trust. The Trust funded the purchase of the subordinated debentures through the sale of trust-preferred securities to a third-party with a liquidation value not to exceed $3,000,000. Using interest payments made by the Company on the debentures, the Trust pays dividends to preferred security holders. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is three-month LIBOR plus 3.15 percent. The preferred securities mature on March 20, 2033, unless the Company elects and obtains regulatory approval to accelerate the maturity date. The Trust's obligations under the trust preferred securities are fully and unconditionally guaranteed by the Company.

Aggregate annual maturities of other borrowings debt at December 31, 2018, are:

Years Ending December 31,	
2019	$ 600,000
2020	600,000
2021	-
2022	-
2023	-
Thereafter	3,093,000
	$ 4,293,000

Note 10 – Income Taxes

The provision for income taxes includes these components at December 31:

	2018	2017
Taxes currently payable	$ 849,825	$ 1,589,633
Deferred income taxes	240,356	262,203
Total income tax expense	$ 1,090,181	$ 1,851,836

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2018	2017
Computed at the statutory rate	$ 1,415,522	$ 1,879,244
Increase (decrease) resulting from		
Tax exempt interest	(194,521)	(270,982)
Increase in cash surrender value of life insurance	(17,673)	(31,591)
Nondeductible expenses	10,432	30,314
Tax reform rate revaluation	(148,792)	279,311
Other	25,213	(34,460)
Actual tax expense	$ 1,090,181	$ 1,851,836

The tax effects of temporary differences related to net deferred taxes included in other assets at December 31, 2018 and 2017, and other liabilities at December 31, 2018 and 2017, in the consolidated balance sheets were:

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 788,262	$ 801,943
Allowance for losses on unfunded commitments	44,244	44,245
Net unrealized losses on securities available for sale	374,903	144,623
Valuation of foreclosed assets	-	18,010
Deferred cash incentive plan	26,436	-
	1,233,845	1,008,821
Deferred tax liabilities		
Properties and equipment	671,046	394,248
Core deposits intangible asset	40,950	49,140
Prepaid expenses	18,369	68,648
Accretion on investment securities	51,132	43,642
Other	24,553	15,271
	806,050	570,949
Net deferred tax asset	$ 427,795	$ 437,872

Note 10 – Income Taxes (continued)

The Company's 2017 results included the impact of the enactment of the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate tax system, including a Federal corporate rate reduction from 34% to 21% effective January 1, 2018. In 2017, the Company applied the new corporate federal income tax rate of 21% to applicable deferred tax items, resulting in approximately $280,000 increase in tax expense. In 2018, as a result of cost-segregation studies performed, tax expense decreased by approximately $149,000.

Note 11 – Regulatory Matters

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table on following page) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

Note 11 – Regulatory Matters (continued)

The Bank's actual capital amounts and ratios are also presented in the table below (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total risk-based capital (to risk-weighted assets)	$ 40,880	13.3%	$ 24,598	8.0%	$ 30,747	10.0%
Tier I capital (to risk-weighted assets)	$ 37,036	12.0%	$ 18,448	6.0%	$ 24,598	8.0%
Common Equity Tier I capital (to risk-weighted assets)	$ 37,036	12.0%	$ 13,836	4.5%	$ 19,986	6.5%
Tier I capital (to adjusted total assets)	$ 37,036	8.6%	$ 17,249	4.0%	$ 21,561	5.0%

	Actual		Minimum Capital Requirement		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
Total risk-based capital (to risk-weighted assets)	$ 37,901	13.3%	$ 26,300	8.0%	$ 28,433	10.0%
Tier I capital (to risk-weighted assets)	$ 34,341	12.1%	$ 20,614	6.0%	$ 22,746	8.0%
Common Equity Tier I capital (to risk-weighted assets)	$ 34,341	12.1%	$ 16,349	4.5%	$ 18,481	6.5%
Tier I capital (to adjusted total assets)	$ 34,341	8.6%	$ 21,004	4.0%	$ 20,004	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2018, approximately $6,679,000 of retained earnings was available for dividend declaration without prior regulatory approval.

Note 11 – Regulatory Matters (continued)

Basel III Capital Rules
In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

Note 12 – Related Party Transactions

At December 31, 2018 and 2017, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of $1,224,202 and $1,446,320, respectively.

Annual activity consisted of the following at December 31:

	2018	2017
Beginning balance	$ 1,446,320	$ 1,030,363
New loans	736,804	988,480
Repayments	(958,922)	(572,523)
Ending balance	$ 1,224,202	$ 1,446,320

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2018 and 2017, totaled approximately $2,019,973 and $1,416,757, respectively. During the years ended December 31, 2018 and 2017, the Company paid approximately $30,000 and $34,000, respectively, for legal services provided by a law firm whose partner is an immediate family member of a member of executive management and the board of directors.

Note 13 – Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute a portion of their compensation subject to IRS limitations. The Company matches 100 percent of the employee's contribution on the first six percent of the employee's compensation. Employer contributions charged to expense for 2018 and 2017, were approximately $289,000 and $298,000, respectively.

Note 14 – Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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

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

Cash and Cash Equivalents
For short-term instruments, including cash and due from banks, the carrying amount is a reasonable estimate of fair value.

Securities
Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as a matrix or model pricing, when market quotes are not readily accessible or available.

Loans
For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying amount of interest receivable approximates its fair value. The Bank's allowance for loan and lease losses is a reasonable estimate of the valuation allowance needed to adjust computed fair values for the quality of certain loans in the portfolio.

Deposit Liabilities
The fair values disclosed for non-maturity deposits (e.g., interest and non-interest checking, statement savings, and money market accounts) are, by definition, equal to the amount payable at the reporting date (i.e., their carrying amounts). The fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of interest payable approximates its fair value.

Note 14 – Disclosures About Fair Value of Assets and Liabilities (continued)

FHLB Borrowings
The fair value of the borrowings is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Secured Borrowings
The fair value approximates book value as they represent short-term borrowings connected to the sale of loans.

Commitments to Extend Credit
The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and other information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument.

The estimated fair values of the Bank's financial instruments as of December 31 are approximately as follows:

	As of December 31, 2018		As of December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 46,235,801	$ 46,235,801	$ 23,638,839	$ 23,638,839
Investments AFS	89,746,288	$ 89,746,288	$ 84,744,810	$ 84,744,810
Loans, gross	277,960,922	283,583,000	$ 272,728,381	$ 278,637,000
Financial Liabilities:				
Deposits	394,496,902	395,269,902	$ 356,498,891	$ 356,529,000
Borrowings	4,293,000	4,293,000	$ 11,643,000	$ 11,643,000

Note 14 – Disclosures About Fair Value of Assets and Liabilities (continued)

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at:

	2018			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government and federal agency	$ 1,002,062	$ -	$ 1,002,062	$ -
U.S. government sponsored enterprises				
GSE residential mortgage-backed	46,034,432	-	46,034,432	-
State and political subdivisions	42,709,794	-	42,709,794	-
	$ 89,746,288	$ -	$ 89,746,288	$ -

	2017			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government and federal agency	$ -	$ -	$ -	$ -
U.S. government sponsored enterprises				
GSE residential mortgage-backed	40,792,765	-	40,792,765	-
State and political subdivisions	43,952,045	-	43,952,045	-
	$ 84,744,810	$ -	$ 84,744,810	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2018 and 2017.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There were no Level 1 securities identified by the Company. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government and agency bonds, GSE residential mortgage-backed securities and debt obligations and certain state and local political subdivision bonds. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities identified by the Company.

Note 14 – Disclosures About Fair Value of Assets and Liabilities (continued)

Third-party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Matrix pricing is utilized in the valuation of the U.S. government and agency debt and mortgage-backed securities as well as securities issued by state and political subdivisions.

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Foreclosed assets held for sale	$ 203,430	$ -	$ -	$ 203,430
December 31, 2017				
Foreclosed assets held for sale	$ 317,500	$ -	$ -	$ 317,500

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale or other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy. Appraisals of OREO are obtained when the real estate is acquired and, subsequently, as deemed necessary. Appraisals are reviewed for accuracy and consistency by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts ranged from 6 percent to 15 percent for OREO at December 31, 2018.

Note 15 – Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

Note 15 – Significant Estimates and Concentrations (continued)

Investments
The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 16 – Commitments and Credit Risk

Commitments to Originate Loans and Lines of Credit
Commitments to originate loans and lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments and lines of credit may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2018 and 2017, the Company had outstanding commitments to originate loans and unused lines of credit aggregating approximately $66,373,000 and $34,964,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Standby Letters of Credit
Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had total outstanding standby letters of credit amounting to $1,411,000 and $1,819,000 at December 31, 2018 and 2017, respectively, with terms ranging from seven months to two years.

Note 17 – Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

ASSETS

	As of December 31, 2018	As of December 31, 2017
Cash and due from banks	$ 5,897	$ 33,408
Investment in Bank	36,291,480	34,456,539
Investment in Trust	93,000	93,000
Due from bank subsidiary	129,607	190,809
Total assets	$ 36,519,984	$ 34,773,756

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
Liabilities		
Long-term debt	$ 4,293,000	$ 6,643,000
Other liabilities	91,608	212,706
Total liabilities	4,384,608	6,855,706
Stockholders' Equity		
Common stock	188,928	188,928
Additional paid-in capital	4,606,345	4,606,345
Retained earnings	28,750,452	23,666,836
Accumulated other comprehensive loss	(1,410,349)	(544,059)
Total stockholders' equity	32,135,376	27,918,050
Total liabilities and stockholders' equity	$ 36,519,984	$ 34,773,756

Note 17 – Condensed Financial Information (Parent Company Only) (continued)

Condensed Statements of Cash Flows

	For Years Ended December 31, 2018	2017
Cash Flows from Operating Activities		
Net income	$ 5,650,400	$ 3,675,353
Equity in undistributed income of Bank	(2,701,232)	(1,945,580)
Net change in due from Bank and other assets	61,203	82,162
Net change in other liabilities	(121,098)	(75,717)
Net cash provided by operating activities	2,889,273	1,736,218
Cash Flows from Investing Activities		
Investment in subsidiary	-	(2,500,000)
Net cash used in investing activities	-	(2,500,000)
Cash Flows from Financing Activities		
Dividends paid	(566,784)	(377,856)
Repayments of long-term debt	(2,350,000)	(1,350,000)
Proceeds of other borrowings	-	2,500,000
Net cash (used in) provided by financing activities	(2,916,784)	772,144
Net Change in Cash and Cash Equivalents	(27,511)	8,362
Cash and Cash Equivalents, Beginning of Year	33,408	25,046
Cash and Cash Equivalents, End of Year	$ 5,897	$ 33,408

Note 18 – Subsequent Events

Subsequent events have been evaluated through the date of Report of Independent Auditors on the consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

Note 17 – Condensed Financial Information (Parent Company Only) (continued)

Condensed Statements of Cash Flows

	For Years Ended December 31, 2018	2017
Cash Flows from Operating Activities		
Net income	$ 5,650,400	$ 3,675,353
Equity in undistributed income of Bank	(2,701,232)	(1,945,580)
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Cash Flows from Financing Activities		
Dividends paid	(566,784)	(377,856)
Repayments of long-term debt	(2,350,000)	(1,350,000)
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Cash and Cash Equivalents, End of Year	$ 5,897	$ 33,408

Note 18 – Subsequent Events

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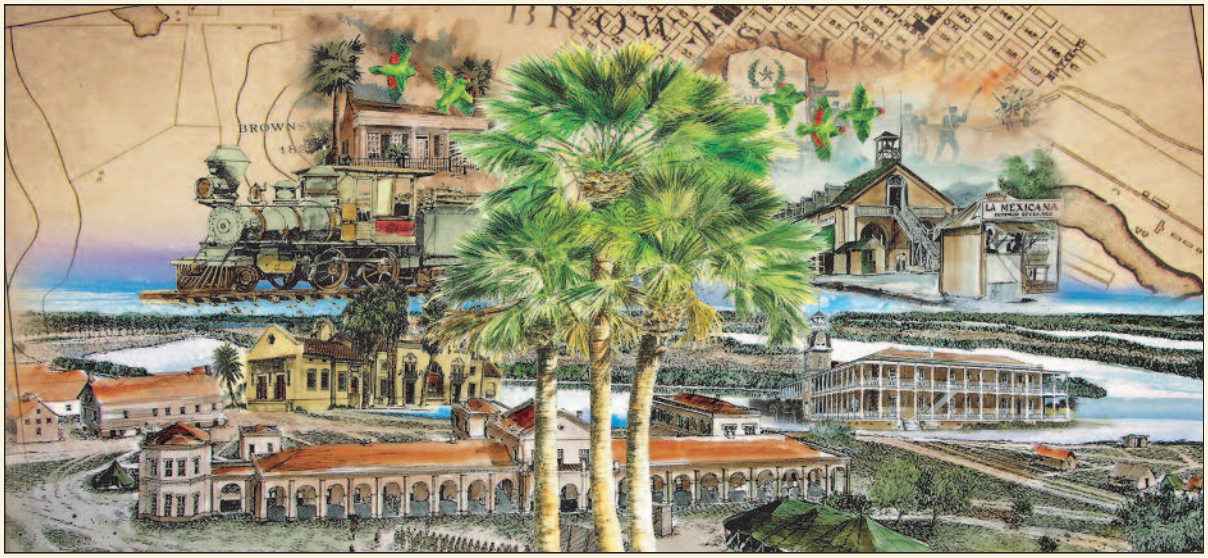
HISTORY OF THE MURALS

The Rio Grande Valley is sometimes referred to as the "Magic Valley" for the many treasures that have been born from its fertile soil. The customers, bankers and shareholders of Cameron County's oldest independently owned bank are well aware. This is why First Community Bank has chosen to prominently celebrate these jewels in several of its banks throughout the region. We invite you to visit each of our locations and enjoy these remarkable pieces of artwork that celebrate the only place we call home.

The collage at First Community Bank - Harlingen Main, 806 S. 77 Sunshine St., was painted in early 2000 by former Harlingen High School art teacher Robert McBain. It pays homage to the Rio Grande Valley's strong religious traditions. Images of St. Alban's Episcopal Church, St. Anthony's Catholic Church and Immaculate Heart of Mary Catholic Church, all in Harlingen, and St. Benedict's Catholic Church and First Presbyterian Church in San Benito each appear on this beautiful 17-foot-long mural.

In 2006 Mr. McBain was tapped once again to create an image of the Rio Grande Valley's prolific palms. On the right, a group of hearty Washingtonia Palms which line our highways and are incorporated into the landscapes of the region's large buildings and developments. On the left is the Queen or Cocus Palm, which is the most commonly used feather palm in South Texas. The mural brightens the lobby of the First Community Bank at 405 N. Stuart Place Rd. in Harlingen.



In 2012 local artist Don Breeden was asked to capture Brownsville's rich history and culture in a collage featuring iconic images that celebrate the local area. The city's entrepreneurial spirit is celebrated through an image of the first railroad built in South Texas. Built in the 1860's from Brownsville to Port Isabel, the rail connected Brownsville to the outside world. The famous Fort Brown is also featured front and center. Established in 1846, the fort was the first United States Army outpost of the recently annexed state of Texas. And no visit to Brownsville would be complete without sighting a loud and proud pandemonium of red crowned parrots. This lovely mural can be seen at First Community Bank at 470 Morrison Rd. in Brownsville.

First Community Bank's newest location was constructed in 2016 at the center of the Rio Grande Valley's hottest growth area over the last 10-20 years. Located on the McAllen/Edinburg corridor at 8000 N. 10th St., the location is perfectly suited to fuel continued development. Through this piece, Don Breeden once again perfectly illustrates many of the treasures which serve as the foundation for Hidalgo County's growth. The Valley's agriculture industry is featured prominently on the work, citrus in particular. The mural also highlights La Lomita Chapel, Our Lady of Guadalupe Catholic Church in Mission (established in 1899) and moments in time from the rugged South Texas "Wild Horse Desert."

Come visit our friendly, knowledgeable hometown bankers to enjoy these beautiful pieces of art and experience South Texas banking like it was meant to be. We take pride in being focused only on the Rio Grande Valley and stand ready help our communities continue to grow and succeed. Other banks have branches, we have roots!

FIRST COMMUNITY BANK

BROWNSVILLE
470 E. Morrison Road / 956.547.5100

HARLINGEN MAIN
806 S. 77 Sunshine Strip / 956.428.4100

HARLINGEN
405 N. Stuart Place Road / 956.428.4100

LOS FRESNOS
205 E. Ocean Boulevard / 956.233.4100

McALLEN
8000 N. Tenth Street / 956.664.8000

RAYMONDVILLE
729 E. Hidalgo Avenue / 956.699.4000

SAN BENITO MAIN
1151 W. Highway 77 / 956.399.3331

SAN BENITO EXPRESSWAY MOTOR BANK
600 S. Sam Houston / 956.399.3331

SOUTH PADRE ISLAND
2701 Padre Boulevard / 956.761.8589

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