

AMENDED  
JUL 06 2018



# 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, 2017

Month / Day / Year

NONE

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

Reporter's Name, Street, and Mailing Address

I, Kelly D. Stretcher

Name of the Holding Company Director and Official

President & CEO & Director

Title of the Holding Company Director and Official

First Liberty National Bancshares, Inc.

Legal Title of Holding Company

1900 Sam Houston / P.O. Box 10109

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

Liberty TX 77575  
City State Zip Code

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.

Physical Location (if different from mailing address)

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.

Person to whom questions about this report should be directed:

Jerry Ursprung Treasurer

Name Title

936-336-6471 / 1127

Area Code / Phone Number / Extension

936-336-3390

Area Code / FAX Number

jursprung@flnb.com

E-mail Address

flnb.com

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

Signature of Holding Company Director and Official

03/20/2018

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 1233627  
C.I. \_\_\_\_\_

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

In accordance with the General Instructions for this report (check only one),

- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately ...

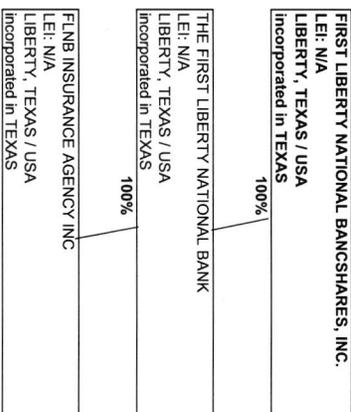
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
Fiscal Year Ending 12/31/2017

Report Item

1. The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the specified by the appropriate Reserve Bank, 2 copies are enclosed.

2 a. Organizational Chart



2b. Domestic branch listing provided to the Federal Reserve Bank.

**AMENDED**  
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**Results:** A list of branches for your depository institution: FIRST LIBERTY NATIONAL BANK, THE (ID\_RSSD: 629353)  
 This depository institution is held by FIRST LIBERTY NATIONAL BANKSHARES, INC. (1233627) of LIBERTY, TX.  
 The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

**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)	629353	FIRST LIBERTY NATIONAL BANK, THE	1900 SAM HOUSTON AVENUE	LIBERTY	TX	77575	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	302035	DAYTON BRANCH	109 E HIGHWAY 90	DAYTON	TX	77535	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	3879618	HUFFMAN BRANCH	28900 FM 2100	HUFFMAN	TX	77336	HARRIS	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	
OK		Full Service	5119327	HARDIN BRANCH	11030 HWY 146 N	LIBERTY	TX	77575	LIBERTY	UNITED STATES	Not Required	Not Required	FIRST LIBERTY NATIONAL BANK, THE	629353	

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS / USA

Fiscal Year Ending 12/31/2017

REPORT ITEM 3 (1) : SHAREHOLDERS

CURRENT SHAREHOLDERS WITH OWNERSHIP CONTROL OF HOLDING OF 5% OR MORE WITH POWER TO VOTE AS OF FISCAL YEAR ENDING 12/31/2017

(1)(A) Name & Address City, State, Country	(1)(B) Country of Citizenship or Incorporation	(1)(C) Number & Percentage of Each Class of Voting Stock
1. MARY C. HAYWOOD BAYTOWN, TX USA	USA	654,410 14.46% COMMON STOCK
USA FLEETWOOD BAYTOWN, TX USA	USA	654,410 14.46% COMMON STOCK
DAVID HAYWOOD BAYTOWN, TX USA	USA	10,000 0.22% COMMON STOCK
TOTAL		1,318,82 29.14%
2. CHARLES R WIGGINS LIBERTY, TX USA	USA	343,985 7.80% COMMON STOCK
JOANN WIGGINS ( wife) LIBERTY, TX USA	USA	215,804 4.77% COMMON STOCK
CHARLES K WIGGINS (son) ALBUQUERQUE, NM USA	USA	134,412 2.97% COMMON STOCK
KARL WIGGINS (son) HUMBLE, TX USA	USA	134,412 2.97% COMMON STOCK
TAMI WIGGINS (daughter) ALBUQUERQUE, NM USA	USA	134,412 2.97% COMMON STOCK
TOTAL		963,025 21.28%
3. D MAYES MIDDLETON, II WALLISVILLE, TX USA	USA	398,89 8.81% COMMON STOCK
4. CHARLES L MCGUIRE LIBERTY, TX USA	USA	312,510 6.91% COMMON STOCK

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS / USA

Fiscal Year Ending 12/31/2017

REPORT ITEM 3 (2): SHAREHOLDERS

SHAREHOLDERS WITH OWNERSHIP, CONTROL OF HOLDING OF 5% OR MORE  
DURING THE FISCAL YEAR, NOT LISTED IN SECTION 3(1) 12/31/2017

(1)(A) Name & Address City, State, Country	(1)(B) Country of Citizenship or Incorporation	(1)(C) Number & Percentage of Each Class of Voting Stock
NONE		

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
 LIBERTY, TEXAS / USA  
 Fiscal Year Ending 12/31/2017

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
 # 1., 2., 3 a, b, c, & 4 a, b, c

1) Name & Address City, State, Country	2) Principal Occupation if other than with Bank Holding Company	3a) Title & Position with Bank Holding Company	3b) Title & Position with Subsidiaries	3c) Title & Position with Other Businesses	4a) Percentage of Voting Shares in Bank Holding Company	4b) Percentage of Voting Shares in Subsidiaries	4c) List names of other Companies if 25% of more of Voting Stock is Held
DAVID CASTLE LIBERTY, TX USA	BANKER	SECRETARY	EXEC. V.P. (THE FIRST LIBERTY NATIONAL BANK)	DIRECTOR & SECRETARY FAIRLAWN MEM PARK CEMETERY LIBERTY, TX USA	0.00%	NONE	NONE
LISA FLEETWOOD BAYTOWN, TX USA	INVESTMENTS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	LIMITED PARTNER HAYWOOD W/II UNITS, LTD BAYTOWN, TX USA	14.46%	NONE	N/A
				SHAREHOLDER LDFMCH, LLC BAYTOWN, TX USA		NONE	LDFMCH, LLC 50%
				SHAREHOLDER & SECRETARY LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	LIBERTY INVESTMENT CO. 25.928%
				OWNER (WITH HUSBAND) KLMB PROPERTIES, LLC BAYTOWN, TX USA		NONE	KLMB PROPERTIES, LLC 100%
				OWNER (WITH HUSBAND) KLMB MINERALS, LLC BAYTOWN, TX USA		NONE	KLMB MINERALS, LLC 100%

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
LIBERTY, TEXAS  
Fiscal Year Ending 12/31/2017

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
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MATTHEW HARRIS LIBERTY, TX USA	CONTRACTOR	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT PELCO CONSTRUCTION LIBERTY, TX USA	0.22%	NONE	PELCO CONSTRUCTION 100%
				MANAGER PELCO PROPERTIES LIBERTY, TX USA		NONE	N/A
				MANAGER JAYAR INC. DAYTON, TX USA		NONE	N/A
				PRESIDENT PELCO BUILDERS LIBERTY, TX USA		NONE	PELCO BUILDERS 100%
				MANAGER JOE & FRANCES HARRIS FAMILY PARTNERSHIP LIBERTY, TX USA		NONE	N/A
GUY L. HARRIS DAYTON, TX USA	BUILDING MATERIALS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	GENERAL PARTNER TOWN PROP. LLP DAYTON, TX USA	0.44%	NONE	N/A
				GENERAL PARTNER PEOPLES LUMBER & SUPPLY LLP DAYTON, TX USA		NONE	N/A
				TRUSTEE ROBERT D HARRIS MOORES BLUFF TRUST DAYTON, TX USA		NONE	N/A
				TRUSTEE ROBERT D & BARBARA HARRIS IRREVOCABLE INSURANCE TRUST DAYTON, TX USA		NONE	N/A
				TRUSTEE ROBERT HARRIS UNIFIED CREDIT TRUST DAYTON, TX USA		NONE	N/A

FORM FRY-6

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
 LIBERTY, TEXAS  
 Fiscal Year Ending 12/31/2017

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
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MARY C. HAYWOOD BAYTOWN, TX USA	INVESTMENTS	Principal Securities Holder	NONE	LIMITED PARTNER, HAYWOOD WI UNITS, LTD BAYTOWN, TX USA	14.46%	NONE	N/A
				SHAREHOLDER LDFMCH, LLC BAYTOWN, TX USA		NONE	LDFMCH LLC 50%
				SHAREHOLDER & VICE PRESIDENT LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	LIBERTY INVESTMENT CO. 25.928%
DAVID HAYWOOD BAYTOWN, TX USA	INVESTMENTS	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT BAYVEST INC BAYTOWN, TX USA	0.22%	NONE	BAYVEST INC. 100%
				SHAREHOLDER & PRESIDENT LIBERTY INVESTMENT COMPANY BAYTOWN, TX USA		NONE	N/A
PAUL HENRY LIBERTY, TX USA	BANKER	DIRECTOR	DIRECTOR	DIRECTOR, PRESIDENT LIBERTY COUNTY HOSPITAL DISTR # 1 LIBERTY, TX USA	1.37%	NONE	NONE

**AMENDED**  
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FIRST LIBERTY NATIONAL BANCSHARES, INC.  
 LIBERTY, TEXAS  
 Fiscal Year Ending 12/31/2017

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
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JOAN JEFFREY LIBERTY, TX USA	FARMING & INVESTMENTS DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	OWNER JGJ FARMS LIBERTY, TX USA		0.24%	NONE	JGJ FARMS 100%
CHARLES L. MCGUIRE LIBERTY, TX USA	C.P.A. & ATTORNEY	CO-CHRMN & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT LIBERTY COUNTY TAX SERVICE LIBERTY, TX USA		6.91%	NONE	LIBERTY COUNTY TAX SERVICE 100%
			PRESIDENT TARVER ABSTRACT CO. LIBERTY, TX USA			NONE	TARVER ABSTRACT CO. 100%
			OWNER CHARLES MCGUIRE C.P.A. & ATTORNEY AT LAW LIBERTY, TX USA			NONE	CHARLES MCGUIRE C.P.A. 100%
			JOINT OWNER TEXAS MOBILE MILL, LLC LIBERTY, TX USA			NONE	TEXAS MOBILE MILL, LLC 50%
D. MAYES MIDDLETON, II WALLISVILLE, TX USA	ATTORNEY	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT MIDDLETON OIL COMPANY HOUSTON, TX USA		8.81%	NONE	MIDDLETON OIL CO. 100%
			OWNER DMM ENERGY LLC HOUSTON, TX USA			NONE	DMM ENERGY LLC 100%



REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
 # 1., 2., 3 a, b, c, & 4 a, b, c

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EDGAR R. NORWOOD LIBERTY, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT SR PRODUCTION CORP LIBERTY, TX USA	1.86%	NONE	SR PRODUCTION 100%
EDWARD PICKETT LIBERTY, TX USA	ATTORNEY	DIRECTOR	DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	PRESIDENT PICKETT & PICKETT P.C. LIBERTY, TX USA	2.52%	NONE	PICKETT & PICKETT P.C. 50%
KELLY D. STRETCHER LIBERTY, TX USA	BANKER	PRESIDENT & CEO & DIRECTOR	PRESIDENT & CEO & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	OWNER JFS RANCH MT. VERNON, TX USA	0.02%	NONE	JFS RANCH 100%
JERRY URSPRUNG LIBERTY, TX USA	BANKER	TREASURER	EXEC. V.P. - CFO & CASHIER (THE FIRST LIBERTY NATIONAL BANK) (SECRETARY/TREASURER FLNB INSURANCE AGENCY)	BOARD MEMBER & SECRETARY HARDIN I.S.D. SCHOOL BOARD HARDIN, TX USA	0.03%	NONE	NONE
CHARLES R WIGGINS LIBERTY, TX USA	RETIRED - BANKING	CO-CHAIRMAN & DIRECTOR	CHRM EMERITUS & DIRECTOR (THE FIRST LIBERTY NATIONAL BANK)	NONE	7.60%	NONE	NONE
JOANN WIGGINS LIBERTY, TX USA	HOUSEMAKER (WIFE OF CHARLES WIGGINS)	Principal Securities Holder	NONE	NONE	4.77%	NONE	NONE

FIRST LIBERTY NATIONAL BANCSHARES, INC.  
 LIBERTY, TEXAS  
 Fiscal Year Ending 12/31/2017

REPORT ITEM 4: INSIDERS OF FIRST LIBERTY NATIONAL BANCSHARES (TOP TIER HOLDING CO)  
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CHARLES KEVIN WIGGINS ALBUQUERQUE, NM USA	ACTOR, MODEL, CONSTR.	Prctipal Securities Holder	N/A	N/A	2.97% **	NONE	N/A
KARL WIGGINS HUMBLE, TX USA	AIRLINE GROUND CREW	Prctipal Securities Holder	N/A	N/A	2.97% **	NONE	N/A
TAMI WIGGINS ALBUQUERQUE, NM USA	SELF EMPL- AERIAL SURV.	Prctipal Securities Holder	N/A	N/A	2.97% **	NONE	N/A

\*\* NOTE: ALTHOUGH CHARLES KEVIN WIGGINS, KARL WIGGINS, AND TAMI WIGGINS ARE NOT DIRECTORS OR OFFICERS OF THE HOLDING COMPANY, INFORMATION MUST BE PROVIDED BECAUSE THEY ARE CONSIDERED A "PRINCIPAL SECURITIES HOLDER" OF THE HOLDING COMPANY. THIS DEFINITION CAN BE FOUND IN THE FR-Y-6 INSTRUCTIONS.

**AMENDED**  
 JUL 09 2018

**First Liberty National Bancshares, Inc.**  
Consolidated Financial Statements and Supplementary Information  
For the Years Ended December 31, 2017 and 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
First Liberty National Bancshares, Inc.  
Liberty, Texas

We have audited the accompanying consolidated financial statements of First Liberty National Bancshares, Inc. and Subsidiaries (the "Company") (an S corporation), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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.

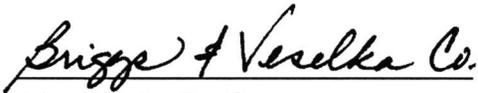
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor's consider internal control relevant to the Company'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 Company'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.

To the Board of Directors and Stockholders of  
First Liberty National Bancshares, Inc.  
Re: Independent Auditors' Report

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Liberty National Bancshares, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Briggs & Veselka Co.  
Houston, Texas

February 20, 2018

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 4,668,139	\$ 7,650,269
Interest-bearing deposits in banks	62,134,860	20,530,538
Federal funds sold	<u>1,271,120</u>	<u>3,053,573</u>
Total cash and cash equivalents	68,074,119	31,234,380
Available-for-sale securities	49,414,824	88,392,641
Held-to-maturity securities	333,259	393,704
Loans, net	188,207,930	173,977,906
Accrued interest receivable	1,284,391	1,324,946
Premises and equipment	7,069,434	4,303,910
Other assets	<u>1,874,801</u>	<u>1,629,598</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 316,258,758</u></b>	<b><u>\$ 301,257,085</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 18,406,837	\$ 30,921,108
Savings, NOW and money market	209,614,223	170,120,255
Time deposits	<u>44,872,133</u>	<u>54,887,311</u>
Total deposits	272,893,193	255,928,674
Borrowings	4,770,600	9,070,600
Accrued expenses and other liabilities	<u>931,898</u>	<u>996,853</u>
Total liabilities	278,595,691	265,996,127
Commitments and contingencies	-	-
<b>Stockholders' equity</b>		
Common stock, \$100 par value; 15,000 shares authorized; 6,077.64 shares issued; 4,525.445 and 4,528.445 shares outstanding in 2017 and 2016, respectively	607,764	607,764
Additional paid-in capital	7,963,988	7,963,988
Retained earnings	38,916,343	36,937,793
Treasury stock, at cost; 1,552.195 and 1,549.195 shares in 2017 and 2016, respectively	(9,764,839)	(9,741,480)
Accumulated other comprehensive loss	<u>(60,189)</u>	<u>(507,107)</u>
Total stockholders' equity	<u>37,663,067</u>	<u>35,260,958</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 316,258,758</u></b>	<b><u>\$ 301,257,085</u></b>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Interest and dividend income		
Loans	\$ 9,004,698	\$ 7,601,609
Debt securities	1,148,297	1,539,470
Federal funds sold	26,988	9,907
Dividends	17,653	15,166
Deposits with financial institutions	450,894	101,170
Total interest and dividend income	<u>10,648,530</u>	<u>9,267,322</u>
Interest expense		
Deposits	642,430	817,455
Borrowings	113,064	133,894
Total interest expense	<u>755,494</u>	<u>951,349</u>
Net interest income	9,893,036	8,315,973
Provision for loan losses	645,000	1,216,000
Net interest income after provision for loan losses	<u>9,248,036</u>	<u>7,099,973</u>
Noninterest income		
Service charges on deposit accounts	1,553,867	1,217,095
Other service charges and fees	2,099,793	1,436,282
Insurance commissions	342,367	270,708
Income from fiduciary activities	104,106	155,937
Net gain (loss) on call or sale of securities	(47,158)	38,835
Net gain on sale of other real estate	38,422	-
Other income	438,489	329,357
Total noninterest income	<u>4,529,886</u>	<u>3,448,214</u>
Noninterest expense		
Salaries and employee benefits	5,540,797	4,525,948
Occupancy and equipment	1,296,902	1,135,688
Data processing	1,155,877	1,134,277
Director fees	172,500	162,250
FDIC assessments	91,563	152,500
Legal and professional	486,890	557,295
Other general and administrative	1,498,672	1,218,212
Total noninterest expense	<u>10,243,201</u>	<u>8,886,170</u>
NET INCOME	<u>\$ 3,534,721</u>	<u>\$ 1,662,017</u>
EARNINGS PER SHARE	<u>\$ 781.08</u>	<u>\$ 367.02</u>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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	<u>2017</u>	<u>2016</u>
Consolidated net income	\$ 3,534,721	\$ 1,662,017
Other comprehensive income:		
Change in unrealized gain (loss) on available-for-sale securities	<u>446,918</u>	<u>(531,426)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b><u>\$ 3,981,639</u></b>	<b><u>\$ 1,130,591</u></b>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
BALANCE, DECEMBER 31, 2015	6,077.64	\$ 607,764	\$ 7,963,988	\$ 36,485,052	\$ (9,741,480)	\$ 24,319	\$ 35,339,643
Net income	-	-	-	1,662,017	-	-	1,662,017
Change in unrealized gain (loss) on available-for-sale securities	-	-	-	-	-	(531,426)	(531,426)
Dividends paid	-	-	-	(1,209,276)	-	-	(1,209,276)
BALANCE, DECEMBER 31, 2016	6,077.64	607,764	7,963,988	36,937,793	(9,741,480)	(507,107)	35,260,958
Net income	-	-	-	3,534,721	-	-	3,534,721
Change in unrealized gain (loss) on available-for-sale securities	-	-	-	-	-	446,918	446,918
Purchase of treasury stock, net	-	-	-	-	(23,359)	-	(23,359)
Dividends paid	-	-	-	(1,556,171)	-	-	(1,556,171)
BALANCE, DECEMBER 31, 2017	<u>6,077.64</u>	<u>\$ 607,764</u>	<u>\$ 7,963,988</u>	<u>\$ 38,916,343</u>	<u>\$ (9,764,839)</u>	<u>\$ (60,189)</u>	<u>\$ 37,663,067</u>

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

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income	\$ 3,534,721	\$ 1,662,017
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	348,321	303,182
Provision for loan losses	645,000	1,216,000
Net amortization of security premiums and discounts	645,582	1,300,454
Net (gain) loss on call or sale of securities	47,158	(38,835)
Net gain on sale of other real estate	(38,422)	-
Changes in operating assets and liabilities:		
Accrued interest receivable	40,555	1,505
Other assets	(965,074)	450,740
Accrued expenses and other liabilities	(64,955)	193,337
Net cash from operating activities	<u>4,192,886</u>	<u>5,088,400</u>
Cash flows from investing activities		
Net change in federal funds sold	1,782,453	(2,053,573)
Net change in interest-bearing deposits in banks	(41,604,322)	3,487,018
Activity in available-for-sale securities:		
Sales	37,077,024	9,070,856
Maturities, calls and principal paydowns	216,556,374	234,139,068
Purchases	(214,905,958)	(217,241,352)
Activity in held-to-maturity securities:		
Maturities	65,000	841,853
Purchase of Federal Home Loan Bank stock	(10,000)	(7,500)
Proceeds from sale of other assets	571,009	1,292,879
Loan originations and principal collections, net	(14,677,740)	(27,468,160)
Purchases of premises equipment	(3,113,845)	(412,175)
Other, net	-	(12,686)
Net cash from investing activities	<u>(18,260,005)</u>	<u>1,636,228</u>
Cash flows from financing activities		
Net change in noninterest-bearing deposits	(12,514,271)	3,170,070
Net change in interest-bearing deposits	29,478,790	(4,979,725)
Net change in borrowings	(4,300,000)	(3,500,000)
Dividends paid	(1,556,171)	(1,209,276)
Repurchase of common stock to treasury	(23,359)	-
Net cash from financing activities	<u>11,084,989</u>	<u>(6,518,931)</u>
Net change in cash and due from banks	<u>(2,982,130)</u>	<u>205,697</u>
Cash and due from banks, beginning of year	<u>7,650,269</u>	<u>7,444,572</u>
Cash and due from banks, end of year	<u>\$ 4,668,139</u>	<u>\$ 7,650,269</u>
Supplemental disclosure of cash flow information:		
Interest paid on deposits and borrowings	\$ 769,607	\$ 958,344
Noncash investing activities:		
Other real estate acquired in settlement of loans	\$ 197,284	\$ -

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

**NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

First Liberty National Bancshares, Inc. (the “Company”) is a Texas corporation and a registered bank holding company under the Bank Holding Company Act of 1956. The Company’s wholly-owned subsidiary, The First Liberty National Bank (the “Bank”) provides a variety of financial services to individuals and small businesses through its main office in Liberty, Texas and full-service branches in Huffman, Hardin, and Dayton, Texas. Its primary deposit products are demand, savings and term certificate accounts and its primary lending products are commercial, real estate and consumer loans. The Bank’s operations also include trust and discount brokerage services. The Bank’s wholly-owned subsidiary, FLNB Insurance Agency, Inc. (FLNB Insurance), also located in Liberty, with a branch in Dayton, is an independent full-service insurance agency.

**Basis of Presentation** – The Company maintains its accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Company, the Bank, and FLNB Insurance. All significant intercompany balances and transactions have been eliminated in consolidation.

**Segment Reporting** – We have determined that all of our lending divisions and subsidiaries meet the aggregation criteria of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 280, *Segment Reporting*, since all offer similar products and services, operate with similar processes, and have similar customers.

**Use of Estimates** – In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and 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, loan origination fees and their amortization period.

**Cash and Cash Equivalents** – Cash and cash equivalents include cash, due from banks, interest-bearing deposits in banks and federal funds sold. Generally, the Company considers all highly-liquid instruments with original maturities of three months or less to be cash and cash equivalents. In monitoring credit risk associated with deposits in other banks, the Bank periodically evaluates the stability of the correspondent financial institutions.

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks.

**Interest-Bearing Deposits in Banks** – Interest-bearing deposits in banks mature within five years and are carried at cost.

**Federal Funds Sold** – Federal funds transactions involve lending of immediately available reserve balances. Usually, the federal funds transactions are for one day or overnight borrowing and lending. In addition, agreements may include rollover provisions. In monitoring credit risk associated with these uninsured deposits, the Company periodically evaluates the stability of the correspondent financial institutions.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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**Investment Securities** – Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the period to maturity. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

**Federal Home Loan Bank (FHLB) Stock** – Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost.

**Loans** – The Bank grants commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout southeast Texas. The ability of the Bank’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 pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees are deferred and recognized as an adjustment of the related loan yield. Certain direct origination costs are not material and are expensed as incurred. In 2017 fees and costs associated with originating loans are recognized as income and expense generally in the period in which fees are received and costs are incurred. Under GAAP, such net fees or costs generally are deferred and recognized over the life of the loan as an adjustment of yield. Management believes that not deferring such fees and costs and amortizing them over the life of the related loans does not materially affect the financial position or results of operations of the Bank.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Bank’s internal risk rating process.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due in accordance with the contractual terms of the loan agreement.

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

**Premises and Equipment** – Land is carried at cost. Buildings, improvements and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs which do not extend the life of banking premises and equipment are charged to expense. Disposals are removed at cost less accumulated depreciation, any resulting gain or loss is reflected in operations.

**Income Taxes** – The Company's stockholders have elected to have the Company's income taxed as an S corporation under provisions of the Internal Revenue Code. Therefore, taxable income or loss is reported to the individual stockholders for inclusion in their respective tax returns and no provision for federal income taxes is included in these financial statements.

The Company files a consolidated federal income tax return with its wholly-owned subsidiary, the Bank. The consolidated return also includes the Bank's wholly-owned subsidiary, FLNB Insurance. In accordance with FASB ASC 740, *Income Taxes*, the Bank believes that it has no uncertain tax provisions that qualify for either recognition or disclosure in the financial statements.

**Earnings Per Share** – Earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period.

**Comprehensive Income** – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available-for-sale, and unrealized losses related to factors other than credit on debt securities which are also recognized as separate components of equity.

**Fair Value Measurements** – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level of fair value hierarchy prioritizes the inputs used to measure fair value:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 1 assets generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.
- **Level 2** – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. The valuation may be based on quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
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- **Level 3** – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include financial instruments whose value is determined using pricing models; discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Financial Instruments With Off-Balance-Sheet Risk** – In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

**Advertising Costs** – The Company expenses the costs of advertising as it is incurred, except for certain advertising which is included in prepaid expenses and amortized over its expected period of future benefits. Advertising expense was \$109,652 and \$100,985 in 2017 and 2016, respectively.

**Concentration of Credit Risk** – Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents. At times, the Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

Most of the Company's business activity is with customers located within its market area. Investments in state and municipal securities include some governmental entities within the Bank's market area.

Most of the Bank's activities are with customers located in its market area. The types of securities that the Bank invests in are included in *Note 3*. The types of lending that the Bank engages in are included in *Note 4*. The Bank does not have any significant concentrations to any one industry or customer.

**Recent Accounting Pronouncements** – In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. The Company is currently assessing the impact this new accounting standard and its subsequent amendments will have on the financial statements and related disclosures.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU No. 2014-09 for all entities by one year. Therefore, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, for nonpublic entities. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company is assessing the method of adoption and the impact this new accounting guidance will have on the financial statements and related disclosures.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
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In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance makes targeted improvements to GAAP impacting equity investments (other than those accounted for under the equity method or consolidated), financial liabilities accounted for under the fair value election, and presentation and disclosure requirements for financial instruments, among other changes. The new guidance is effective for the nonpublic companies for annual reporting periods beginning after December 15, 2018, with early adoption prohibited other than for certain provisions. The Company is evaluating the impact that the new guidance would have on the financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require most leases to be recognized on the consolidated balance sheets as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective beginning after December 15, 2019, for nonpublic companies. The standard may be early adopted and requires a modified retrospective transition approach to apply. The Company is evaluating the effect that ASU 2016-02 will have on the financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments address certain issues identified on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The amendments are effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this standard would have on the financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss model for recognition of credit losses with a methodology that reflects expected credit losses over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. The amendments are effective for nonpublic companies for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of the adoption of this standard would have on the financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides guidance on how to record eight specific cash flow issues, and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. This standard is effective for fiscal years beginning after December 15, 2018 and interim periods beginning after December 15, 2019, with early adoption permitted. Adoption will be applied retrospectively to all periods presented. The Company is currently evaluating the impact this guidance will have on the financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this guidance to eliminate the requirement to calculate the implied fair value of goodwill to measure goodwill impairment charge (Step 2). As a result, an impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2021, for nonpublic companies. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. The impact of this guidance for the Company will depend on the outcomes of future goodwill impairment tests.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

**Reclassifications** – Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year’s format. Total stockholders’ equity and net income are unchanged due to these reclassifications.

**NOTE 2 – RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS**

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank of Dallas. At December 31, 2017 and 2016, these reserve balances amounted to \$-0-.

**NOTE 3 – SECURITIES**

The amortized cost and fair value of securities, with gross unrealized gains and losses were as follows at December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2017</b>				
Available-for-sale securities:				
U.S. Government agency	\$ 6,735,606	\$ 18,271	\$ (35,852)	\$ 6,718,025
State and municipal	21,368,144	152,863	(222,524)	21,298,483
SBA pooled	6,490,403	14,117	(16,458)	6,488,062
Mortgage-backed	<u>14,880,860</u>	<u>162,255</u>	<u>(132,861)</u>	<u>14,910,254</u>
Total available-for-sale securities	<u>\$ 49,475,013</u>	<u>\$ 347,506</u>	<u>\$ (407,695)</u>	<u>\$ 49,414,824</u>
Held-to-maturity securities:				
State and municipal	<u>\$ 333,259</u>	<u>\$ 739</u>	<u>\$ -</u>	<u>\$ 333,998</u>
<b>December 31, 2016</b>				
Available-for-sale securities:				
U.S. treasury	\$ 2,013,504	\$ 48	\$ (8,472)	\$ 2,005,080
U.S. Government agency	13,251,841	95,216	(27,676)	13,319,381
State and municipal	18,029,871	190,262	(132,974)	18,087,159
SBA pooled	17,746,091	53,417	(171,480)	17,628,028
Mortgage-backed	<u>37,858,442</u>	<u>232,302</u>	<u>(737,751)</u>	<u>37,352,993</u>
Total available-for-sale securities	<u>\$ 88,899,749</u>	<u>\$ 571,245</u>	<u>\$ (1,078,353)</u>	<u>\$ 88,392,641</u>
Held-to-maturity securities:				
State and municipal	<u>\$ 393,704</u>	<u>\$ 3,474</u>	<u>\$ -</u>	<u>\$ 397,178</u>

At December 31, 2017 and 2016, securities with a carrying value of approximately \$42,195,000 and \$52,347,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The amortized cost and fair value of debt securities by contractual maturity at December 31, 2017 were as follows:

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 658,047	\$ 656,605	\$ 333,259	\$ 333,998
Due from one to five years	20,610,685	20,459,512	-	-
Due from five to ten years	13,877,519	13,864,415	-	-
Due after ten years	14,328,762	14,434,292	-	-
<b>Totals</b>	<b>\$ 49,475,013</b>	<b>\$ 49,414,824</b>	<b>\$ 333,259</b>	<b>\$ 333,998</b>

For purposes of the maturity table, mortgage-backed and SBA pooled securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the actual contractual maturities of underlying collateral. Expected maturities may differ from contractual maturities because borrowers may call or prepay obligations.

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

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2017</b>						
Available-for-sale securities:						
U.S. Government agency	\$ 3,469,180	\$ (35,852)	\$ -	\$ -	\$ 3,469,180	\$ (35,852)
State and municipal	9,079,027	(128,180)	4,158,950	(94,344)	13,237,977	(222,524)
SBA pooled	2,173,947	(5,390)	2,230,167	(11,068)	4,404,114	(16,458)
Mortgage-backed	1,800,703	(15,764)	4,714,119	(117,097)	6,514,822	(132,861)
<b>Total temporarily impaired securities</b>	<b>\$ 16,522,857</b>	<b>\$ (185,186)</b>	<b>\$ 11,103,236</b>	<b>\$ (222,509)</b>	<b>\$ 27,626,093</b>	<b>\$ (407,695)</b>
<b>December 31, 2016</b>						
Available-for-sale securities:						
U.S. Government agency	\$ 4,730,776	\$ (36,148)	\$ -	\$ -	\$ 4,730,776	\$ (36,148)
State and municipal	6,322,683	(129,863)	256,145	(3,111)	6,578,828	(132,974)
SBA pooled	7,705,226	(71,666)	5,782,586	(99,814)	13,487,812	(171,480)
Mortgage-backed	15,394,920	(374,003)	13,872,337	(363,748)	29,267,257	(737,751)
<b>Total temporarily impaired securities</b>	<b>\$ 34,153,605</b>	<b>\$ (611,680)</b>	<b>\$ 19,911,068</b>	<b>\$ (466,673)</b>	<b>\$ 54,064,673</b>	<b>\$ (1,078,353)</b>

At December 31, 2017 and 2016, the Bank had no held-to-maturity securities in a loss position.

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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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 industry analysts' reports. 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.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
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**NOTE 4 – LOANS**

A summary of the balances of loans were as follows at December 31:

	<u>2017</u>	<u>Percent</u>	<u>2016</u>	<u>Percent</u>
Commercial	\$ 40,335,150	21.2%	\$ 33,900,207	19.3%
Real estate	112,159,036	58.9%	87,692,056	49.8%
Consumer	37,743,293	19.8%	54,213,547	30.8%
Other	<u>196,371</u>	<u>0.1%</u>	<u>130,419</u>	<u>0.1%</u>
Subtotal	190,433,850	100.0%	175,936,229	100.0%
Less: allowance for loan losses	<u>(2,225,920)</u>		<u>(1,958,323)</u>	
Net loans	<u>\$ 188,207,930</u>		<u>\$ 173,977,906</u>	

An analysis of the allowance for loan losses were as follows at December 31:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 1,958,323	\$ 1,286,073
Provision for loan losses	645,000	1,216,000
Loans charged-off	(445,636)	(569,441)
Recoveries	<u>68,233</u>	<u>25,691</u>
Balance at end of year	<u>\$ 2,225,920</u>	<u>\$ 1,958,323</u>

Two levels of disaggregation are defined for disclosures about the credit quality of loans and the allowance for loan losses – portfolio segment and class. Portfolio segment is defined as the level at which the Bank develops and documents a systematic method for determining its allowance for loan losses. Classes generally represent a further disaggregation of a portfolio segment based on certain risk characteristics.

The Bank disaggregates its loans into portfolio segments for purposes of determining the allowance for loan losses. The portfolio segments include commercial, real estate, consumer and other.

The following table provides a summary of the allowance for loan losses and related loans classified by portfolio segment as of December 31:

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
<b>December 31, 2017</b>					
Allowance for loan losses:					
Beginning balance	\$ 783,754	\$ 214,524	\$ 960,045	\$ -	\$ 1,958,323
Provision for loan losses	184,097	551,556	(90,653)	-	645,000
Loans charged-off	(50,025)	-	(395,611)	-	(445,636)
Recoveries	<u>15,800</u>	<u>535</u>	<u>51,898</u>	<u>-</u>	<u>68,233</u>
Ending balance	933,626	766,615	525,679	-	2,225,920
Ending balance: individually evaluated for impairment	<u>621,312</u>	<u>523,358</u>	<u>189,317</u>	<u>-</u>	<u>1,333,987</u>
Ending balance: collectively evaluated for impairment	<u>\$ 312,314</u>	<u>\$ 243,257</u>	<u>\$ 336,362</u>	<u>\$ -</u>	<u>\$ 891,933</u>

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	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
Loans:					
Ending balance	\$ 40,335,150	\$ 112,159,036	\$ 37,743,293	\$ 196,371	\$ 190,433,850
Ending balance: individually evaluated for impairment	<u>2,738,530</u>	<u>7,495,272</u>	<u>882,912</u>	<u>-</u>	<u>11,116,714</u>
Ending balance: collectively evaluated for impairment	<u>\$ 37,596,620</u>	<u>\$ 104,663,764</u>	<u>\$ 36,860,381</u>	<u>\$ 196,371</u>	<u>\$ 179,317,136</u>
December 31, 2016					
Allowance for loan losses:					
Beginning balance	\$ 33,803	\$ 225,870	\$ 1,026,400	\$ -	\$ 1,286,073
Provision for loan losses	933,760	(11,725)	293,965	-	1,216,000
Loans charged-off	(183,809)	-	(385,632)	-	(569,441)
Recoveries	<u>-</u>	<u>379</u>	<u>25,312</u>	<u>-</u>	<u>25,691</u>
Ending balance	783,754	214,524	960,045	-	1,958,323
Ending balance: individually evaluated for impairment	<u>339,572</u>	<u>107,262</u>	<u>258,089</u>	<u>-</u>	<u>704,923</u>
Ending balance: collectively evaluated for impairment	<u>\$ 444,182</u>	<u>\$ 107,262</u>	<u>\$ 701,956</u>	<u>\$ -</u>	<u>\$ 1,253,400</u>
Loans:					
Ending balance	\$ 33,900,207	\$ 87,692,056	\$ 54,213,547	\$ 130,419	\$ 175,936,229
Ending balance: individually evaluated for impairment	<u>1,185,242</u>	<u>7,150,831</u>	<u>955,947</u>	<u>-</u>	<u>9,292,020</u>
Ending balance: collectively evaluated for impairment	<u>\$ 32,714,965</u>	<u>\$ 80,541,225</u>	<u>\$ 53,257,600</u>	<u>\$ 130,419</u>	<u>\$ 166,644,209</u>

**Credit Risk Profile** – To facilitate the monitoring of credit quality within the commercial portfolio segment, and for purposes of analyzing historical loss rates used in the determination of the allowance for loan losses for the commercial portfolio segment. The categories, which are derived from standard regulatory rating definitions, are assigned based on periodic loan evaluations.

The Bank's internally assigned grades are as follows:

- **Pass** – Loans and leases with strong credit and no existing or known potential weaknesses deserving of management's close attention.
- **Special Mention** – Loans and leases that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or lease or the Bank's credit position.
- **Substandard** – Loans and leases that are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. Substandard loans and leases have well defined weaknesses or weaknesses that could jeopardize the orderly repayment of the debt. Loans and leases in this grade are also characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies noted are not addressed and corrected.

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- **Doubtful** – Loans and leases that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors that may work to the advantage of and strengthen the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral or refinancing plans.
- **Loss** – Loans and leases considered uncollectible and are charged off in the period in which they are determined uncollectible. Because loans and leases in this category are fully charged down, they are not included in the following tables.

The following table summarizes the credit risk profile of the Bank's portfolio by segment, as of December 31:

	Commercial	Real Estate	Consumer	Other	Total
<b>December 31, 2017</b>					
Grade					
Pass	\$ 37,596,620	\$ 104,663,763	\$ 36,860,382	\$ 196,371	\$ 179,317,136
Special mention	299,129	122,601	127,393	-	549,123
Substandard	2,155,278	7,138,382	753,768	-	10,047,428
Doubtful	<u>284,123</u>	<u>234,290</u>	<u>1,750</u>	<u>-</u>	<u>520,163</u>
Totals	<u>\$ 40,335,150</u>	<u>\$ 112,159,036</u>	<u>\$ 37,743,293</u>	<u>\$ 196,371</u>	<u>\$ 190,433,850</u>
<b>December 31, 2016</b>					
Grade					
Pass	\$ 32,714,965	\$ 80,541,225	\$ 53,257,600	\$ 130,419	\$ 166,644,209
Special mention	205,865	-	-	-	205,865
Substandard	979,377	7,150,831	912,929	-	9,043,137
Doubtful	<u>-</u>	<u>-</u>	<u>43,018</u>	<u>-</u>	<u>43,018</u>
Totals	<u>\$ 33,900,207</u>	<u>\$ 87,692,056</u>	<u>\$ 54,213,547</u>	<u>\$ 130,419</u>	<u>\$ 175,936,229</u>

**Age Analysis of Past Due Loans** – The following table summarizes the Bank's loans by age and segment as of December 31:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
<b>December 31, 2017</b>							
Commercial	\$ 179,949	\$ 142,568	\$ -	\$ 322,517	\$ 40,012,633	\$ 40,335,150	\$ -
Real estate	2,545,534	461,525	268,606	3,275,665	108,883,371	112,159,036	268,606
Consumer	790,282	53,669	1,750	845,701	36,897,592	37,743,293	1,750
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,371</u>	<u>196,371</u>	<u>-</u>
Totals	<u>\$ 3,515,765</u>	<u>\$ 657,762</u>	<u>\$ 270,356</u>	<u>\$ 4,443,883</u>	<u>\$ 185,989,967</u>	<u>\$ 190,433,850</u>	<u>\$ 270,356</u>
<b>December 31, 2016</b>							
Commercial	\$ 79,950	\$ -	\$ -	\$ 79,950	\$ 33,820,257	\$ 33,900,207	\$ -
Real estate	302,936	45,634	-	348,570	87,343,486	87,692,056	-
Consumer	1,079,455	255,516	8,969	1,343,940	52,869,607	54,213,547	8,969
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,419</u>	<u>130,419</u>	<u>-</u>
Totals	<u>\$ 1,462,341</u>	<u>\$ 301,150</u>	<u>\$ 8,969</u>	<u>\$ 1,772,460</u>	<u>\$ 174,163,769</u>	<u>\$ 175,936,229</u>	<u>\$ 8,969</u>

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**Impaired Loans** – Loans included that exhibit probable or observed credit weaknesses are subject to individual review. The Bank considers the current value of collateral, credit quality of any guarantees, the loan structure, and other factors when evaluating whether an individual loan is impaired. Other factors may include the geography and industry of the borrower, size and financial condition of the borrower, cash flow and leverage of the borrower, and the Bank’s evaluation of the borrower’s management.

The following table summarizes the Bank’s recorded investment in impaired loans and related allowance as of December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
<b>December 31, 2017</b>				
With no related allowance recorded:				
Commercial	\$ 299,129	\$ 299,129	\$ -	\$ 252,497
Real estate	2,014,012	2,014,012	-	1,007,006
Consumer	127,394	127,394	-	63,697
With a related allowance recorded:				
Commercial	\$ 2,439,401	\$ 2,439,401	\$ 621,312	\$ 1,709,389
Real estate	5,481,260	5,481,260	523,358	6,316,046
Consumer	755,518	755,518	189,317	855,733
Totals:				
Commercial	\$ 2,738,530	\$ 2,738,530	\$ 621,312	\$ 1,961,886
Real estate	7,495,272	7,495,272	523,358	7,323,052
Consumer	882,912	882,912	189,317	919,430
<b>December 31, 2016</b>				
With no related allowance recorded:				
Commercial	\$ 205,865	\$ 205,865	\$ -	\$ 175,094
Real estate	-	-	-	-
Consumer	-	-	-	-
With a related allowance recorded:				
Commercial	\$ 979,377	\$ 979,377	\$ 339,572	\$ 525,977
Real estate	7,150,831	7,150,831	107,262	4,200,858
Consumer	955,947	955,947	258,089	925,079
Totals:				
Commercial	\$ 1,185,242	\$ 1,185,242	\$ 339,572	\$ 701,071
Real estate	7,150,831	7,150,831	107,262	4,200,858
Consumer	955,947	955,947	258,089	925,079

Interest income on the cash basis on impaired loans during 2017 and 2016 was \$608,637 and \$557,560, respectively.

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**Trouble Debt Restructuring Loans** – Restructured loans are considered “trouble debt restructuring” if due to the borrower’s financial difficulties, the Bank has granted a concession that it would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates, or a combination of the two. At December 31, 2017 and 2016, the Bank had one commercial loan of \$4,263,394 and \$4,421,119, respectively, which was modified as a trouble debt restructuring allowing the customer to make interest only payments for four consecutive quarters. The Bank has allocated a specific allowance related to this credit in the amount of \$250,000 at December 31, 2017, and there were no commitments to lend additional amounts to this customer.

**Loans on Nonaccrual Status** – There were no loans on nonaccrual status at December 31, 2017 and 2016.

**NOTE 5 – PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation of premises and equipment were as follows at December 31:

	<u>2017</u>	<u>2016</u>
Premises and equipment		
Land	\$ 1,962,293	\$ 1,342,193
Buildings and improvements	6,472,259	5,216,937
Furniture and equipment	<u>4,331,261</u>	<u>3,109,620</u>
Total cost	12,765,813	9,668,750
Less: accumulated depreciation	<u>(5,696,379)</u>	<u>(5,364,840)</u>
Total premises and equipment, net	<u>\$ 7,069,434</u>	<u>\$ 4,303,910</u>

Depreciation expense for 2017 and 2016 amounted to \$348,321 and \$303,182, respectively.

**NOTE 6 – DEPOSITS**

The aggregate amount of time deposits, in denominations of \$250,000 or more, at December 31, 2017 and 2016 was approximately \$11,548,000 and \$17,219,000, respectively. At December 31, 2017, \$9,821,820 of these deposits mature within one year.

At December 31, 2017, the scheduled maturities of time deposits are as follows:

<u>Maturity</u>	<u>Amount</u>
2018	\$ 32,210,136
2019	5,086,998
2020	3,451,224
2021	2,159,402
2022	<u>1,964,373</u>
Total	<u>\$ 44,872,133</u>

Certain demand deposit accounts have been reclassified to interest-bearing accounts for Federal Reserve Bank of Dallas requirements as allowed by The Monetary Control Act of 1980 and Federal Reserve Regulation D. The reclassification for 2017 and 2016 amounted to \$67,745,947 and \$44,633,911, respectively.

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Deposits of state, local and other public entities totaled approximately \$29,521,000 and \$28,221,000 at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, these deposits represented 10.8% and 11.0%, respectively, of total deposits.

**NOTE 7 – BORROWINGS**

At December 31, 2017 and 2016, the Bank had \$23,000,000 and \$25,500,000, respectively, of unsecured federal funds lines of credit available with other banks. The seller may, at its discretion, require security prior to selling funds to the Bank. At December 31, 2017 and 2016, the Bank did not have any borrowings against these lines.

At December 31, 2017 and 2016, the Bank had a line of credit with the FHLB of approximately \$51,384,000 and \$43,610,000, respectively. That amount is due as shown in the following table with interest due monthly at the rates shown. The agreement provides for earlier call dates. Borrowings under the line of credit are limited to 20% of the Bank's total assets. All borrowings are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property; 60% of the carrying value of small business loans and 40% of small farm loans. The borrowings also require the purchase of FHLB capital stock.

<u>Maturity</u>	<u>Amount</u>
2018	\$ 2,600,000
2019	750,000
2020	750,000
2021	<u>670,600</u>
Totals	<u>\$ 4,770,600</u>

**NOTE 8 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

**Credit-Related Financial Instruments** – The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, overdraft protection, and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31:

	<u>Contract Amounts</u>	
	<u>2017</u>	<u>2016</u>
Unfunded commitments under lines of credit	\$ 16,512,426	\$ 12,538,763
Overdraft protection agreements	8,084,728	4,126,367
Letters of credit	391,000	60,000
Unused ACH commitments	3,874,500	2,985,000
Loans sold to FHLB with recourse	24,077	27,214

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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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are generally uncollateralized and ultimately may not be drawn upon to the total extent to which the Bank is committed.

Letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued 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 Bank generally holds collateral supporting those commitments, if deemed necessary.

**Collateral Requirements** – To reduce credit risk related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate.

#### **NOTE 9 – LEGAL CONTINGENCIES**

Various legal claims arise from time-to-time in the normal course of business which, in the opinion of management, will not have a material effect on the Company's financial statements.

#### **NOTE 10 – REGULATORY MATTERS**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, which 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 guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In July 2013, the Federal Reserve Bank of Dallas published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1", (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital, and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

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Additionally, the Basel III Capital Rules require that we maintain a capital conservation buffer with respect to each of the CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. The capital conservation buffer is added to the 4.5% CET1 capital ratio, the 6.0% Tier 1 capital ratio and the 8.0% total capital ratio as that buffer is phased in, effectively increasing the respective minimum capital ratios. The capital conservation buffer is subject to a three-year phase-in period that began on January 1, 2016 and will be fully phased in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2017 is 1.25% and was 0.625% during 2016. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the following tables of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2017 and 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December, 31 2017 and 2016 are also presented as follows:

	Actual		Minimum Capital Required Under Basel III Phase-in		Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2017</b>						
(in thousands)						
Total Capital (to Risk-Weighted Assets)	\$ 39,860	21.86%	\$ 16,863	≥9.25%	\$ 18,230	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	\$ 37,634	20.64%	\$ 13,217	≥7.25%	\$ 14,584	≥8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	\$ 37,634	20.64%	\$ 10,482	≥5.75%	\$ 11,850	≥6.50%
Tier I Capital (to Average Total Assets)	\$ 37,634	12.02%	\$ 12,519	≥4.00%	\$ 15,649	≥5.00%
<b>As of December 31, 2016</b>						
(in thousands)						
Total Capital (to Risk-Weighted Assets)	\$ 37,707	22.46%	\$ 14,478	≥8.625%	\$ 16,786	≥10.00%
Tier I Capital (to Risk-Weighted Assets)	\$ 35,749	21.30%	\$ 11,121	≥6.63%	\$ 13,429	≥8.00%
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	\$ 35,749	21.30%	\$ 8,603	≥5.13%	\$ 10,911	≥6.50%
Tier I Capital (to Average Total Assets)	\$ 35,749	12.02%	\$ 11,898	≥4.00%	\$ 14,872	≥5.00%

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**NOTE 11 – RELATED PARTY TRANSACTIONS**

The Bank has entered into transactions with its executive officers, directors, significant stockholders, and their affiliates (related parties). For 2017 and 2016, fees paid to directors totaled \$172,500 and \$162,000, respectively. Deposits from related parties held by the Bank at December 31, 2017 and 2016 amounted to approximately \$32,390,000 and \$33,462,000, respectively.

The activity of loans to such related parties were as follows:

	<u>2017</u>	<u>2016</u>
Loans outstanding at January 1	\$ 3,969,987	\$ 4,101,959
New loans	420,033	877,919
Repayments	<u>(804,552)</u>	<u>(1,009,891)</u>
Loans outstanding at December 31	<u>\$ 3,585,468</u>	<u>\$ 3,969,987</u>

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

Periodically, the Company does business with entities that have representation with the Board of Directors, but which transactions are not considered material to the financial statements.

**NOTE 12 – EMPLOYEE BENEFIT PLAN**

The Bank and FLNB Insurance have a 401(k) profit sharing plan whereby employees who meet certain eligibility requirements may participate in the Plan. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank and FLNB Insurance make matching contributions equal to 50% of the first 5% of an employee’s compensation contributed to the Plan. In addition, discretionary contributions can be made as determined annually by the Board of Directors. Salaries and employee benefits expense includes \$183,967 and \$112,132 for contributions made to the plan in 2017 and 2016, respectively.

**NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. The Bank groups its financial assets in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments measured on a nonrecurring basis.

**Impaired Loans** – Loans held for investment are generally not recorded at fair value on a recurring basis. Periodically, the Bank records nonrecurring adjustments to the carrying value of these loans based on fair value measurements for loans subject to impairment.

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The fair value of impaired loans is typically determined using a combination of observable inputs, such as interest rates, contract terms, appraisals of collateral supporting the loan and recent comparable sales of similar properties, and unobservable inputs such as creditworthiness, disposition costs and underlying cash flows associated with the loan. Since the estimates of fair value utilized for loans also involve unobservable inputs, valuations of impaired loans have been classified as Level 3.

Fair values of assets and liabilities measured on a recurring and nonrecurring basis are as follows at December 31:

	Fair Value Measurements Using			Fair Value
	Level 1	Level 2	Level 3	
<b>December 31, 2017</b>				
Recurring basis				
U.S. Government agency	\$ -	\$ 6,718,025	\$ -	\$ 6,718,025
State and municipal	-	21,298,483	-	21,298,483
SBA pooled	-	6,488,062	-	6,488,062
Mortgage-backed	-	14,910,254	-	14,910,254
Nonrecurring basis				
Impaired loans	-	-	11,116,714	11,116,714
Totals	\$ -	\$ 49,414,824	\$ 11,116,714	\$ 60,531,538
<b>December 31, 2016</b>				
Recurring basis				
U.S. treasury	\$ -	\$ 2,005,080	\$ -	\$ 2,005,080
U.S. Government agency	-	13,319,381	-	13,319,381
State and municipal	-	18,087,159	-	18,087,159
SBA pooled	-	17,628,028	-	17,628,028
Mortgage-backed	-	37,352,993	-	37,352,993
Nonrecurring basis				
Impaired loans	-	-	9,292,020	9,292,020
Totals	\$ -	\$ 88,392,641	\$ 9,292,020	\$ 97,684,661

The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Bank does not know whether the fair values shown represent values at which the respective financial instruments could be sold individually or in the aggregate.

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

The following tables present estimated fair values of the Bank's financial instruments at December 31:

	(Dollars in Thousands)				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>December 31, 2017</b>					
Financial assets:					
Cash and due from banks	\$ 4,363	\$ 4,363	\$ 4,363	\$ -	\$ -
Interest-bearing deposits in banks	62,135	62,135	62,135	-	-
Available-for-sale securities	49,415	49,415	-	49,415	-
Loans	188,208	184,078	-	-	184,078
Financial liabilities:					
Noninterest-bearing deposits, savings, NOW and money market deposits	\$ 227,716	\$ 188,991	\$ 188,991	\$ -	\$ -
Time deposits	44,872	42,023	-	42,023	-
Borrowings	4,771	4,768	-	4,768	-
<b>December 31, 2016</b>					
Financial assets:					
Cash and due from banks	\$ 7,650	\$ 7,650	\$ 7,650	\$ -	\$ -
Interest-bearing deposits in banks	20,531	20,531	20,531	-	-
Available-for-sale securities	88,393	88,393	-	88,393	-
Loans	173,978	173,109	-	-	173,109
Financial liabilities:					
Noninterest-bearing deposits, savings, NOW and money market deposits	\$ 201,041	\$ 173,874	\$ 173,874	\$ -	\$ -
Time deposits	54,887	52,784	-	52,784	-
Borrowings	9,071	9,111	-	9,111	-

The following methods and assumptions were used to estimate the fair value of the additional classes of financial instruments shown:

**Cash and Due From Banks, Interest-Bearing Deposits in Banks** – The carrying amount approximates fair value.

**Noninterest-Bearing Deposits, Savings, NOW and Money Market Deposits, Time Deposits and Borrowings** – The carrying amount approximates fair value. The fair value of fixed-maturity time deposits and FHLB advances is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits and advances of similar remaining maturities.

**NOTE 14 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through February 20, 2018, which is the date the financial statements were available to be issued and no events occurred that required recording or disclosure in the accompanying financial statements.



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Stockholders of  
First Liberty National Bancshares Inc.  
Liberty, Texas

We have audited the consolidated financial statements of First Liberty National Bancshares Inc. and Subsidiaries (the "Company") as of and for the years ended December 31, 2017 and 2016, and our report thereon dated February 20, 2018 which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I through IV is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

  
Briggs & Veselka Co.  
Houston, Texas

February 20, 2018

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**SCHEDULE I – CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2017**

	The First Liberty National Bank and Subsidiary	First Liberty National Bancshares, Inc.	Eliminations	Consolidated
<b>ASSETS</b>				
Cash and due from banks	\$ 4,864,047	\$ 89,693	\$ (285,601)	\$ 4,668,139
Interest-bearing deposits in banks	62,134,860	-	-	62,134,860
Federal funds sold	<u>1,271,120</u>	<u>-</u>	<u>-</u>	<u>1,271,120</u>
Total cash and cash equivalents	68,270,027	89,693	(285,601)	68,074,119
Available-for-sale securities	49,414,824	-	-	49,414,824
Held-to-maturity securities	333,259	-	-	333,259
Loans	188,207,930	-	-	188,207,930
Accrued interest receivable	1,284,391	-	-	1,284,391
Premises and equipment	7,069,434	-	-	7,069,434
Investment in subsidiary	863,389	37,633,557	(38,496,946)	-
Other assets	<u>1,874,801</u>	<u>-</u>	<u>-</u>	<u>1,874,801</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 317,318,055</u></b>	<b><u>\$ 37,723,250</u></b>	<b><u>\$ (38,782,547)</u></b>	<b><u>\$ 316,258,758</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
<b>Deposits</b>				
Noninterest-bearing	\$ 18,692,438	\$ -	\$ (285,601)	\$ 18,406,837
Savings, NOW and money market	209,614,223	-	-	209,614,223
Time deposits	<u>44,872,133</u>	<u>-</u>	<u>-</u>	<u>44,872,133</u>
Total deposits	273,178,794	-	(285,601)	272,893,193
Borrowings	4,770,600	-	-	4,770,600
Accrued expenses and other liabilities	<u>931,898</u>	<u>-</u>	<u>-</u>	<u>931,898</u>
Total liabilities	278,881,292	-	(285,601)	278,595,691
Commitments and contingencies	-	-	-	-
<b>Stockholders' equity</b>				
Common stock	2,001,000	607,764	(2,001,000)	607,764
Additional paid-in capital	2,499,000	7,963,988	(2,499,000)	7,963,988
Retained earnings	33,996,952	38,916,337	(33,996,946)	38,916,343
Treasury stock, at cost	-	(9,764,839)	-	(9,764,839)
Accumulated other comprehensive loss	<u>(60,189)</u>	<u>-</u>	<u>-</u>	<u>(60,189)</u>
Total stockholders' equity	<u>38,436,763</u>	<u>37,723,250</u>	<u>(38,496,946)</u>	<u>37,663,067</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 317,318,055</u></b>	<b><u>\$ 37,723,250</u></b>	<b><u>\$ (38,782,547)</u></b>	<b><u>\$ 316,258,758</u></b>

*See independent auditors' report on supplementary information.*

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**SCHEDULE II – CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	The First Liberty National Bank and Subsidiary	First Liberty National Bancshares, Inc.	Eliminations	Consolidated
Interest and dividend income				
Loans	\$ 9,004,698	\$ -	\$ -	\$ 9,004,698
Debt securities	1,148,297	-	-	1,148,297
Federal funds sold	26,988	-	-	26,988
Dividends	17,653	-	-	17,653
Deposits with financial institutions	450,894	-	-	450,894
Total interest income	<u>10,648,530</u>	<u>-</u>	<u>-</u>	<u>10,648,530</u>
Interest expense				
Deposits	642,430	-	-	642,430
Borrowings	113,064	-	-	113,064
Total interest expense	<u>755,494</u>	<u>-</u>	<u>-</u>	<u>755,494</u>
Net interest income	9,893,036	-	-	9,893,036
Provision for loan losses	645,000	-	-	645,000
Net interest income after provision for loan losses	9,248,036	-	-	9,248,036
Noninterest income				
Service charges on deposits	1,553,867	-	-	1,553,867
Other service charges and fees	2,099,793	-	-	2,099,793
Insurance commissions	342,367	-	-	342,367
Income from fiduciary activities	104,106	-	-	104,106
Net loss on call or sale of securities	(47,158)	-	-	(47,158)
Net gain on sale of other real estate	38,422	-	-	38,422
Other income	438,489	-	-	438,489
Total noninterest income	<u>4,529,886</u>	<u>-</u>	<u>-</u>	<u>4,529,886</u>
Noninterest expense				
Salaries and employee benefits	5,540,797	-	-	5,540,797
Occupancy and equipment	1,296,902	-	-	1,296,902
Data processing	1,155,877	-	-	1,155,877
Director fees	169,900	2,600	-	172,500
FDIC assessments	91,563	-	-	91,563
Legal and professional	486,876	14	-	486,890
Other general and administrative	1,495,240	3,432	-	1,498,672
Total noninterest expense	<u>10,237,155</u>	<u>6,046</u>	<u>-</u>	<u>10,243,201</u>
Income before equity in earnings of subsidiary	3,540,767	(6,046)	-	3,534,721
Dividends and equity in earnings of subsidiary	<u>30,648</u>	<u>3,540,759</u>	<u>(3,571,407)</u>	<u>-</u>
NET INCOME	<u>\$ 3,571,415</u>	<u>\$ 3,534,713</u>	<u>\$ (3,571,407)</u>	<u>\$ 3,534,721</u>

*See independent auditors' report on supplementary information.*

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**SCHEDULE III – CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2016**

	The First Liberty National Bank and Subsidiary	First Liberty National Bancshares, Inc.	Eliminations	Consolidated
<b>ASSETS</b>				
Cash and due from banks	\$ 7,811,347	\$ 19,066	\$ (180,144)	\$ 7,650,269
Interest-bearing deposits in banks	20,530,538	-	-	20,530,538
Federal funds sold	<u>3,053,573</u>	<u>-</u>	<u>-</u>	<u>3,053,573</u>
Total cash and cash equivalents	31,395,458	19,066	(180,144)	31,234,380
Available-for-sale securities	88,392,641	-	-	88,392,641
Held-to-maturity securities	393,704	-	-	393,704
Loans	173,977,906	-	-	173,977,906
Accrued interest receivable	1,324,946	-	-	1,324,946
Premises and equipment	4,303,910	-	-	4,303,910
Investment in subsidiary	832,742	35,748,998	(36,581,740)	-
Other assets	<u>1,629,598</u>	<u>-</u>	<u>-</u>	<u>1,629,598</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 302,250,905</u></b>	<b><u>\$ 35,768,064</u></b>	<b><u>\$ (36,761,884)</u></b>	<b><u>\$ 301,257,085</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
<b>Deposits</b>				
Noninterest-bearing	\$ 16,581,590	\$ -	\$ (180,144)	\$ 16,401,446
Savings, NOW and money market	184,639,917	-	-	184,639,917
Time deposits	<u>54,887,311</u>	<u>-</u>	<u>-</u>	<u>54,887,311</u>
Total deposits	256,108,818	-	(180,144)	255,928,674
Borrowings	9,070,600	-	-	9,070,600
Accrued expenses and other liabilities	<u>996,853</u>	<u>-</u>	<u>-</u>	<u>996,853</u>
Total liabilities	266,176,271	-	(180,144)	265,996,127
Commitments and contingencies	-	-	-	-
<b>Stockholders' equity</b>				
Common stock	2,001,000	607,764	(2,001,000)	607,764
Additional paid-in capital	2,499,000	7,963,988	(2,499,000)	7,963,988
Retained earnings	32,081,741	36,937,792	(32,081,740)	36,937,793
Treasury stock, at cost	-	(9,741,480)	-	(9,741,480)
Accumulated other comprehensive income	<u>(507,107)</u>	<u>-</u>	<u>-</u>	<u>(507,107)</u>
Total stockholders' equity	<u>36,074,634</u>	<u>35,768,064</u>	<u>(36,581,740)</u>	<u>35,260,958</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 302,250,905</u></b>	<b><u>\$ 35,768,064</u></b>	<b><u>\$ (36,761,884)</u></b>	<b><u>\$ 301,257,085</u></b>

*See independent auditors' report on supplementary information.*

**FIRST LIBERTY NATIONAL BANCSHARES, INC.**  
**SCHEDULE IV – CONSOLIDATING STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	The First Liberty National Bank and Subsidiary	First Liberty National Bancshares, Inc.	Eliminations	Consolidated
Interest and dividend income				
Loans	\$ 7,601,609	\$ -	\$ -	\$ 7,601,609
Debt securities	1,539,470	-	-	1,539,470
Federal funds sold	9,907	-	-	9,907
Dividends	15,166	-	-	15,166
Deposits with financial institutions	101,170	-	-	101,170
Total interest income	<u>9,267,322</u>	<u>-</u>	<u>-</u>	<u>9,267,322</u>
Interest expense				
Deposits	817,455	-	-	817,455
Borrowings	133,894	-	-	133,894
Total interest expense	<u>951,349</u>	<u>-</u>	<u>-</u>	<u>951,349</u>
Net interest income	8,315,973	-	-	8,315,973
Provision for loan losses	<u>1,216,000</u>	<u>-</u>	<u>-</u>	<u>1,216,000</u>
Net interest income after provision for loan losses	7,099,973	-	-	7,099,973
Noninterest income				
Service charges on deposits	1,217,095	-	-	1,217,095
Other service charges and fees	1,436,282	-	-	1,436,282
Insurance commissions	270,708	-	-	270,708
Income from fiduciary activities	155,937	-	-	155,937
Net gain on call or sale of securities	38,835	-	-	38,835
Other income	329,357	-	-	329,357
Total noninterest income	<u>3,448,214</u>	<u>-</u>	<u>-</u>	<u>3,448,214</u>
Noninterest expense				
Salaries and employee benefits	4,525,948	-	-	4,525,948
Occupancy and equipment	1,135,688	-	-	1,135,688
Data processing	1,134,277	-	-	1,134,277
Director fees	160,050	2,200	-	162,250
FDIC assessments	152,500	-	-	152,500
Legal and professional	557,295	-	-	557,295
Other general and administrative	<u>1,211,572</u>	<u>6,640</u>	<u>-</u>	<u>1,218,212</u>
Total noninterest expense	<u>8,877,330</u>	<u>8,840</u>	<u>-</u>	<u>8,886,170</u>
Income before equity in earnings of subsidiary	1,670,857	(8,840)	-	1,662,017
Dividends and equity in earnings of subsidiary	<u>2,004</u>	<u>1,670,857</u>	<u>(1,672,861)</u>	<u>-</u>
NET INCOME	<u>\$ 1,672,861</u>	<u>\$ 1,662,017</u>	<u>\$ (1,672,861)</u>	<u>\$ 1,662,017</u>

*See independent auditors' report on supplementary information.*