

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.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2018

Month / Day / Year

NA

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

I, **Mark A. Long**

Name of the Holding Company Director and Official

President/CEO/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.

First Commercial Financial Corp

Legal Title of Holding Company

1336 E. Court Street

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

Seguin

City

TX

State

78155

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Sally McBride

Name

VP/Controller

Title

830-401-6002

Area Code / Phone Number / Extension

830-379-4030

Area Code / FAX Number

sallym@1cb.com

E-mail Address

www.1cb.com

Address (URL) for the Holding Company's web page

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.

Mark A. Long
 Signature of Holding Company Director and Official

3/29/2019

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. _____

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

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 ...

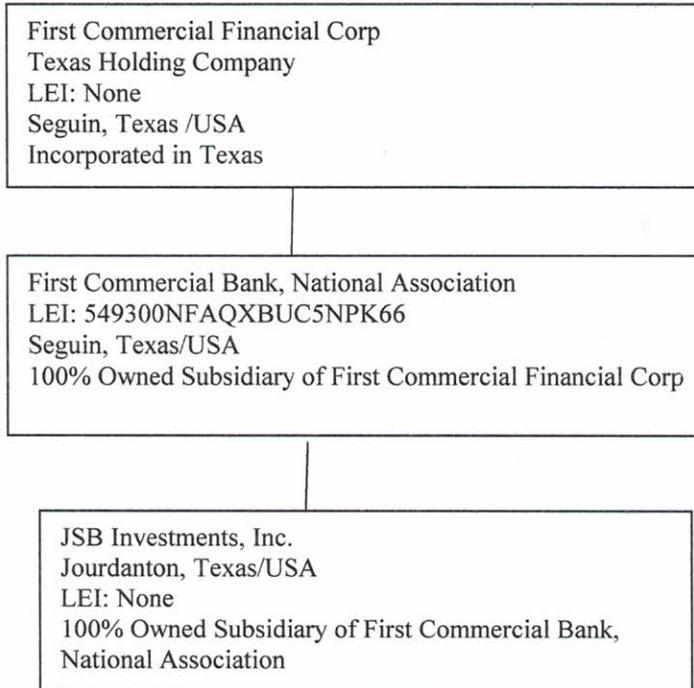
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

FR Y- 6
First Commercial Financial Corp
Seguin, Texas

Report Item 1: Annual report to shareholders included.

Report Item 2a: Organizational chart

First Commercial Financial Corp
Seguin, Texas
December 31, 2018



Report Item 2b: Domestic branch listing provided to the Federal Reserve Bank electronically on 3/18/2019

Results: A list of branches for your depository institution: FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION (ID_RSSD: 400365).
 This depository institution is held by FIRST COMMERCIAL FINANCIAL CORP (2299992) of SEGUIN, TX.
 The data are as of 12/31/2018. Data reflects information that was received and processed through: 01/01/2019.

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)	400365	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	1336 EAST COURT STREET	SEGUIN	TX	78155	GUADALUPE	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	
OK		Full Service	602150	FOURSHAWTON BRANCH	1301 ONE STREET	FOURSHAWTON	TX	78025	ATASCOSA	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	
OK		Full Service	3051337	NEW BRAUNFELS 725 BRANCH	1525 SOUTH SEGUIN AVENUE	NEW BRAUNFELS	TX	78130	COMAL	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	
OK		Full Service	2649859	NEW BRAUNFELS BRANCH	1656 WEST STATE HIGHWAY 46	NEW BRAUNFELS	TX	78132-4737	COMAL	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	
OK		Full Service	2892187	PEARSBAL BRANCH	1837 WEST COMAL STREET	PEARSBAL	TX	78061	FRIO	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	
OK		Full Service	1292980	BLANCO ROAD BRANCH	1333 BLANCO ROAD, SUITE 100	SAN ANTONIO	TX	78215	BEKAR	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	
OK		Full Service	2724878	LINCOLN HEIGHTS BRANCH	120 EAST BASSE ROAD, SUITE 100	SAN ANTONIO	TX	78209	BEKAR	UNITED STATES	Not Required	Not Required	FIRST COMMERCIAL BANK, NATIONAL ASSOCIATION	400365	

Form FR Y-6

First Commercial Financial Corp
Seguin, Texas
Fiscal Year Ending 12/31/2018

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 (but not at fiscal year-end)		
(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
1) Steinle Family: Alfred A. Steinle (Primary) TX USA	USA	26,115 - 7.32% Common Stock	NA	NA	NA
Alfred A. Steinle Director Jourdanton, TX USA	USA	6,624 - 1.85% Common Stock	NA	NA	NA
Deana C. Steinle (Wife) Jourdanton, TX USA	USA	100 - 0.03% Common Stock	NA	NA	NA
Don W. Steinle (Brother) Austin, TX USA	USA	5,025 - 1.41% Common Stock	NA	NA	NA
Dustin D. Steinle (Son) Jourdanton, TX USA	USA	900 - 0.25% Common Stock	NA	NA	NA
Glenn N. Steinle, Jr (Brother) Jourdanton, TX USA	USA	5,378 - 1.51% Common Stock	NA	NA	NA
Joyce M. Steinle (Sister-in-law) Jourdanton, TX USA	USA	133 - 0.04% Common Stock	NA	NA	NA
Marci K. Steinle (Daughter) San Antonio, TX USA	USA	600 - 0.17% Common Stock	NA	NA	NA
Aiden N. Steinle (Grandson) San Antonio, TX USA	USA	450 - 0.13% Common Stock	NA	NA	NA
Marci K. Steinle, Trustee for Owen D. Steinle (Grandson) San Antonio, TX USA	USA	450 - 0.13% Common Stock	NA	NA	NA
Tim and Marci K. Steinle (Son-in-law & Daughter) San Antonio, TX USA	USA	1,000 - 0.28% Common Stock	NA	NA	NA
James R. Andrus (Brother-in-law) Jourdanton, TX USA	USA	800 - 0.22% Common Stock	NA	NA	NA
Jane S. Andrus (Sister) Jourdanton, TX USA	USA	4,655 - 1.30% Common Stock	NA	NA	NA

Form FR Y-6

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Seguin, Texas
Fiscal Year Ending 12/31/2018

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2) Long Family: Mark A. Long (primary) TX USA	USA	58,181 - 16.28%	NA	NA	NA
Mark A. Long, Trustee First Commercial Financial Corp Employee Stock Ownership Plan Seguin, TX USA	USA	56,681 - 15.86% Common Stock	NA	NA	NA
Margie A. Long (mother) Junction, TX USA	USA	1,500 - 0.42%	NA	NA	NA
3) Rinn Family: Doris Rinn (Primary) TX. USA	USA	35,542 - 9.95% Common Stock	NA	NA	NA
Doris Rinn Seguin, TX USA	USA	12,270 - 3.43%	NA	NA	NA
Donna Rinn (Daughter) Seguin, TX USA	USA	5,434 - 1.52% Common Stock	NA	NA	NA
Hannah Rinn (Granddaughter) San Antonio, TX USA	USA	1,667 - 0.47% Common Stock	NA	NA	NA
Phil Rinn (Son) Seguin, TX USA	USA	8,333 - 2.33% Common Stock	NA	NA	NA
Rebekah Rinn-Varzally (Granddaughter) Yardley, PA USA	USA	667 - 0.19% Common Stock	NA	NA	NA
Russell B. Rinn (Son) Roanoke, IN USA	USA	5,504 - 1.54% Common Stock	NA	NA	NA
Sarah E. Rinn-Posey San Antonio, TX USA	USA	1,667 - 0.47% Common Stock	NA	NA	NA
4) Nancy C. Seidenberger Seguin, TX USA	USA	26,762 - 7.49% Common Stock	NA	NA	NA

Form FR Y-6

First Commercial Financial Corp
 Seguin, Texas
 Fiscal Year Ending 12/31/2018

Report Item 3: Securities Holders

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5) Williams Family: Mark E. Williams (Primary) TX. USA	USA	19,379 - 5.43% Common Stock	NA	NA	NA
Mark E. Williams, Director McQueeney, TX USA	USA	600 - 0.17% Common Stock	NA	NA	NA
Mark E. Williams and Linda B. Williams (Wife) McQueeney, TX USA	USA	11,525 - 3.23% Common Stock	NA	NA	NA
Drew E. Williams (Son) Seguin, TX USA	USA	1,000 - 0.28% Common Stock	NA	NA	NA
Lisa A. Neff (Daughter) Austin, TX USA	USA	3,423 - 0.96% Common Stock	NA	NA	NA
Linda B. Williams (Wife) McQueeney, TX USA	USA	2,831 - 0.79% Common Stock	NA	NA	NA

Form FR Y-6

First Commercial Financial Corp
Seguin, Texas
Fiscal Year Ending 12/31/2018

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation, if other than with holding company	(3)(a) Title/Position with holding company	(3)(b) Title/Position with Subsidiaries (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
G.P.Kiel Seguin, TX, USA	Consulting & Teaching	Director	Director, First Commercial Bank, NA	N/A	0.42%	None	N/A
Mark Long/Long Family McQueeney, TX, USA	N/A	Director & President	Director & President, First Commercial Bank, NA Director & President, JSB Investments, Inc. DBA 1st Insurance Group	N/A	16.28% (Includes ESOP Shares)	None	N/A
Mark Williams/Williams Family McQueeney, TX, USA	Eng Consultant/ Retired	Director & Chairman	Director & Chairman, First Commercial Bank, NA	HMW FLP Management, LLC- President Hattie Mae Williams Family Limited Partnership- Limited Partner Williams Gen. Skipping Trust - Trustee Williams Family Trust-Trustee	5.43%	None	HMW FLP Management, LLC(80%) Hattie Mae Williams Family LP (90%) Williams Gen. Skipping Trust (100%) Williams Family Trust (100%)

Form FR Y-6

First Commercial Financial Corp
 Seguin, Texas
 Fiscal Year Ending 12/31/2018

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Herman O. Thomson San Antonio, TX, USA	Retired General USAF & Business Consultant	Director	Director, First Commercial Bank, NA	N/A	2.41%	None	N/A
Jeffrey Albrecht New Braunfels, TX, USA	CPA	Director	Director, First Commercial Bank, NA	Sol Schwartz & Assoc. PA-President Allevier-President	0.35%	None	Sol Schwartz & Assoc. PA (20%) Allevier (25%)

Form FR Y-6

First Commercial Financial Corp
 Seguin, Texas
 Fiscal Year Ending 12/31/2018

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Hal Holtman New Braunfels, TX, USA	CPA	Director	Director, First Commercial Bank, NA	Holtman & Co, LLC- Member Payroll Logic LLC- Member HPSJ LTD-Partner Holtman Prop,LLC- Member Liegenschaft LLC- Member Rancho Holtman LLC - Member Harold A Holtman Jr Trust-Trustee	0.40%	None	Holtman & Co, LLC(100%) Payroll Logic LLC (50%) HPSJ LTD (99%) Holtman Prop,LLC (50%) Liegenschaft, LLC (50%) Rancho Holtman, LLC (50%) Harold A Holtman Jr Trust (100%)

Form FR Y-6

First Commercial Financial Corp
Seguin, Texas
Fiscal Year Ending 12/31/2018

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Doug Miller New Braunfels, TX, USA	Insurance	Director	Director, First Commercial Bank, NA	Witting & Miller, Inc- President Neugeld, Inc- President Lebenhoch, LLC- President Lebenschoen, LLC- President Wendmill, LLC- President	0.45%	None	Witting & Miller, Inc (100%) Neugeld, Inc (100%) Lebenhoch, LLC (100%) Lebenschoen, LLC (100%) Wendmill, LLC (50%)
Robert S. Sillivent Pleasanton, TX, USA	Attorney	Director	Director, First Commercial Bank, NA	Martin Abstract Company, Inc- Co-President Sillivent Ranch, Series LLC-Manager Sillivent Law Firm- Owner/Attorney High Altitude Motosports, LLC- Member	0.07%	None	Martin Abstract Company, Inc (50%) Sillivent Ranch, Series LLC (100%) Sillivent Law Firm (100%) High Altitude Motosports, LLC (12.5%)

Form FR Y-6

First Commercial Financial Corp
Seguin, Texas
Fiscal Year Ending 12/31/2018

Report Item 4: Insiders

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Alfred Steinle/Steinle Family Jourdanton, TX, USA	Attorney	Director	Director, First Commercial Bank, NA	N/A	7.32%	None	N/A
Michael Todd Harper New Braunfels, TX USA	N/A	Vice President	Executive Vice President/Sr. Loan Officer, First Commercial Bank, NA	N/A	None	None	N/A
Elizabeth J. Ricks San Antonio, TX USA	N/A	Treasurer/Assistant Secretary	Senior Vice President/Chief Financial Officer, First Commercial Bank, NA Treasurer, JSB Investments, Inc. DBA 1st Insurance Group	N/A	None	None	N/A

**FIRST COMMERCIAL FINANCIAL
CORPORATION
AND SUBSIDIARIES**

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

DECEMBER 31, 2018 AND 2017

CONTENTS

	PAGE
AUDITED CONSOLIDATED FINANCIAL STATEMENTS:	
Independent Auditor's Report	1
Balance Sheets	3
Statements of Income	4
Statements of Comprehensive Income	5
Statements of Changes in Shareholders' Equity	6
Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9
OTHER FINANCIAL INFORMATION:	
Consolidating Balance Sheet	42
Consolidating Statement of Income.....	43



INDEPENDENT AUDITOR'S REPORT

500 W. 7th Street
Suite 900
Fort Worth, Texas
76102-4702

Phone 817-632-2500
Fax 817-632-2598
www.sga-cpas.com

To the Board of Directors and Shareholders
of First Commercial Financial Corporation
Seguin, Texas

We have audited the accompanying consolidated financial statements of First Commercial Financial Corporation and Subsidiaries, which comprise the balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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 the 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 Commercial Financial Corporation and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other financial information on pages 42-43 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, L.L.P.
Fort Worth, Texas
March 27, 2019

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents:		
Cash and due from banks - Note 2	\$ 3,833,938	\$ 5,204,673
Interest-bearing deposits in financial institutions maturing in less than three months	8,436,784	25,976,596
Total cash and cash equivalents	12,270,722	31,181,269
Interest-bearing deposits in financial institutions maturing in more than three months	16,245,000	15,500,000
Investment securities - Note 3	72,942,033	92,075,413
Other investments, at cost - Note 1	1,189,216	1,191,816
Loans held-for-sale - Note 4	1,973,697	1,435,321
Loans, net of purchase discounts and allowance for loan losses - Note 4	202,153,929	159,194,319
Premises and equipment, net of accumulated depreciation - Note 5	9,954,832	10,159,615
Bank-owned life insurance - Note 10	8,505,764	8,302,925
Goodwill - Note 6	1,566,807	1,566,807
Other intangible assets, net - Note 6	222,786	290,664
Accrued interest receivable	908,807	858,333
Other assets	376,970	1,548,548
Total Assets	\$ 328,310,563	\$ 323,305,030
 LIABILITIES		
Deposits - Note 7	\$ 292,156,728	\$ 285,047,320
Note payable - Note 8	9,405,580	13,448,375
Other liabilities:		
Accrued interest payable	127,874	115,622
Accrued expenses and other liabilities	2,191,264	2,253,983
Total other liabilities	2,319,138	2,369,605
Total Liabilities	303,881,446	300,865,300
 Commitments and contingencies - Notes 5, 8, 11, 12, 13, 14 and 15		
 SHAREHOLDERS' EQUITY		
Common stock, \$1 par value:		
Authorized - 10,000,000 shares		
Issued - 358,663 shares	358,663	358,663
Paid-in capital	13,688,862	13,571,352
Retained earnings	11,970,519	9,800,527
Accumulated other comprehensive loss	(1,501,493)	(1,237,938)
Treasury stock, at cost - 1,381 and 841 shares at December 31, 2018 and 2017, respectively	(87,434)	(52,874)
Total Shareholders' Equity	24,429,117	22,439,730
Total Liabilities and Shareholders' Equity	\$ 328,310,563	\$ 323,305,030

The accompanying notes are an integral part of these financial statements.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Interest income		
Interest and fees on loans	\$ 10,736,953	\$ 8,941,417
Interest on investment securities	1,433,439	1,479,752
Interest on federal funds sold and deposits in other banks	<u>600,569</u>	<u>637,628</u>
Total interest income	<u>12,770,961</u>	<u>11,058,797</u>
Interest expense		
On deposits	474,742	313,133
On borrowed funds	<u>577,127</u>	<u>600,358</u>
Total interest expense	<u>1,051,869</u>	<u>913,491</u>
Net interest income	11,719,092	10,145,306
Provision for loan losses - Note 4	<u>715,000</u>	<u>190,000</u>
Net interest income after provision for loan losses	<u>11,004,092</u>	<u>9,955,306</u>
Non-interest income		
Services charges and fees	1,585,063	1,452,346
Insurance commissions and fees	806,689	782,092
Rental income	456,725	487,725
Net loss on sales of investment securities (includes \$7,543 for 2018 of accumulated other comprehensive income reclassifications for unrealized gains on available-for-sale securities)	(8,310)	-
Gain on sales of other real estate owned	-	53
Loss on disposals of premises and equipment	-	(6,993)
Other income	<u>346,721</u>	<u>309,953</u>
Total non-interest income	<u>3,186,888</u>	<u>3,025,176</u>
Non-interest expense		
Salaries and employee benefits	5,936,681	5,992,385
Occupancy and equipment expenses	1,427,147	1,486,666
Data processing expenses	788,690	517,026
FDIC insurance assessments	95,487	102,396
Other operating expenses	<u>2,437,460</u>	<u>2,201,317</u>
Total non-interest expense	<u>10,685,465</u>	<u>10,299,790</u>
Net Income	<u>\$ 3,505,515</u>	<u>\$ 2,680,692</u>
Earnings per share of common stock	\$ 9.81	\$ 7.48
Average shares of common stock outstanding	357,417	358,478

The accompanying notes are an integral part of these financial statements.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net Income	\$ 3,505,515	\$ 2,680,692
Other comprehensive income (loss)		
Securities available-for-sale:		
Reclassification adjustment for net realized gains/losses on sales, during the year	(7,543)	-
Change in net unrealized gain/loss during the year	(256,012)	92,172
Other comprehensive income (loss)	(263,555)	92,172
Comprehensive Income	\$ 3,241,960	\$ 2,772,864

The accompanying notes are an integral part of these financial statements.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at January 1, 2017	\$ 358,663	\$ 13,571,352	\$ 7,414,618	\$ (1,330,110)	\$ (25,020)	\$ 19,989,503
Purchases of treasury stock					(491,487)	(491,487)
Sales of treasury stock					463,633	463,633
Comprehensive income for the year ended December 31, 2017			2,680,692	92,172		2,772,864
Dividends paid - \$0.82 per share			(294,783)			(294,783)
Balance at December 31, 2017	358,663	13,571,352	9,800,527	(1,237,938)	(52,874)	22,439,730
Purchases of treasury stock					(34,560)	(34,560)
Stock compensation expense		117,510				117,510
Comprehensive income (loss) for the year ended December 31, 2018			3,505,515	(263,555)		3,241,960
Dividends paid - \$3.74 per share			(1,335,523)			(1,335,523)
Balance at December 31, 2018	<u>\$ 358,663</u>	<u>\$ 13,688,862</u>	<u>\$ 11,970,519</u>	<u>\$ (1,501,493)</u>	<u>\$ (87,434)</u>	<u>\$ 24,429,117</u>

The accompanying notes are an integral part of these financial statements.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,505,515	\$ 2,680,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	489,688	518,105
Provision for loan losses	715,000	190,000
Net amortization of investment securities	535,503	584,802
Stock dividends	(2,200)	(1,100)
Stock compensation expense	117,510	-
Amortization of other intangible assets	67,878	100,810
Net loss on sales of investment securities	8,310	-
Gain on sales of other real estate owned	-	(53)
Loss on disposals of premises and equipment	-	6,993
Earnings on bank-owned life insurance	(202,839)	(208,022)
Originations of loans held-for-sale	(32,076,815)	(28,381,104)
Proceeds from sales of loans held-for-sale	31,538,439	29,640,886
(Increase) decrease in accrued income and other assets	1,121,104	(169,559)
Increase (decrease) in accrued expenses and other liabilities	(50,467)	72,328
Total adjustments	<u>2,261,111</u>	<u>2,354,086</u>
Net Cash Provided by Operating Activities	<u>5,766,626</u>	<u>5,034,778</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in interest-bearing deposits with other financial institutions maturing in more than three months	(745,000)	(2,000,095)
Purchases of investment securities:		
Available-for-sale	(105,852,755)	(114,765,121)
Purchases of Federal Home Loan Bank (FHLB) stock	(36,200)	(38,600)
Proceeds from maturities and paydowns of investment securities:		
Available-for-sale	117,241,898	117,497,766
Proceeds from sales of investment securities:		
Available-for-sale	6,936,869	-
Redemptions of FHLB stock	41,000	41,000
Net increase in loans	(43,674,610)	(10,628,235)
Purchases of premises and equipment	(284,905)	(401,447)
Cash proceeds from sales of other real estate owned	-	24,853
Net Cash Used by Investing Activities	<u>\$ (26,373,703)</u>	<u>\$ (10,269,879)</u>

The accompanying notes are an integral part of these financial statements.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	\$ 7,109,408	\$ (9,334,654)
Principal payments paid on note payable	(4,042,795)	(551,625)
Purchases of treasury stock	(34,560)	(491,487)
Proceeds from sales of treasury stock	-	463,633
Dividends paid	(1,335,523)	(294,783)
Net Cash Provided (Used) by Financing Activities	<u>1,696,530</u>	<u>(10,208,916)</u>
Net decrease in cash and cash equivalents	(18,910,547)	(15,444,017)
Cash and cash equivalents at beginning of year	<u>31,181,269</u>	<u>46,625,286</u>
Cash and cash equivalents at end of year	<u>\$ 12,270,722</u>	<u>\$ 31,181,269</u>
 SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES:		
Interest paid	\$ 1,039,617	\$ 913,672
Other real estate acquired through loan foreclosures	-	24,800

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies

Effective close of business on April 29, 2016, First Commercial Financial Corporation (the “Company”) merged with Jourdanton Bancshares, Inc. (“JBI”). As a result of this merger, JBI merged with the Company which was the surviving entity. JBI’s subsidiary bank, Jourdanton State Bank (“JSB”) merged with First Commercial Bank (the “Bank”) which was the surviving entity. JSB Investments, Inc. dba JSB Insurance Agency, a wholly-owned subsidiary of JSB became the wholly-owned subsidiary of the Bank. During 2017, the name of JSB Investments, Inc. was changed to 1st Insurance Group. This acquisition will be referred to as the JSB acquisition throughout this report.

Prior to December 1, 2018, First Commercial Financial Corporation (the “Company”) owned one hundred percent (100%) of First Commercial Corporation, a Nevada corporation (“Nevada”). First Commercial Corporation owned one hundred percent (100%) of First Commercial Bank, N.A (“Bank”). The Bank owned one hundred percent (100%) of 1st Insurance Group. Effective December 1, 2018, Nevada was liquidated into the Company. This resulted in the Company assuming ownership of the Bank. The accounting and reporting policies of all four entities are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Following is a summary of the Company’s more significant accounting and reporting policies:

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its offices in Seguin, New Braunfels, Jourdanton, Pearsall and San Antonio. Its primary deposit products are demand deposit and money market accounts, and its primary lending products are commercial loans and commercial real estate loans. First Commercial Bank, N.A. operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency. The Company is subject to regulation by the Federal Reserve Bank.

Principles of Consolidation

The consolidated financial statements of the Company include its accounts and those relating to Nevada, the Bank and 1st Insurance Group. All significant intercompany balances and transactions have been eliminated upon consolidation.

Estimates

The preparation of 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 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 in the near term relate to the determination of the allowance for loan losses and the valuation of other real estate owned.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

Estimates, continued

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in cash and amounts due from depository institutions (including cash collection items in process of clearing and cash letters in transit), interest-bearing deposits in other financial institutions maturing in less than three months and federal funds sold.

Investment Securities

The Company accounts for investment securities according to authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under the provisions of the FASB authoritative guidance, debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains (losses) on securities available-for-sale are included in other non-interest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their amortized cost that are other than temporary result in writedowns of the individual securities to their fair value. The related writedowns are included in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

Other Investments

At December 31, 2018 and 2017, the Company had \$805,100 included in other investments that represents stock in the Federal Reserve Bank (Fed). A minimum investment in Fed stock is required. At December 31, 2018 and 2017, the Company had \$130,100 and \$132,700, respectively, included in other investments that represents stock in the Federal Home Loan Bank (FHLB). A minimum investment in FHLB stock is required for membership. As a result of this, the Fed stock and FHLB stock are classified as restricted investment securities, carried at cost and evaluated annually for impairment. During 2018 and 2017, no impairment expense was recorded.

Loans Held-for-Sale

Loans held-for-sale are valued at the lower of cost or market as determined by outstanding commitments from investors. Gains or losses on sales of loans held-for-sale are included in other non-interest income.

Loans

The Company grants real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout South Texas. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are stated at the principal amount outstanding less purchase discounts and the allowance for loan losses. Interest income on loans is recognized based upon the principal amounts outstanding.

Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Consumer loans are typically charged-off no later than 120 days past due. 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 is 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 status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due status is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is comprised of amounts charged against income in the form of the provision for loan losses, less charged-off loans, net of recoveries. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan losses.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

Allowance for Loan Losses, 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 specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, special mention or watch. For such loans that are also 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 non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method based upon the estimated useful lives of the assets. The estimated useful lives range from 1 to 40 years.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling costs, establishing a new cost basis. At foreclosure, if the fair value less estimated selling costs of the real estate acquired is less than the Company's recorded investment in the related loan, a writedown is recognized through a charge to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to income, if necessary, to reduce the carrying value of the property to its fair value less estimated selling costs. Sales of other real estate owned are accounted for according to authoritative guidance issued by the FASB.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Company has adopted authoritative guidance issued by the FASB. Under this guidance, goodwill is periodically assessed for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. The Company bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. Refer to Note 6 – Goodwill and Other Intangible Assets for additional information.

Intangibles and Other Long-Lived Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The Company's intangible assets relate to core deposits and customer lists. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets with indefinite useful lives are not amortized until their lives are determined to be definite. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. See Note 6 – Goodwill and Other Intangible Assets for additional information.

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, (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.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 **History and Summary of Significant Accounting Policies, continued**

Reserve for Unfunded Commitments

The Company has established a reserve for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets. At December 31, 2018 and 2017, the recorded liability was \$35,000 and \$25,700, respectively.

Federal Income Taxes

Effective January 1, 2007, the shareholders of the Company elected to be taxed as a Subchapter "S" Corporation under Internal Revenue Service Code Section 1362. In lieu of corporate income taxes, the shareholders of a Subchapter S Corporation are taxed on their proportionate share of the Company's taxable income.

The Company, Nevada, the Bank and 1st Insurance Group join in filing federal income tax returns.

The Companies maintain their records for both financial reporting and tax purposes on the accrual basis of accounting.

In accordance with authoritative guidance issued by the FASB, the Company performed an evaluation to determine if there were any uncertain tax positions that would have an impact on the consolidated financial statements. No uncertain tax positions were identified. The December 31, 2015 through December 31, 2018 tax years remain subject to examination by the Internal Revenue Service. The Company does not believe that any reasonably possible changes will occur within the next 12 months which will have a material impact on the consolidated financial statements. The Company records incurred penalties and interest in other non-interest expense. There were no penalties and interest assessed by taxing authorities during 2018 or 2017.

Earnings Per Common Share

Earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period.

Off-Balance-Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs in the amount of \$125,849 and \$83,593 were expensed during 2018 and 2017, respectively.

Fair Values of Financial Instruments

The FASB has issued authoritative guidance which requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The FASB authoritative guidance excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Interest-Bearing Deposits: Fair values for interest-bearing deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such interest-bearing deposits.

Investment Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Investments: The carrying amounts reported in the balance sheet for other investments approximate their fair values.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. The carrying amount of loans held-for-sale approximates their fair value. The carrying amount of accrued interest receivable approximates its fair value.

Bank-Owned Life Insurance: The carrying amount of bank-owned life insurance approximates its fair value.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

Fair Values of Financial Instruments, continued

Deposits: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for 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 contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates its fair value.

Note Payable: The fair values for the note payable are estimated using discounted cash flow analyses based on the current incremental borrowing rates for similar types of borrowing arrangements.

Stock-Based Compensation

The Board of Directors of the Company approved a stock-based compensation plan which is more fully described in Note 16. The Company has adopted authoritative guidance issued by the FASB regarding accounting for stock compensation expense. As a result of adopting the FASB authoritative guidance, the Company's net income is \$117,510 lower for the year ended December 31, 2018. At December 31, 2017, there were no stock options granted; therefore, net income for 2017 was not effected by stock compensation expense.

Comprehensive Income

The Company has adopted authoritative guidance issued by the FASB which establishes standards for reporting and display of comprehensive income and its components. The Company reports comprehensive income in the statement of comprehensive income.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the consolidated financial statements are available to be issued. The Company has evaluated subsequent events from December 31, 2018 through March 27, 2019, the date the financial statements were available to be issued. The Company did not identify any subsequent events requiring disclosure or adjustment to these consolidated financial statements.

Reclassifications

Certain accounts have been reclassified in the financial statements of 2017 to conform to the 2018 presentation.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgement and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective for annual reporting periods beginning after December 31, 2018. Implementation of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is evaluating the potential impact of the amendment on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the statement of financial condition the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is evaluating the potential impact of the amendment on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)* intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The standard requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The standard also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company believes the amendments in this update will have an impact on the Company's consolidated financial statements and is working to evaluate the significance of that impact.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This amendment provides guidance on eight specific cash flow issues, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Implementation of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. This amendment simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this update should be applied on a prospective basis. The amendments in this update are effective for a public entity that is a SEC filer for fiscal years beginning after December 15, 2019. The amendments in this update are effective for a public entity that is not a SEC filer for fiscal years after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021. Implementation of this standard is not expected to have a significant impact on the Company's consolidated financial statements.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 History and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments of this update are applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is evaluating the potential impact to the consolidated financial statements regarding implementation of this amendment.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This amendment requires an entity to account for the effects of a modification unless all of the following are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. This amendment became effective in 2018 and did not have a significant impact on the Company's consolidated financial statements.

Note 2 Restrictions on Cash and Due From Banks

The Company is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2018 and 2017 was approximately \$7,644,000 and \$6,818,000, respectively.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3 Investment Securities

The amortized cost and fair values of investment securities at December 31, 2018 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
U.S. Treasury securities	\$ 2,031,749	\$ -	\$ (57,335)	\$ 1,974,414
U.S. government agencies and corporations	25,086,578	-	(284,045)	24,802,533
U.S. government agency mortgage-backed securities	32,221,675	37	(1,009,244)	31,212,468
Collateralized mortgage obligations	5,857,433	26,228	(64,191)	5,819,470
Obligations of states and political subdivisions	9,246,091	2,047	(114,990)	9,133,148
Totals	<u>\$ 74,443,526</u>	<u>\$ 28,312</u>	<u>\$ (1,529,805)</u>	<u>\$ 72,942,033</u>

The balance sheet as of December 31, 2018 reflects the fair value of available-for-sale securities of \$72,942,033. A net unrealized loss of \$1,501,493 is in the available-for-sale investment securities balance. The unrealized loss is included in shareholders' equity.

The amortized cost and fair values of investment securities at December 31, 2017 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
U.S. Treasury securities	\$ 2,044,665	\$ -	\$ (47,165)	\$ 1,997,500
U.S. government agencies and corporations	35,882,225	-	(348,402)	35,533,823
U.S. government agency mortgage-backed securities	36,357,353	1,205	(710,551)	35,648,007
Collateralized mortgage obligations	6,522,637	8,574	(59,772)	6,471,439
Obligations of states and political subdivisions	12,506,471	31,777	(113,604)	12,424,644
Totals	<u>\$ 93,313,351</u>	<u>\$ 41,556</u>	<u>\$ (1,279,494)</u>	<u>\$ 92,075,413</u>

The balance sheet as of December 31, 2017 reflects the fair value of available-for-sale securities of \$92,075,413. A net unrealized loss of \$1,237,938 is in the available-for-sale investment securities balance. The unrealized loss is included in shareholders' equity.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3 Investment Securities, continued

The amortized cost and fair values of available-for-sale securities at December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are shown separately, since they are not due at a single maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value
Amounts maturing:		
One year or less	\$ 15,870,569	\$ 15,788,381
After one year through five years	18,468,853	18,129,546
After five years through ten years	2,024,996	1,992,168
	36,364,418	35,910,095
Mortgage-backed securities	32,221,675	31,212,468
Collateralized mortgage obligations	5,857,433	5,819,470
Totals	\$ 74,443,526	\$ 72,942,033

Securities with carrying amounts of \$13,532,905 and \$16,572,099 at December 31, 2018 and 2017, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Proceeds from sales of available-for-sale investment securities for the year ended December 31, 2018 were \$6,936,869 resulting in gross realized gains of \$6,071 and gross realized losses of \$14,381. For the year ended December 31, 2017, there were no sales of investment securities.

Information pertaining to securities with gross unrealized losses at December 31, 2018 and 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2018:						
Federal agencies	\$ 4,567,431	\$ (49,117)	\$ 55,448,668	\$ (1,365,698)	\$ 60,016,099	\$ (1,414,815)
State and municipal governments	774,277	(571)	7,011,583	(114,419)	7,785,860	(114,990)
Total	\$ 5,341,708	\$ (49,688)	\$ 62,460,251	\$ (1,480,117)	\$ 67,801,959	\$ (1,529,805)
December 31, 2017:						
Federal agencies	\$ 20,307,263	\$ (229,382)	\$ 57,028,426	\$ (936,508)	\$ 77,335,689	\$ (1,165,890)
State and municipal governments	3,218,923	(24,165)	5,405,997	(89,439)	8,624,920	(113,604)
Total	\$ 23,526,186	\$ (253,547)	\$ 62,434,423	\$ (1,025,947)	\$ 85,960,609	\$ (1,279,494)

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3 Investment Securities, continued

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2018, the 110 debt securities with an unrealized loss had depreciated 2.21% from the Company's amortized cost basis. These securities are guaranteed by either the U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4 Loans and Allowance for Loan Losses

An analysis of loan categories at December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Commercial loans	\$ 19,364,814	\$ 16,216,621
Real estate (RE) loans:		
Construction, land and land development	40,759,288	32,786,900
Residential 1-4 family	42,989,148	30,276,475
Commercial RE	84,447,474	71,168,705
Consumer loans	18,623,513	12,024,324
Overdrafts	39,112	76,363
	<u>206,223,349</u>	<u>162,549,388</u>
Less: Allowance for loan losses	<u>(2,095,723)</u>	<u>(1,919,748)</u>
Loans, Net	<u>\$ 204,127,626</u>	<u>\$ 160,629,640</u>

Mortgage loans held-for-sale are included above in Residential 1-4 family loans in the amount of \$1,973,697 and \$1,435,321 at December 31, 2018 and 2017, respectively.

Loans as shown above are net of purchase discounts totaling \$1,221,108 and \$1,471,918 at December 31, 2018 and 2017, respectively. These purchase discounts relate to the JSB acquisition which occurred in 2016.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2018 are summarized as follows:

	<u>Commercial</u>	<u>Construction, Land and Land Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial Real Estate</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2018 Total</u>
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 488,867	\$ 281,125	\$ 273,193	\$ 555,418	\$ 71,950	\$ 249,195	\$ 1,919,748
Provisions, charged (credited) to income	<u>693,078</u>	<u>(71,511)</u>	<u>(3,143)</u>	<u>188,121</u>	<u>35,265</u>	<u>(126,810)</u>	<u>715,000</u>
	<u>1,181,945</u>	<u>209,614</u>	<u>270,050</u>	<u>743,539</u>	<u>107,215</u>	<u>122,385</u>	<u>2,634,748</u>
Loans charged-off	(578,860)	-	-	-	(20,175)	-	(599,035)
Recoveries of loans previously charged-off	<u>14,774</u>	<u>15,585</u>	<u>-</u>	<u>25,791</u>	<u>3,860</u>	<u>-</u>	<u>60,010</u>
Net (charge-offs) recoveries	<u>(564,086)</u>	<u>15,585</u>	<u>-</u>	<u>25,791</u>	<u>(16,315)</u>	<u>-</u>	<u>(539,025)</u>
Balance, end of year	<u>\$ 617,859</u>	<u>\$ 225,199</u>	<u>\$ 270,050</u>	<u>\$ 769,330</u>	<u>\$ 90,900</u>	<u>\$ 122,385</u>	<u>\$ 2,095,723</u>
Ending balance: Individually evaluated for impairment	\$ 417,691	\$ 380	\$ -	\$ -	\$ 232	\$ -	\$ 418,303
Ending balance: Collectively evaluated for impairment	<u>200,168</u>	<u>224,819</u>	<u>270,050</u>	<u>769,330</u>	<u>90,668</u>	<u>122,385</u>	<u>1,677,420</u>
Balance, end of year	<u>\$ 617,859</u>	<u>\$ 225,199</u>	<u>\$ 270,050</u>	<u>\$ 769,330</u>	<u>\$ 90,900</u>	<u>\$ 122,385</u>	<u>\$ 2,095,723</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 667,671	\$ 12,674	\$ -	\$ 1,617,398	\$ 7,734		\$ 2,305,477
Ending balance: Collectively evaluated for impairment	<u>18,697,143</u>	<u>40,746,614</u>	<u>42,989,148</u>	<u>82,830,076</u>	<u>18,654,891</u>		<u>203,917,872</u>
Ending balance total loans	<u>\$ 19,364,814</u>	<u>\$ 40,759,288</u>	<u>\$ 42,989,148</u>	<u>\$ 84,447,474</u>	<u>\$ 18,662,625</u>		<u>\$ 206,223,349</u>

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 Loans and Allowance for Loan Losses, continued

Transactions in the allowance for loan losses in 2017 are summarized as follows:

	<u>Commercial</u>	<u>Construction, Land and Development</u>	<u>Residential 1-4 Family</u>	<u>Commercial Real Estate</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>2017 Total</u>
<u>Allowance for Loan Losses:</u>							
Balance, beginning of year	\$ 468,425	\$ 201,307	\$ 250,553	\$ 530,404	\$ 71,352	\$ 256,326	\$ 1,778,367
Provisions, charged (credited) to income	<u>121,051</u>	<u>58,818</u>	<u>22,640</u>	<u>138</u>	<u>(5,516)</u>	<u>(7,131)</u>	<u>190,000</u>
	589,476	260,125	273,193	530,542	65,836	249,195	1,968,367
Loans charged-off	(114,758)	-	-	-	(6,632)	-	(121,390)
Recoveries of loans previously charged-off	<u>14,149</u>	<u>21,000</u>	<u>-</u>	<u>24,876</u>	<u>12,746</u>	<u>-</u>	<u>72,771</u>
Net (charge-offs) recoveries	<u>(100,609)</u>	<u>21,000</u>	<u>-</u>	<u>24,876</u>	<u>6,114</u>	<u>-</u>	<u>(48,619)</u>
Balance, end of year	<u>\$ 488,867</u>	<u>\$ 281,125</u>	<u>\$ 273,193</u>	<u>\$ 555,418</u>	<u>\$ 71,950</u>	<u>\$ 249,195</u>	<u>\$ 1,919,748</u>
Ending balance: Individually evaluated for impairment	\$ 100,000	\$ -	\$ -	\$ -	\$ 2,496	\$ -	\$ 102,496
Ending balance: Collectively evaluated for impairment	<u>388,867</u>	<u>281,125</u>	<u>273,193</u>	<u>555,418</u>	<u>69,454</u>	<u>249,195</u>	<u>1,817,252</u>
Balance, end of year	<u>\$ 488,867</u>	<u>\$ 281,125</u>	<u>\$ 273,193</u>	<u>\$ 555,418</u>	<u>\$ 71,950</u>	<u>\$ 249,195</u>	<u>\$ 1,919,748</u>
<u>Loans:</u>							
Ending balance: Individually evaluated for impairment	\$ 183,709	\$ -	\$ -	\$ 1,709,640	\$ 2,496	-	\$ 1,895,845
Ending balance: Collectively evaluated for impairment	<u>16,032,912</u>	<u>32,786,900</u>	<u>30,276,475</u>	<u>69,459,065</u>	<u>12,098,191</u>	<u>-</u>	<u>160,653,543</u>
Ending balance total loans	<u>\$ 16,216,621</u>	<u>\$ 32,786,900</u>	<u>\$ 30,276,475</u>	<u>\$ 71,168,705</u>	<u>\$ 12,100,687</u>	<u>-</u>	<u>\$ 162,549,388</u>

Federal regulations require that the Company periodically evaluate the risks inherent in its loan portfolio. In addition, the Company's regulatory agencies have authority to identify problem loans and, if appropriate, require them to be reclassified. There are three classifications for problem loans: Substandard, Doubtful and Loss. Substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful loans have the weaknesses of loans classified as "Substandard," with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of collateral questionable on the basis of currently existing facts, conditions and values. There is a high possibility of loss in loans classified as "Doubtful." A loan classified as "Loss" is considered uncollectible and of such little value that continued classification of the credit as a loan is not warranted. If a loan or a portion thereof is classified as "Loss," it must be charged-off, meaning the amount of the loss is charged against the allowance for loan losses, thereby reducing that reserve. The Company also classifies some loans as "Watch" or "Other Loans Especially Mentioned" ("OLEM"). Loans classified as Watch are performing assets and classified as pass credits but have elements of risk that require more monitoring

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 Loans and Allowance for Loan Losses, continued

than other performing loans. Loans classified as OLEM are assets that continue to perform but have shown deterioration in credit quality and require close monitoring.

Loans by credit quality risk rating at December 31, 2018 and 2017 are as follows:

	<u>Pass</u>	<u>Other Loans Especially Mentioned</u>	<u>Sub- Standard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2018:					
Commercial loans	\$ 17,653,741	\$ -	\$ 1,711,073	\$ -	\$ 19,364,814
Real estate (RE) loans:					
Construction, land and land development	40,616,618	129,996	12,674	-	40,759,288
Residential 1-4 family	42,607,407	182,190	199,551	-	42,989,148
Commercial RE	80,319,865	1,798,258	2,329,351	-	84,447,474
Consumer and other loans	18,634,701	20,170	7,754	-	18,662,625
Total loans	<u>\$ 199,832,332</u>	<u>\$ 2,130,614</u>	<u>\$ 4,260,403</u>	<u>\$ -</u>	<u>\$ 206,223,349</u>
December 31, 2017:					
Commercial loans	\$ 14,945,043	\$ 25,236	\$ 1,246,342	\$ -	\$ 16,216,621
Real estate (RE) loans:					
Construction, land and land development	32,637,428	149,472	-	-	32,786,900
Residential 1-4 family	29,891,144	191,115	194,216	-	30,276,475
Commercial RE	68,390,726	1,034,567	1,743,412	-	71,168,705
Consumer and other loans	12,034,879	60,000	5,808	-	12,100,687
Total loans	<u>\$ 157,899,220</u>	<u>\$ 1,460,390</u>	<u>\$ 3,189,778</u>	<u>\$ -</u>	<u>\$ 162,549,388</u>

An analysis of nonaccrual loans by category at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Commercial loans	\$ 533,289	\$ -
Real estate (RE) loans:		
Construction, land and land development	12,674	-
Commercial RE	620,067	762,013
Consumer and other loans	7,734	-
Total nonaccrual loans	<u>\$ 1,173,764</u>	<u>\$ 762,013</u>

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 Loans and Allowance for Loan Losses, continued

At December 31, 2018 and 2017, a summary of information pertaining to impaired loans is as follows:

	<u>Unpaid Contractual Principal Balance</u>	<u>Recorded Investment with No Allowance</u>	<u>Recorded Investment with Allowance</u>	<u>Total Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
December 31, 2018:							
Commercial loans	\$ 1,177,300	\$ -	\$ 667,671	\$ 667,671	\$ 417,691	\$ 425,690	\$ 10,574
Real estate (RE) loans:							
Construction, land and land development	12,674	-	12,674	12,674	380	6,337	-
Commercial RE	3,161,587	1,617,398	-	1,617,398	-	1,663,519	96,898
Consumer and other loans	7,734	-	7,734	7,734	232	5,115	-
Total	<u>\$ 4,359,295</u>	<u>\$ 1,617,398</u>	<u>\$ 688,079</u>	<u>\$ 2,305,477</u>	<u>\$ 418,303</u>	<u>\$ 2,100,661</u>	<u>\$ 107,472</u>
December 31, 2017:							
Commercial loans	\$ 183,709	\$ -	\$ 183,709	\$ 183,709	\$ 100,000	\$ 224,987	\$ 16,943
Real estate (RE) loans:							
Commercial RE	3,333,168	1,709,640	-	1,709,640	-	1,795,341	145,961
Consumer and other loans	2,496	-	2,496	2,496	2,496	1,248	381
Total	<u>\$ 3,519,373</u>	<u>\$ 1,709,640</u>	<u>\$ 186,205</u>	<u>\$ 1,895,845</u>	<u>\$ 102,496</u>	<u>\$ 2,021,576</u>	<u>\$ 163,285</u>

The Company has no commitments to loan additional funds to borrowers whose loans are impaired.

At December 31, 2018 and 2017, there were no Residential 1-4 Family loans in process of foreclosure.

There were no troubled debts restructured during 2018 and 2017. At December 31, 2018 and 2017, there were no troubled debts outstanding that were restructured in prior years.

The following table illustrates an age analysis of past due loans as of December 31, 2018:

	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment 90 Days or More Past Due and Still Accruing</u>
Commercial loans	\$ -	\$ -	\$ -	\$ 19,364,814	\$ 19,364,814	\$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	40,759,288	40,759,288	-
Residential 1-4 family	281,186	-	281,186	42,707,962	42,989,148	-
Commercial RE	-	-	-	84,447,474	84,447,474	-
Consumer and other loans	6,948	-	6,948	18,655,677	18,662,625	-
Total	<u>\$ 288,134</u>	<u>\$ -</u>	<u>\$ 288,134</u>	<u>\$205,935,215</u>	<u>\$206,223,349</u>	<u>\$ -</u>

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 Loans and Allowance for Loan Losses, continued

The following table illustrates an age analysis of past due loans as of December 31, 2017:

	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>Recorded Investment 90 Days or More Past Due and Still Accruing</u>
Commercial loans	\$ 97,088	\$ -	\$ 97,088	\$ 16,119,533	\$ 16,216,621	\$ -
Real estate (RE) loans:						
Construction, land and land development	-	-	-	32,786,900	32,786,900	-
Residential 1-4 family	49,427	-	49,427	30,227,048	30,276,475	-
Commercial RE	-	-	-	71,168,705	71,168,705	-
Consumer and other loans	30,357	1,958	32,315	12,068,372	12,100,687	1,958
Total	<u>\$ 176,872</u>	<u>\$ 1,958</u>	<u>\$ 178,830</u>	<u>\$162,370,558</u>	<u>\$162,549,388</u>	<u>\$ 1,958</u>

Note 5 Premises and Equipment

The investment in premises and equipment at December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,360,261	\$ 3,360,261
Buildings and improvements	9,104,729	8,976,173
Furniture and equipment	2,742,061	3,036,241
Automobile	91,011	60,548
Furniture and equipment in process	68,591	1,279
	<u>15,366,653</u>	<u>15,434,502</u>
Less accumulated depreciation	<u>(5,411,821)</u>	<u>(5,274,887)</u>
Premises and equipment, net	<u>\$ 9,954,832</u>	<u>\$ 10,159,615</u>

Depreciation and amortization on premises and equipment charged to expense totaled \$489,688 and \$518,105 for the years ended December 31, 2018 and 2017, respectively.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 5 Premises and Equipment, continued

Pursuant to the terms of a noncancellable lease agreement pertaining to bank premises in Seguin which is effective through February 28, 2038, future rent commitments at December 31, 2018 under the operating lease are as follows:

2019	\$	38,880
2020		38,880
2021		38,880
2022		38,880
2023		38,880
Thereafter		589,680
Totals	\$	784,080

The lease gives the Company a first refusal option to purchase or lease the premises in the event the landlord decides to sell or lease any premises to a third party.

Total rent expense for the years ended December 31, 2018 and 2017 was \$45,564 and \$37,688, respectively.

The Company leases to others various office spaces at its Lincoln Heights and Blanco Road locations that were part of the JSB acquisition. There are 12 tenants in these buildings obligated under operating leases as of December 31, 2018. The remainder of the tenants of these buildings are operating under month-to-month leases. Future minimum rental income under these leases at December 31, 2018 is as follows:

2019	\$	230,496
2020		121,276
2021		64,027
2022		31,411
2023		14,709
Totals	\$	461,919

Total rental income recorded during 2018 and 2017 was \$456,725 and \$487,725, respectively.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 6 Goodwill and Other Intangible Assets

As discussed in Note 1, the Company completed the JSB acquisition during 2016. A premium of \$2,027,094 was paid by the Company, of which \$460,287 was identified as other intangible assets. The other intangible assets consist of \$359,885 relating to core deposit intangibles and \$100,402 relating to customer lists for the insurance agency. The remaining \$1,566,807 has been recorded as goodwill. In accordance with authoritative guidance issued by the FASB, the goodwill will not be amortized and will be evaluated for impairment at least annually. No impairment of goodwill was identified during 2018 or 2017. The core deposit intangibles are being amortized using a straight line method over their estimated useful life of seven years. The other intangible assets relating to the customer lists for the insurance agency are being amortized using a straight line method over their estimated useful life of two years. Amortization expense on the other intangible assets was \$67,878 and \$100,810 in 2018 and 2017, respectively. The carrying amount of other intangible assets totaling \$222,786 and \$290,664 at December 31, 2018 and 2017, respectively, is net of accumulated amortization totaling \$237,501 and \$169,623, respectively. The estimated future amortization expense for other intangible assets remaining as of December 31, 2018 is as follows:

2019	\$	51,412
2020		51,412
2021		51,412
2022		51,412
2023		<u>17,138</u>
Total	\$	<u>222,786</u>

Note 7 Deposits

The carrying amount of deposits at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Demand	\$ 140,645,030	\$ 130,830,164
Interest-bearing transaction accounts	109,507,239	110,206,072
Savings	22,509,036	22,966,844
Certificates of deposit less than \$100,000	10,193,046	10,163,954
Certificates of deposit \$100,000 and over	<u>9,302,377</u>	<u>10,880,286</u>
Total deposits	<u>\$ 292,156,728</u>	<u>\$ 285,047,320</u>

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 7 Deposits, continued

Maturities of certificates of deposit for each of the next five years are:

2019	\$ 14,079,267
2020	3,431,507
2021	1,984,649
2022	-
2023	-
Total	<u>\$ 19,495,423</u>

There were no brokered deposits at December 31, 2018 and 2017. At December 31, 2018 and 2017, time deposits in amounts of \$250,000 or more totaled \$3,947,941 and \$3,789,282, respectively.

Note 8 Notes Payable

On December 31, 2015, the Company executed a loan agreement from another financial institution in the amount of \$14,000,000. The outstanding balance on this loan as of December 31, 2018 and 2017 was \$9,405,580 and \$13,448,375, respectively. The interest rate on this loan is a variable rate based upon the published prime rate plus .50% which is adjustable annually on the anniversary date of the loan. On June 29, 2018, the interest rate changed to a variable rate based upon the published prime rate which is adjustable annually on the anniversary date of the loan. The interest rate on this note was 5.00% as of December 31, 2018 and 2017. This agreement provides for quarterly interest only payments that begin three months from the date of the first advance for a period of one year, then quarterly principal and interest payments will be due based on a 10-year amortization through the December 31, 2018 maturity date. On June 29, 2018, this loan was renewed to extend the maturity date to June 29, 2023 and provide for quarterly principal and interest payments in the amount of \$344,851 beginning August 9, 2018. The funds of this loan were used to pay off the outstanding balance on an existing loan and provide funds for the JSB acquisition. This note is secured by 100% of the outstanding stock of First Commercial Bank, N.A.

The loan agreement contains multiple loan covenants which relate to the Bank's Capital levels, return on average assets and classified assets. As of December 31, 2018 and 2017, the Company was in compliance with all loan covenants.

Following are annual principal payments due as of December 31, 2018 on the outstanding note payable for each of the next five years:

2019	\$ 919,971
2020	966,327
2021	1,017,429
2022	1,069,995
2023	<u>5,431,858</u>
Total	<u>\$ 9,405,580</u>

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 9 Related Party Transactions

During 2018 and 2017, the Company had transactions made in the ordinary course of business with certain of its officers, directors and principal shareholders. All loans included in such transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

A summary of these transactions follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Amounts Collected</u>	<u>Balance End of Year</u>
For the year ended December 31, 2018	<u>\$ 1,169,861</u>	<u>\$ 1,425,651</u>	<u>\$ (198,405)</u>	<u>\$ 2,397,107</u>
For the year ended December 31, 2017	<u>\$ 1,108,045</u>	<u>\$ 314,464</u>	<u>\$ (252,648)</u>	<u>\$ 1,169,861</u>

Deposits from related parties held by the Company at December 31, 2018 and 2017 amounted to \$1,924,394 and \$3,559,356, respectively.

Note 10 Employee Benefit Plans

The Company has adopted a profit sharing plan for the benefit of substantially all employees which includes a 401(k) retirement plan feature. Employees are allowed to make contributions to the plan. The Company's contribution is determined annually by the Board of Directors. In order to reduce expenses, no profit sharing contribution was made for the years ended December 31, 2018 and 2017.

Officers and other employees of the Company are eligible for participation in an Employee Stock Ownership Plan (the "ESOP"). The ESOP is a noncontributory, qualified stock plan under which the Company makes contributions at the discretion of the Board of Directors. Contributions to the ESOP were \$250,000 and \$150,000 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the non-leveraged ESOP held stock in the Company totaling 56,681 shares.

The Company has salary continuation agreements with certain officers of the Company. These agreements are funded with life insurance policies owned by the Company. The cash surrender values of these policies totaled \$8,505,764 and \$8,302,925 at December 31, 2018 and 2017, respectively. Earnings on these life insurance policies totaled \$202,839 and \$208,022 at December 31, 2018 and 2017, respectively. These earnings are included in other non-interest income. During 2016, the Company acquired life insurance policies and assumed a related deferred death benefit liability as part of the JSB acquisition. During 2018 and 2017, accruals totaling \$15,544 and \$234,346, respectively, were expensed and included in salary and employee benefits related to these plans. At December 31, 2018 and 2017, liabilities under these agreements in the amount of \$1,260,244 and \$1,245,772, respectively, are included in accrued expenses and other liabilities in the consolidated balance sheets.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 11 Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk were approximately as follows:

	2018	2017
Commitments to extend credit	\$ 27,437,000	\$ 33,162,000
Standby letters of credit	445,100	95,100

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Unfunded commitments under lines of credit include revolving credit lines, straight credit lines and interim construction loans, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit generally have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Company has not been required to perform on any financial guarantees during the past two years. The Company has not incurred any losses on its commitments in either 2018 or 2017.

Note 12 Commitments and Contingent Liabilities

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 13 Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 14 Lines of Credit

The Company has established an unsecured line of credit for overnight purchase of federal funds totaling \$7,500,000. This line may be cancelled without any prior notification. At December 31, 2018 and 2017, there were no outstanding balances on this line of credit.

The Company also has a line of credit with the Federal Home Loan Bank. Amounts available under this line vary depending on the collateral that is pledged to secure the borrowings. At December 31, 2018, the Company had available approximately \$12,362,100 for future borrowings under this line of credit. This line is secured by specific eligible loans with a carrying amount of approximately \$24,625,200 at December 31, 2018. There are no outstanding borrowings on this line at December 31, 2018 and 2017.

Note 15 Concentrations of Credit Risk

The Company maintains its cash accounts with several correspondent banks. Generally, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At December 31, 2018 and 2017, uninsured deposits in other financial institutions totaled approximately \$1,750,000 and \$12,288,700, respectively. Furthermore, federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

The Company's loans, commitments and standby letters of credit have generally been granted to customers in the Company's market area. Such customers are normally also depositors of the Company. The concentrations of credit by type of loan are set forth in Note 4. Generally those loans are collateralized and are expected to be repaid from cash flows or proceeds from sale of selected assets of the borrowers. Standby letters of credit are granted primarily to commercial borrowers.

Note 16 Stock Option Plan

Effective December 21, 2017, the Company's Board of Directors approved the First Commercial Financial Corporation 2017 Stock Option Plan ("the Plan"). The Plan allows for the grant of incentive stock options and nonqualified stock options. During 2018, the Company's shareholders approved this Plan. The Plan allows for a maximum of 50,000 options to be granted. Effective January 1, 2018, the Company granted 14,444 and 12,500 of nonqualified and incentive stock options, respectively. The exercise price of the nonqualified stock options is \$60 per share. The exercise price of the incentive stock options is \$64 per share. The nonqualified stock options vest 20% ratably each year on December 31. The incentive stock options vest 12.5% ratably each year on December 31. Both the nonqualified and incentive stock options expire on December 31, 2027. At December 31, 2018, there were 23,056 shares available for grant under this Plan.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 16 Stock Option Plan, continued

The compensation cost that has been charged against income for this Plan was \$117,510 for the year ended December 31, 2018. Since the Company made the Subchapter S election effective January 1, 2007, there is no tax benefit recognized in the income statement for share-based compensation arrangements for the year ended December 31, 2018. There were no stock options outstanding as of December 31, 2017; therefore, there was no stock compensation expense recorded during 2017.

The Company accounts for stock-based awards to employees using the fair value method, in accordance with accounting guidance issued by the FASB. The Company uses the Black-Scholes valuation model to estimate the fair value of stock option awards. The following assumptions are used in the Black-Scholes model: expected volatility, expected dividends, expected term and risk-free rate. Expected volatilities are based on the historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the model. The expected term of options granted is determined from the output of the option valuation model and management's experience and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions are determined at the date of grant and are not subsequently adjusted for actual. The following assumptions were used regarding the 2018 grants of stock options. There were no stock options granted during 2017.

	2018
Expected volatility	29.12%
Weighted-average volatility	29.12%
Expected dividends	0.00%
Expected term (in years)	10 yrs
Risk-free rate	2.35%

A summary of option activity under the Plan as of December 31, 2018, and changes during the year then ended, are presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2018	-	\$ -	
Granted	26,944	61.86	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding at December 31, 2018	26,944	\$ 61.86	9.00
Vested or expected to vest at December 31, 2018	26,944	\$ 61.86	9.00
Exercisable at December 31, 2018	4,451	\$ 61.40	9.00

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 16 Stock Option Plan, continued

During 2018, there were 26,944 options granted. There were no options granted during 2017. During 2018 and 2017, there were no options exercised.

A summary of the status of the Company's nonvested shares related to stock options as of December 31, 2018, and changes during the year then ended, is presented below:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at January 1, 2018	-	\$ -
Granted	26,944	26.69
Vested	(4,451)	26.69
Forfeited	-	-
Nonvested at December 31, 2018	<u>22,493</u>	<u>\$ 26.69</u>

As of December 31, 2018, there was \$563,850 of total unrecognized compensation cost related to nonvested shares of stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 6.25 years.

Note 17 Restrictions on Dividends

In the ordinary course of business, the Company is dependent upon dividends from First Commercial Bank, N.A. to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of First Commercial Bank, N.A. to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

Note 18 Regulatory Matters

Banks are subject to various regulatory capital requirements administered by 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 Bank's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 18 **Regulatory Matters, continued**

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: Total Risk-Based capital, Tier 1 capital and Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations) and Leverage capital, which is Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's Tier 1 capital consists of shareholder's equity excluding unrealized gains and losses on securities available-for-sale, goodwill and other intangible assets.

First Commercial Bank, N.A. has been notified by its regulator that, as of its most recent regulatory examination, it is regarded as well capitalized under the regulatory framework for prompt corrective action. Such determination has been made based on the Bank's Common Equity Tier 1, Tier 1, total capital and leverage ratios. There have been no conditions or events since this notification that management believes would change the Bank's categorization as well capitalized under the ratios listed on the next page.

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory capital framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements and amends the methodologies for determining risk-weighted assets. These changes are expected to increase the amount of capital required by community banking organizations. Basel III includes a multi-year transition period from January 1, 2015 through December 31, 2019.

Management believes that, as of December 31, 2018 and 2017, the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 18 Regulatory Matters, continued

The Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 32,992	14.62%	\$ 18,050	8.00%	\$ 22,563	10.00%
Tier 1 Capital (to Risk-weighted Assets)	\$ 30,861	13.68%	\$ 13,538	6.00%	\$ 18,050	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 30,861	13.68%	\$ 10,153	4.50%	\$ 14,666	6.50%
Leverage Capital (to Adjusted Total Assets)	\$ 30,861	9.41%	\$ 13,112	4.00%	\$ 16,390	5.00%
As of December 31, 2017:						
Total Risk-based Capital (to Risk-weighted Assets)	\$ 34,781	17.38%	\$ 16,013	8.00%	\$ 20,016	10.00%
Tier 1 Capital (to Risk-weighted Assets)	\$ 32,836	16.40%	\$ 12,010	6.00%	\$ 16,013	8.00%
Common Equity Tier 1 Capital (to Risk-weighted Assets)	\$ 32,836	16.40%	\$ 9,007	4.50%	\$ 13,010	6.50%
Leverage Capital (to Adjusted Total Assets)	\$ 32,836	10.20%	\$ 12,881	4.00%	\$ 16,102	5.00%

Note 19 Fair Value Measurements

The Company has adopted authoritative guidance issued by the FASB regarding fair value measurements for financial assets and financial liabilities. The authoritative guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

The authoritative guidance issued by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 19 Fair Value Measurements, continued

transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The authoritative guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- **Level 1 Inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2 Inputs:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- **Level 3 Inputs:** Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 19 Fair Value Measurements, continued

methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available-for-Sale: U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans: Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Other Real Estate Owned: Other real estate owned represents foreclosed assets that are reported at the fair value less estimated selling costs of the underlying property. The fair values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on information obtained from customized discounting criteria.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value. At December 31, 2018 and 2017, there were no financial liabilities measured at fair value on a recurring basis.

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2018:				
Available-for-Sale				
U.S. Treasury securities	\$ 1,974,414	\$ -	\$ -	\$ 1,974,414
U.S. government agencies and corporations	-	24,802,533	-	24,802,533
U.S. government agency mortgage-backed securities	-	31,212,468	-	31,212,468
Collateralized mortgage obligations	-	5,819,470	-	5,819,470
Obligations of states and political subdivisions	-	9,133,148	-	9,133,148
Totals	<u>\$ 1,974,414</u>	<u>\$ 70,967,619</u>	<u>\$ -</u>	<u>\$ 72,942,033</u>
December 31, 2017:				
Available-for-Sale				
U.S. Treasury securities	\$ 1,997,500	\$ -	\$ -	\$ 1,997,500
U.S. government agencies and corporations	-	35,533,823	-	35,533,823
U.S. government agency mortgage-backed securities	-	35,648,007	-	35,648,007
Collateralized mortgage obligations	-	6,471,439	-	6,471,439
Obligations of states and political subdivisions	-	12,424,644	-	12,424,644
Totals	<u>\$ 1,997,500</u>	<u>\$ 90,077,913</u>	<u>\$ -</u>	<u>\$ 92,075,413</u>

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 19 Fair Value Measurements, continued

Certain financial assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis include certain impaired loans reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure the fair value:

	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
December 31, 2018:				
Impaired loans	\$ -	\$ 2,305,477	\$ -	\$ 2,305,477
Less specific valuation allowance for possible loan losses	-	(418,303)	-	(418,303)
Impaired loans, net	<u>\$ -</u>	<u>\$ 1,887,174</u>	<u>\$ -</u>	<u>\$ 1,887,174</u>
December 31, 2017:				
Impaired loans	\$ -	\$ 1,895,845	\$ -	\$ 1,895,845
Less specific valuation allowance for possible loan losses	-	(102,496)	-	(102,496)
Impaired loans, net	<u>\$ -</u>	<u>\$ 1,793,349</u>	<u>\$ -</u>	<u>\$ 1,793,349</u>

Certain nonfinancial assets are measured at fair value on a non-recurring basis. Nonfinancial assets measured at fair value on a non-recurring basis include other real estate owned which, upon initial recognition, were remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, which subsequent to their initial recognition, were remeasured at fair value through a writedown included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2018 and 2017, there was no other real estate owned held by the Company. There were no charge-offs recorded at foreclosure of other real estate owned during 2018 and 2017. During 2018 and 2017, there were no writedowns recorded subsequent to foreclosure on other real estate owned.

Charge-offs recognized upon loan foreclosures are generally offset by general or specific allocations of the allowance for loan losses and generally do not significantly impact the Company's provision for loan losses. Regulatory guidelines require the Company to re-evaluate the fair value of other real estate owned on at least an annual basis.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 20 Fair Values of Financial Instruments

The estimated fair values of the Company's financial instruments that are reported in the consolidated balance sheets at December 31, 2018 and 2017 are shown in the table below:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 12,270,722	\$ 12,270,722	\$ 31,181,269	\$ 31,181,269
Interest-bearing deposits	16,245,000	16,138,000	15,500,000	15,444,000
Investment securities	72,942,033	72,942,033	92,075,413	92,075,413
Other investments	1,189,216	1,189,216	1,191,816	1,191,816
Loans held-for-sale	1,973,697	1,973,697	1,435,321	1,435,321
Loans, net	202,153,929	215,139,000	159,194,319	170,051,000
Bank-owned life insurance	8,505,764	8,505,764	8,302,925	8,302,925
Accrued interest receivable	908,807	908,807	858,333	858,333
Financial liabilities:				
Deposits	292,156,728	292,435,000	285,047,320	284,847,000
Note payable	9,405,580	9,405,580	13,448,375	13,448,375
Accrued interest payable	127,874	127,874	115,622	115,622

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions for December 31, 2018 and 2017.

OTHER FINANCIAL INFORMATION

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018

	FIRST COMMERCIAL FINANCIAL CORPORATION	FIRST COMMERCIAL CORPORATION	FIRST COMMERCIAL BANK, N.A.	1ST INSURANCE GROUP	ELIMINATIONS	CONSOLIDATED BALANCES 2018
ASSETS						
Cash and due from banks	\$ 1,848,106	\$ -	\$ 3,833,938	\$ 815,202	\$ (2,663,308)	\$ 3,833,938
Interest-bearing deposits in financial institutions maturing in less than three months	-	-	8,436,784	-	-	8,436,784
Interest-bearing deposits in financial institutions maturing in more than three months	-	-	16,245,000	-	-	16,245,000
Investment in subsidiary	32,054,520	-	961,713	-	(33,016,233)	-
Investment securities	-	-	72,942,033	-	-	72,942,033
Other investments, at cost	-	-	1,189,216	-	-	1,189,216
Loans held-for-sale	-	-	1,973,697	-	-	1,973,697
Loans, net of purchase discounts and allowance for loan losses	-	-	202,153,929	-	-	202,153,929
Premises and equipment, net of accumulated depreciation	-	-	9,946,557	8,275	-	9,954,832
Bank-owned life insurance	-	-	8,505,764	-	-	8,505,764
Goodwill	-	-	1,510,850	55,957	-	1,566,807
Other intangible assets, net	-	-	222,786	-	-	222,786
Accrued interest receivable	-	-	908,807	-	-	908,807
Other assets	-	-	204,035	172,935	-	376,970
Total Assets	\$ 33,902,626	\$ -	\$ 329,035,109	\$ 1,052,369	\$ (35,679,541)	\$ 328,310,563
LIABILITIES						
Deposits	\$ -	\$ -	\$ 294,820,036	\$ -	\$ (2,663,308)	\$ 292,156,728
Note payable	9,405,580	-	-	-	-	9,405,580
Other liabilities:						
Accrued interest payable	67,929	-	59,945	-	-	127,874
Accrued expenses and other liabilities	-	-	2,100,608	90,656	-	2,191,264
Total other liabilities	67,929	-	2,160,553	90,656	-	2,319,138
Total Liabilities	9,473,509	-	296,980,589	90,656	(2,663,308)	303,881,446
SHAREHOLDERS' EQUITY						
Common stock, \$1 par value:						
Authorized - 10,000,000 shares						
Issued and outstanding - 358,663 shares	358,663	-	485,866	511,230	(997,096)	358,663
Paid-in capital	13,688,862	-	26,467,656	-	(26,467,656)	13,688,862
Retained earnings	11,970,519	-	6,602,491	450,483	(7,052,974)	11,970,519
Accumulated other comprehensive loss	(1,501,493)	-	(1,501,493)	-	1,501,493	(1,501,493)
Treasury stock, at cost - 1,381 shares	(87,434)	-	-	-	-	(87,434)
Total Shareholders' Equity	24,429,117	-	32,054,520	961,713	(33,016,233)	24,429,117
Total Liabilities and Shareholders' Equity	\$ 33,902,626	\$ -	\$ 329,035,109	\$ 1,052,369	\$ (35,679,541)	\$ 328,310,563

See Independent Auditor's Report.

FIRST COMMERCIAL FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	FIRST COMMERCIAL FINANCIAL CORPORATION	FIRST COMMERCIAL CORPORATION	FIRST COMMERCIAL BANK, N.A.	1ST INSURANCE GROUP	ELIMINATIONS	CONSOLIDATED BALANCES 2018
Interest income						
Interest and fees on loans	\$ -	\$ -	\$ 10,736,953	\$ -	\$ -	\$ 10,736,953
Interest on investment securities	-	-	1,433,439	-	-	1,433,439
Interest on federal funds sold and deposits in other banks	-	-	600,569	-	-	600,569
Total interest income	<u>-</u>	<u>-</u>	<u>12,770,961</u>	<u>-</u>	<u>-</u>	<u>12,770,961</u>
Interest expense						
On deposits	-	-	474,742	-	-	474,742
On borrowed funds	567,355	-	9,772	-	-	577,127
Total interest expense	<u>567,355</u>	<u>-</u>	<u>484,514</u>	<u>-</u>	<u>-</u>	<u>1,051,869</u>
Net interest income (expense)	(567,355)	-	12,286,447	-	-	11,719,092
Provision for loan losses	-	-	715,000	-	-	715,000
Net interest income (expense) after provision for loan losses	<u>(567,355)</u>	<u>-</u>	<u>11,571,447</u>	<u>-</u>	<u>-</u>	<u>11,004,092</u>
Non-interest income						
Service charges and fees	-	-	1,585,063	-	-	1,585,063
Insurance commissions and fees	-	-	-	806,689	-	806,689
Rental income	-	-	474,725	-	(18,000)	456,725
Net loss on sales of investment securities	-	-	(8,310)	-	-	(8,310)
Equity in undistributed income of subsidiary	(1,911,300)	(1,374,712)	223,660	-	3,062,352	-
Dividend income from subsidiary	5,990,000	5,250,000	-	-	(11,240,000)	-
Other income	-	-	346,721	-	-	346,721
Total non-interest income	<u>4,078,700</u>	<u>3,875,288</u>	<u>2,621,859</u>	<u>806,689</u>	<u>(8,195,648)</u>	<u>3,186,888</u>
Non-interest expense						
Salaries and employee benefits	-	-	5,466,271	470,410	-	5,936,681
Occupancy and equipment expenses	-	-	1,426,305	18,842	(18,000)	1,427,147
Data processing expenses	-	-	788,690	-	-	788,690
FDIC insurance assessments	-	-	95,487	-	-	95,487
Other operating expenses	5,830	931	2,336,922	93,777	-	2,437,460
Total non-interest expense	<u>5,830</u>	<u>931</u>	<u>10,113,675</u>	<u>583,029</u>	<u>(18,000)</u>	<u>10,685,465</u>
Net Income	<u>\$ 3,505,515</u>	<u>\$ 3,874,357</u>	<u>\$ 4,079,631</u>	<u>\$ 223,660</u>	<u>\$ (8,177,648)</u>	<u>\$ 3,505,515</u>

See Independent Auditor's Report.