2018
ANNUAL REPORT





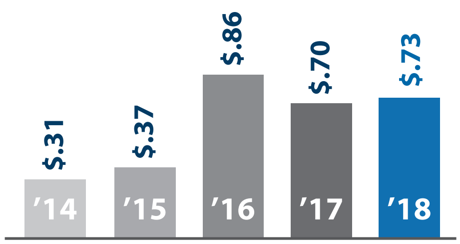




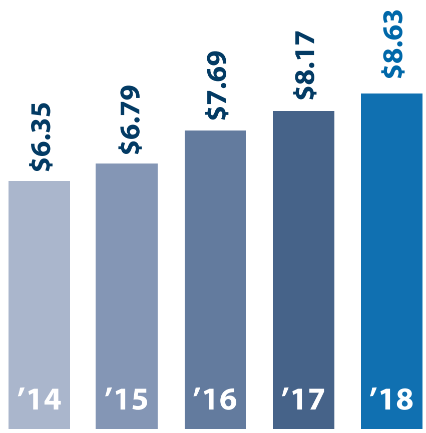

Celebrating *25 Years* of *Community*

25 YEARS
first
Community
Bank

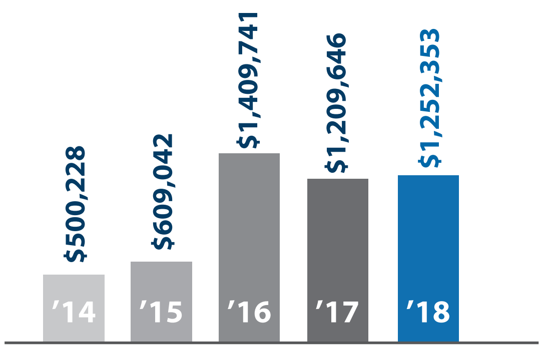
2018 FINANCIAL PERFORMANCE



EARNINGS
PER SHARE

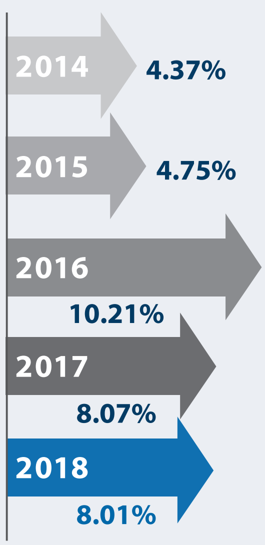


BOOK VALUE
PER SHARE

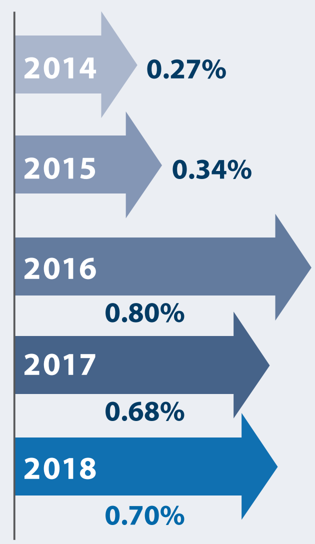


NET INCOME

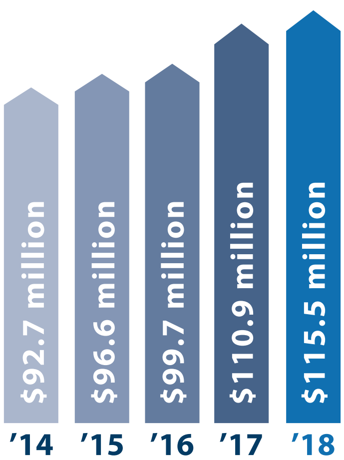
RETURN ON AVERAGE EQUITY
(ROE)



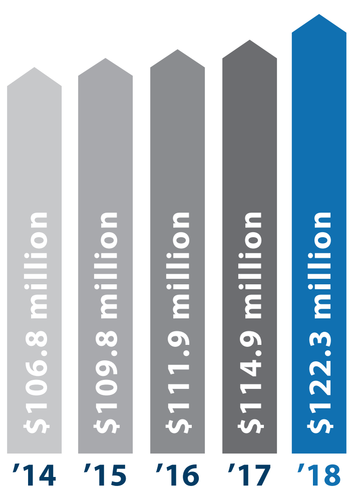
RETURN ON AVERAGE ASSETS
(ROA)

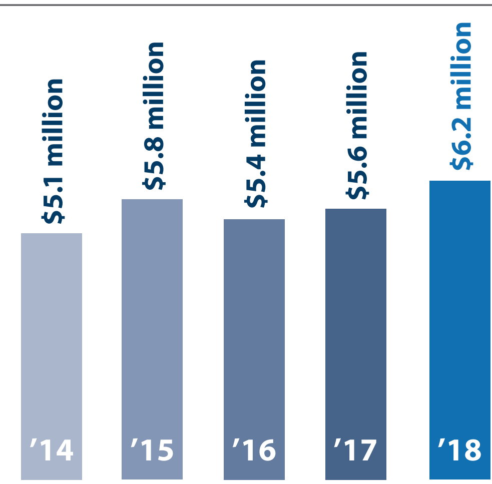


CORE DEPOSIT GROWTH



GROSS LOANS GROWTH





NET INTEREST INCOME

Dear Shareholder:

As we look back on 2018, we are grateful for your continued support and loyalty to First Community Corporation. April 2018 marked the 25th anniversary of First Community Bank of East Tennessee. Then in October, we announced our intent to open our seventh branch location in Surgoinsville, Tenn. We were also able to celebrate another year of strong earnings along with paying a cash dividend to you, our shareholders, in December 2018.

In 2018, the corporation earned $1,252,354, an increase of 3.53% over 2017. These earnings equated to $.73 in earnings per share vs. $0.70 in 2017. The book value per share was $8.63 at the end of 2018, a 5.63% increase over year end 2017 when book value per share equaled $8.17.

When the bank opened in 1993, our organizers and nearly 1,000 stockholders believed Hawkins County and Northeast Tennessee would support a locally-owned and managed financial institution. That's held true for the past 25 years, and we look forward to serving our community for many years to come.

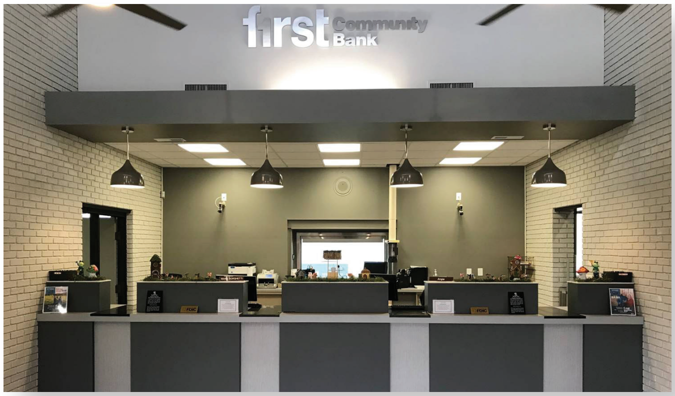
I am proud to be one of the original board members of the bank along with Sidney Lawson and Dr. David Johnson. More than 25 years ago, I stood in the parking lot of our original branch at 809 West Main Street in downtown Rogersville for the grand opening celebration. As the bank has grown, we have maintained our focus on customer service and on the communities in which we live and work.

In celebration of our 25th anniversary, the bank hosted a free community event we named "Music on Main" on May 17 at that same West Main Street location. The event featured great food, free face painting for kids and those young at heart, and the music of High Lonesome Senate, the Walters State Community College bluegrass band. The evening was a huge success!

We recognized Steve Waller and Carolyn Winstead for their 25 years of service to the bank. They hold the distinction of being two of the first 12 employees of First Community Bank. Carolyn currently serves the bank in the Accounting department, and Steve is our Regional Area President for Hawkins County.

In October 2018, we formally announced our intent to open a new FCB branch location in Surgoinsville, Tenn. Earlier in the year, we learned Capital Bank was being purchased by First Tennessee, who then announced plans to close the Surgoinsville location at 290 Bellamy Avenue. Without FCB moving in to fill the void, Surgoinsville would be a community without a financial institution.

Surgoinsville makes our fifth branch location in Hawkins County and seventh overall. Renovations began in late fall 2018 and the Surgoinsville branch opened its doors to the public on January 14, 2019.



first Community Corporation

The communities we serve have grown exponentially these past 25 years and so has First Community Bank. With that growth, comes change, but what remains constant is our dedication to serving our customers and to serving you, our shareholders.

We are proud to be a true community bank. Our name hasn't changed in 25 years and neither has our mission. It's all about seeing our friends and neighbors succeed. Thank you for your commitment to First Community Bank and to the Corporation.

Sincerely,

Tommy W. Young

Tommy W. Young
Chairman of
First Community Corporation

Tyler K. Clinch

Tyler K. Clinch
Chairman of
First Community Bank,
President & CEO

Board of Directors and Officers

Pictured clockwise from left: Tommy Young, Sid Lawson, Jim Maddox, Dr. David Johnson, Dave Lunceford, Tyler Clinch, Kathy Richards, Greg DePriest, Matthew Cleek, Steve Droke

BOARD OF DIRECTORS

Tommy W. Young
Chairman/Secretary
Vice Chairman of the Hawkins County Industrial Commission
Commissioner & Secretary for Hawkins County Gas Utility
Board of Directors - Wellmont Hawkins County Memorial Hospital

Tyler K. Clinch
President

Steve L. Droke
Executive Vice President and Chief Lending Officer

Matthew W. Cleek
President and CEO of Intellithought, Inc.

Gregory L. DePriest
Director of Development
Mountain Mission School

Dr. David R. Johnson
Staff Veterinarian

Sidney K. Lawson
President and CEO of Lawson Construction Company, Inc.

David L. Lunceford
Retired
VP, Board of Directors - Meals on Wheels of Kingsport

Kathy M. Richards
CPA and Business Coach

OFFICERS

Tommy W. Young
Chairman of the Board and Secretary

Tyler K. Clinch
President

James B. Maddox
Treasurer

PUGH CPAs

PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
First Community Corporation
Rogersville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Community Corporation and First Community Bank of East Tennessee which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, (collectively, the 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.

Auditor's Responsibility

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

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

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

Opinion

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 19, 2019

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED BALANCE SHEETS

As of December 31,	2018	2017
ASSETS		
Cash and Cash Equivalents:		
Cash and Due from Banks	$ 12,672,212	$ 17,698,015
Federal Funds Sold	0	23,682
Total Cash and Cash Equivalents	12,672,212	17,721,697
Securities Available for Sale, at Fair Value	23,843,355	24,088,242
Loans, Net	120,507,546	113,075,168
Premises and Equipment, Net	4,399,529	4,312,085
Accrued Interest Receivable	425,659	419,199
Restricted Equity Investments, at Cost	1,810,800	1,810,800
Cash Surrender Value of Life Insurance	6,977,939	6,996,067
Foreclosed Real Estate	766,295	342,028
Deferred Income Tax Benefit	1,856,390	1,985,433
Other Assets	503,780	486,534
Total Assets	$ 173,763,505	$ 171,237,253
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 27,014,450	$ 38,489,540
Interest-bearing	113,016,566	101,190,600
Total Deposits	140,031,016	139,680,140
Securities Sold under Agreements to Repurchase	8,705,667	6,104,985
Federal Home Loan Bank Advances	832,154	880,515
Subordinated Debentures	6,217,000	7,217,000
Accrued Interest Payable	88,348	61,113
Other Liabilities	1,927,509	2,086,462
Total Liabilities	157,801,694	156,030,215
SHAREHOLDERS' EQUITY		
Preferred Stock Class A, $8.05 Par Value. Authorized 400,000 Shares; Issued 220,080; Outstanding 211,672 Shares in 2018 and 2017	1,776,474	1,776,474
Preferred Stock Class B, $8.05 Par Value. Authorized 200,000 Shares; Issued 30,071; Outstanding 29,846 Shares in 2018 and 2017	242,072	242,072
Common Stock, No Par Value. Authorized 10,000,000 Shares; Issued 1,679,244; Outstanding 1,630,812 Shares in 2018 and 2017	5,599,948	5,599,948
Treasury Stock, at Cost	(946,998)	(946,998)
Retained Earnings	9,557,499	8,736,950
Accumulated Other Comprehensive Income (Loss)	(267,184)	(201,408)
Total Shareholders' Equity	15,961,811	15,207,038
Total Liabilities and Shareholders' Equity	$ 173,763,505	$ 171,237,253

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,	2018	2017
INTEREST INCOME		
Loans, Including Fees	$ 5,879,752	$ 5,566,739
Securities		
Taxable	384,815	250,301
Non-taxable	63,322	81,356
Other	453,251	302,219
Total Interest Income	6,781,140	6,200,615
INTEREST EXPENSE		
Deposits	301,544	193,512
Federal Home Loan Bank Advances	44,179	133,999
Subordinated Debentures	256,861	223,175
Other	11,690	2,687
Total Interest Expense	614,274	553,373
NET INTEREST INCOME	6,166,866	5,647,242
PROVISION FOR LOAN LOSSES	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,166,866	5,647,242
NONINTEREST INCOME		
Service Charges on Deposit Accounts	461,508	468,950
Net Gain (Loss) on Sales and Redemptions of Securities Available for Sale	1,105	0
Increase in Cash Surrender Value of Life Insurance	198,534	217,676
Other	361,467	389,246
Total Noninterest Income	1,022,614	1,075,872
NONINTEREST EXPENSE		
Salaries and Employee Benefits	3,285,036	3,031,363
Occupancy	542,241	516,445
Data Processing	418,521	423,347
Furniture and Equipment	193,385	158,400
Advertising and Public Relations	54,113	37,334
Professional Services	190,435	167,291
Foreclosed Real Estate	95,692	231,071
Operating Supplies	55,580	98,603
Computer Software Depreciation	20,494	24,137
Software Maintenance	48,804	73,253
Telephone and Data Communications	89,258	100,859
Director and Committee Fees	108,540	56,775
FDIC and State Assessments	77,880	71,726
Cybersecurity	124,590	74,797
Other	526,640	543,726
Total Noninterest Expense	5,831,209	5,609,127
INCOME BEFORE INCOME TAXES	1,358,271	1,113,987
INCOME TAX (EXPENSE) BENEFIT	(105,918)	95,659
NET INCOME	$ 1,252,353	$ 1,209,646
EARNINGS PER COMMON SHARE	$ 0.73	$ 0.70
EARNINGS PER COMMON SHARE, ASSUMING DILUTION	$ 0.67	$ 0.64

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,	2018	2017
NET INCOME	$ 1,252,353	$ 1,209,646
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized Gains (Losses) on Investment Securities Available for Sale	(34,261)	72,197
Reclassification Adjustment for Realized Gains Included in Net Income (Loss) Above	(1,105)	0
Other Comprehensive Income (Loss) Before Income Taxes	(35,366)	72,197
Income (Taxes) Benefit Related to Items of Other Comprehensive Income	9,261	(27,644)
Other Comprehensive Income (Loss), Net of Income Taxes	(26,105)	44,553
COMPREHENSIVE INCOME	$ 1,226,248	$ 1,254,199

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2018 and 2017

	Preferred Stock A	Preferred Stock B	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
BALANCES, JANUARY 1, 2017	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 7,999,202	$ (245,961)	$ 14,424,737
Preferred Stock Dividends Paid	0	0	0	0	(63,772)	0	(63,772)
Common Stock Dividends Paid	0	0	0	0	(408,126)	0	(408,126)
Net Income	0	0	0	0	1,209,646	0	1,209,646
Other Comprehensive Income	0	0	0	0	0	44,553	44,553
BALANCES, DECEMBER 31, 2017	1,776,474	242,072	5,599,948	(946,998)	8,736,950	(201,408)	15,207,038
Preferred Stock Dividends Paid	0	0	0	0	(63,772)	0	(63,772)
Common Stock Dividends Paid	0	0	0	0	(407,703)	0	(407,703)
Net Income	0	0	0	0	1,252,353	0	1,252,353
Other Comprehensive Income (Loss)	0	0	0	0	0	(26,105)	(26,105)
Reclassification of Income Tax Effects of the Tax Cuts and Jobs Act	0	0	0	0	39,671	(39,671)	0
BALANCES, DECEMBER 31, 2018	$ 1,776,474	$ 242,072	$ 5,599,948	$ (946,998)	$ 9,557,499	$ (267,184)	$ 15,961,811

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

FIRST COMMUNITY CORPORATION AND FIRST COMMUNITY BANK OF EAST TENNESSEE
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,		2018		2017
Cash Flows from Operating Activities:				
Net Income (Loss)	$	1,252,353	$	1,209,646
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Depreciation and Amortization		244,315		253,507
Net Amortization of Securities		97,975		161,917
Provision for Loan Losses		0		0
(Gain) Loss of Sales of Foreclosed Real Estate		(32,082)		(20,271)
Write-downs of Foreclosed Real Estate		82,460		209,370
Deferred Income Taxes (Benefit)		138,304		(116,608)
Gain (Loss) on Sales and Redemptions of Securities Available for Sale		(1,105)		0
(Increase) Decrease in Cash Surrender Value of Company Owned Life Insurance		(198,534)		(217,676)
Change in Accrued Interest Receivable and Other Assets		(23,706)		39,712
Change in Accrued Interest Payable and Other Liabilities		84,944		(143,540)
Net Cash Provided by (Used in) Operating Activities		1,644,924		1,376,057
Cash Flows from Investing Activities:				
Purchases of Securities Available for Sale		(5,966,642)		(8,114,906)
Proceeds from Maturities, Redemptions, and Paydowns of Securities Available for Sale		6,079,293		6,550,543
Net (Increase) Decrease in Loans		(8,022,367)		(3,097,088)
Proceeds from Sales of Foreclosed Real Estate		326,706		999,560
Capital Improvements to Foreclosed Real Estate		(211,362)		0
Purchases of Premises and Equipment		(331,759)		(51,143)
Net Cash Provided by (Used in) Investing Activities		(8,126,131)		(3,713,034)
Cash Flows from Financing Activities:				
Cash Dividends Paid on Preferred Stock		(63,772)		(63,772)
Cash Dividends Paid on Common Stock		(407,703)		(408,126)
Repayments of FHLB Advances		(48,361)		(5,345,929)
Repayment of Subordinated Debentures		(1,000,000)		0
Change in Checking, Savings and Money Market Accounts		4,522,601		9,740,185
Increase (Decrease) in Time Deposits		(4,171,725)		(5,165,896)
Change in Securities Sold under Agreements to Repurchase		2,600,682		519,801
Net Cash Provided by (Used in) Financing Activities		1,431,722		(723,737)
Net Change in Cash and Cash Equivalents		(5,049,485)		(3,060,714)
Cash and Cash Equivalents at Beginning of Period		17,721,697		20,782,411
Cash and Cash Equivalents at End of Period	$	12,672,212	$	17,721,697
Supplemental Disclosures of Cash Flow Information:				
Cash Paid During the Year for:				
Interest	$	587,040	$	581,395
Income Taxes		1,287		1,800
Supplemental Noncash Disclosures:				
Transfers from Loans to Foreclosed Real Estate	$	589,989	$	109,773
Change in Unrealized Gains/Losses on Securities Available for Sale		(35,366)		72,197
Change in Deferred Income Taxes Associated with Unrealized Gains/Losses on Securities Available for Sale		(9,261)		27,644
Change in Unrealized Gains/Losses on Securities Available for Sale, Net of Deferred Income Taxes		(26,105)		44,553

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: First Community Corporation (the Holding Company), through its wholly owned subsidiary, First Community Bank of East Tennessee (the Bank), provides a variety of banking services to individuals and businesses from its banking offices in Rogersville, Church Hill, and Kingsport, Tennessee. Its primary deposit products are demand and savings deposits and certificates of deposit, and its primary lending products are commercial, residential real estate and consumer loans. The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States of America (GAAP) and to general practices in the banking industry. The significant policies are summarized as follows:

Basis of Presentation: The accompanying consolidated financial statements include the accounts of First Community Corporation, a one-bank holding company and its wholly-owned subsidiary, First Community Bank of East Tennessee, together referred to as “the Company”. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: To prepare consolidated financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, fair values of financial instruments, the valuation of real estate acquired through foreclosures, and deferred compensation related to retirement plan liabilities are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for loan, deposit and securities sold under agreements to repurchase transactions.

Cash and Due from Banks: Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks. Cash on hand or on deposit with correspondent banks of $1,765,000 and $1,780,000 was required to meet regulatory reserve and clearing requirements at December 31, 2018 and 2017, respectively. These balances do not earn interest. The Bank also maintains cash deposits with the Federal Reserve Bank, which totaled approximately $6,928,000 and $13,383,000 as of December 31, 2018 and 2017, respectively, and with the Federal Home Loan Bank of Cincinnati, which totaled approximately $190,000 and $177,000 as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, balances in correspondent bank accounts in excess of FDIC insurance limits totaled approximately $2,015,000 and $155,000, respectively.

Securities: Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss).

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary (see Note 2).

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Company’s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in the fair value (see Note 2).

Restricted Equity Investments: The Company’s restricted equity investment represents a required investment in the Federal Home Loan Bank (FHLB) of Cincinnati, which is pledged as collateral for FHLB advances (see Note.11). This investment is carried at cost because it does not have a readily determinable fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of an estimated allowance for loan losses.

Interest income is reported on the simple interest accrual method. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

Estimated Allowance for Loan Losses: The estimated allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other trends and conditions. The entire estimated allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the estimated allowance when management believes the uncollectibility of a loan balance is confirmed.

A general reserve is established that evaluates unimpaired loans by category. Each loan within a group has similar risk characteristics. When estimating credit losses on each group of loans, management considers the Company's historical loss experience on the group, adjusted for changes in trends, conditions, and other relevant factors that affect repayment of the loans as of the evaluation date. These loans are collectively evaluated for estimated credit losses.

Another component of the ALLL is an allocated reserve on individually evaluated loans, as judgmentally determined by management to be impaired. A loan is considered impaired when based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. If a loan is impaired, an allocated allowance is established so that the loan is reported at the net present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

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

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, which range as follows: building-40 years, equipment-3 to 15 years. Computer software is amortized using the straight-line method over the useful life of the asset and ranges from 3 to 10 years.

Foreclosed Real Estate: Real estate acquired through or instead of loan foreclosure is initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition that do not increase the property's value are expensed. The Company's current average holding period for such properties is approximately 50 months.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives and bank officers. Company owned life insurance is recorded at its net cash surrender value, or the amount that can be realized if surrendered.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities Sold Under Agreements to Repurchase: Repurchase agreements are treated as financing transactions and are carried at the amounts at which the securities will be subsequently reacquired, as specified in the respective agreements. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Stock-Based Compensation: Compensation cost is recognized for stock options issued to employees and directors. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period for stock option awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings Per Common Share: Basic earnings per common share is net income less preferred stock dividends divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the consolidated financial statements. See Note 16.

Advertising and Public Relations: Advertising and public relations costs are expensed as incurred.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

Employee Benefits: The Company maintains a 401(k) profit-sharing plan that covers substantially all employees. The Company matches a portion of the employee’s contribution and records the expense in the period the employee contribution is withheld. The Company has a non-qualified deferred compensation arrangement with certain current and former officers. A contribution may be made or accrued each year based on future benefits to be paid under the arrangement, at the discretion of the Board of Directors if certain financial goals are met.

Consolidated Statement of Comprehensive Income: The objective of this statement is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with owners. Items included in comprehensive income include revenues, gains and losses that under generally accepted accounting principles are directly charged to equity. Examples include foreign currency translations, pension liability adjustments and unrealized gains and losses on investment securities available for sale. The Company has included its comprehensive income in a separate financial statement as part of its consolidated financial statements.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Reclassifications - Certain items in the 2017 financial statements have been reclassified to conform with the 2018 financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements: In May 2014, the FASB issued *Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606),* which was developed as a joint project with the International Accounting Standards Board to remove inconsistencies in revenue requirements and provide a more robust framework for addressing revenue issues. The ASU's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Company adopted the ASU during the first quarter of 2018, as required, using a modified retrospective approach. The majority of the Company's revenue is generated from interest income on loans and securities, which are outside the scope of Topic 606. The Company's sources of income that fall within the scope of Topic 606 include service charges on deposits, brokerage commissions, and interchange fees, all of which are presented within noninterest income, and gains and losses on sales of other real estate, which are included in foreclosed real estate expense. The Company has evaluated the effect of Topic 606 on these revenue streams and concluded that adoption of the standard did not materially impact its financial statements; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. The following is a summary of the implementation considerations for the revenue streams that fall within the scope of Topic 606:

Revenue Recognition

The Company generally measures revenue based on the amount of consideration the Company expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Company satisfies its performance obligations under the contract, except in transactions where U.S. GAAP provides other applicable guidance. When the amount of consideration is variable, the Company will only recognize revenue to the extent that it is probable that the cumulative amount recognized will not be subject to a significant reversal in the future.

Substantially all of the Company's contracts with customers have expected durations of one year or less and payments are typically due when or as the services are rendered or shortly thereafter. When third parties are involved in providing goods or services to customers, the Company recognizes revenue on a gross basis when it has control over those goods or services prior to transfer to the customer; otherwise, revenue is recognized for the net amount of any fee or commission. The Company recognizes any incremental costs of obtaining contracts as an expense if the period of amortization for those costs would be one year or less.

The Company's interest income is derived from loans, securities and other short-term investments. The Company recognizes interest income in accordance with the applicable guidance in U.S. GAAP for these assets. Refer to the Loans and Securities sections in Note 1 for the year ended December 31, 2018 for further information. The following provides additional information about the components of noninterest income:

- *Service Charges on Deposits* - Service charges on deposits consist primarily of monthly service charges on consumer deposit accounts, transaction-based fees (such as overdraft fees and wire transfer fees), and other deposit account-related charges. The Company's performance obligations for consumer deposit account service charges are typically satisfied at a point in time. Revenues are recognized on an accrual basis when or as the services are provided to the customer, net of applicable discounts, waivers and reversals. Payments are typically collected from customers directly from the related deposit account at the time the transaction is processed and/or at the end of the customer's statement cycle (typically monthly). The adoption of Topic 606 had no impact on the Company's revenue recognition practice for these services.

- *Brokerage Commissions* - Brokerage commissions are received from a third-party broker-dealer company as a result of monthly customer activity. The only contingency in earning the revenue relates to the potential for subsequent cancellation of the contract. Accordingly, revenue is recognized on a net basis at the end of each month. While these cancelation provisions may affect the decision to reserve an allowance, they would not be material to the Company's consolidated financial statements. Net brokerage commissions totaled $65,570 and $83,281 for the years ended December 31, 2018 and 2017, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Interchange Fees* – Interchange income represents fees for standing ready to authorize and providing settlement on credit card and debit card transactions processed through the Visa© interchange network. The levels of service and structure of interchange rates are set by Visa© and can vary based on cardholder purchase volume. The Company recognizes interchange income upon settlement with the interchange network. Based on the Company's underlying contracts, ASU 2014-09 requires reporting network costs associated with debit card and credit card transactions netted against the related fees from such transactions. Net interchange fees totaled $136,602 and $134,853 for the years ended December 31, 2018 and 2017, respectively.

- *Gains on Sales of Foreclosed Real Estate -* ASU 2014-09 also creates Topic 610-20, under which a gain on sale should be recognized when a contract for sale exists and control of the asset has been transferred to the buyer. Topic 606 lists several criteria which must exist to conclude that a contract for sale exists, including a determination that the institution will collect substantially all of the consideration to which it is entitled. This presents a key difference between the prior and new guidance related to the recognition of the gain when the institution finances the sale of the property. Rather than basing recognition on the amount of the buyer's initial investment, which was the primary consideration under prior guidance, the analysis is now based on various factors including not only the loan to value ratio, but also the credit quality of the borrower, the structure of the loan, and any other factors that may affect collectability. While these differences may affect the decision to recognize or defer gains on sales of other real estate in circumstances where the Company has financed the sale, the effects would not be material to the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 became effective for the Company in the first quarter of 2018 and had no material impact on the consolidated financial statements. See Note 19 for changes in the fair value disclosures for financial instruments.

The Company adopted Accounting Standards Update (ASU) 2018-02, *Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This guidance requires a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. See Note 9.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018. While the increase to consolidated total assets resulting from the right-of-use assets recorded will increase the Company's risk-weighted assets, management does not expect the impact to capital ratios to be material. The adoption of this guidance is not expected to result in a material change to lessee expense recognition. Management will continue to evaluate the impact of this guidance on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In March 2017, the FASB issued ASU 2017-08, *Receivables–Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements, but the adoption is not expected to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019. The adoption of ASU 2018-13 is not expected to have a material impact on the consolidated financial statements.

Evaluation of Subsequent Events: The Company's management has evaluated subsequent events through March 19, 2019, which is the date the financial statements were available to be issued. See subsequent event Note 12.

NOTE 2 - SECURITIES

The fair values of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	$ 1,990,556	$ 17,011	$ (12,217)	$ 1,995,350
Small Business Admin. Securities	2,344,245	6,061	(58,843)	2,291,463
U.S. Government Agency Securities	10,994,666	19,644	(144,105)	10,870,205
Residential Mortgage-backed Securities	5,306,718	19,285	(165,132)	5,160,871
Tax Exempt Municipal Securities	3,568,913	0	(43,447)	3,525,466
Total	$ 24,205,098	$ 62,001	$ (423,744)	$ 23,843,355
2017				
U.S. Treasury Securities	$ 997,096	$ 0	$ (7,646)	$ 989,450
Small Business Admin. Securities	2,827,519	4,308	(47,158)	2,784,669
U.S. Government Agency Securities	7,499,672	0	(106,462)	7,393,210
Residential Mortgage-backed Securities	6,056,435	22,093	(154,682)	5,923,846
Taxable Municipal Securities	398,581	0	(12,089)	386,492
Tax Exempt Municipal Securities	6,635,316	8,014	(32,755)	6,610,575
Total	$ 24,414,619	$ 34,415	$ (360,792)	$ 24,088,242

The amortized cost and fair value of securities at December 31, 2018, by contractual maturity is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due through One Year	$ 1,185,209	$ 1,180,726
Due after One through Five Years	12,218,545	12,083,463
Due after Five through Ten Years	3,150,381	3,126,832
Residential Mortgage-backed and SBA Securities	7,650,963	7,452,334
Total	$ 24,205,098	$ 23,843,355

NOTE 2 - SECURITIES (Continued)

For purposes of the above maturity table, mortgage-backed securities and Small Business Administration securities, which are not due at a single maturity date, are presented on a separate line item.

Proceeds from sales and redemptions of investment securities available for sale were $0 during the years ended December 31, 2018 and 2017. The Company recognized no gross gains or losses from the sales of investment securities in either year.

Securities pledged to secure public deposits and repurchase agreements at December 31, 2018 and 2017 had a carrying amount of approximately $23,843,000 and $24,088,000, respectively.

The following table shows securities with unrealized losses and their fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017:

	Less than 12 Months		12 Months or More		Total	
2018	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury Securities	$ 0	$ 0	$ 986,290	$ (12,217)	$ 986,290	$ (12,217)
Small Business Admin. Securities	18,637	(122)	1,324,733	(58,721)	1,343,370	(58,843)
U.S. Government Agency Securities	0	0	5,855,895	(144,105)	5,855,895	(144,105)
Residential Mortgage-backed Securities	0	0	3,133,905	(165,132)	3,133,905	(165,132)
Tax Exempt Municipal Securities	1,388,065	(7,796)	2,137,401	(35,651)	3,525,466	(43,447)
Total Temporarily Impaired	$ 1,406,702	$ (7,918)	$ 13,438,224	$ (415,826)	$ 14,844,926	$ (423,744)
2017						
U.S. Treasury Securities	989,450	$ (7,646)	$ 0	$ 0	$ 989,450	$ (7,646)
Small Business Admin. Securities	$ 57,295	(25)	1,560,318	(47,133)	1,617,613	(47,158)
U.S. Government Agency Securities	4,933,455	(66,391)	2,459,755	(40,071)	7,393,210	(106,462)
Residential Mortgage-backed Securities	1,268,044	(8,764)	2,816,394	(145,918)	4,084,438	(154,682)
Taxable Municipal Securities	0	0	386,492	(12,089)	386,492	(12,089)
Tax Exempt Municipal Securities	1,101,823	(8,143)	4,101,683	(24,612)	5,203,506	(32,755)
Total Temporarily Impaired	$ 8,350,067	$ (90,969)	$ 11,324,642	$ (269,823)	$ 19,674,709	$ (360,792)

Unrealized losses on securities have not been recognized into income because the issuer(s) securities are of higher credit quality (rated A3 or higher), management has the intent and ability to hold them for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates change.

At December 31, 2018, the 36 investment securities in an unrealized loss position have depreciated approximately 2.8% from the Company’s amortized cost basis. This unrealized loss relates principally to current interest rates for similar types of securities. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition.

NOTE 3 - LOANS

A summary of loans outstanding by category at December 31, 2018 and 2017 follows:

	2018	2017
Secured by Real Estate:		
Commercial - Owner-Occupied	$ 21,393,917	$ 17,316,686
Commercial - Other	29,749,289	31,151,963
Construction, Land Development and Vacant Land	10,991,159	12,009,106
Residential Properties	38,845,088	31,204,323
Commercial, Financial and Agricultural	16,149,111	18,685,395
Consumer	5,175,843	4,576,964
	122,304,407	114,944,437
Less: Allowance for Loan and Lease Losses	(1,796,861)	(1,869,269)
Loans, Net	$ 120,507,546	$ 113,075,168

NOTE 4 - LOAN QUALITY

Management performs a quarterly evaluation of the adequacy of the allowance for loan and lease losses (ALLL). Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent) and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or lower, including loans on nonaccrual of interest. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, industry, type of property/equipment/vehicle, and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Company.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

For financial statement presentation, the Company segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: commercial – owner-occupied; commercial – other; construction; residential; commercial, financial and agricultural; and consumer loans. The construction and land development segment contains loans to individuals to construct their own homes as well as loans to contractors and developers to construct homes or buildings for resale or develop residential or commercial real estate. This segment has its own unique risk characteristics including the need to periodically inspect the property during construction to ensure the funds disbursed are used properly and the real estate held for collateral maintains its value in relation to the amount owed on it. The construction and land development segment also has risk characteristics related to the probability of eventual sale of the finished project or the ability to generate sufficient rental income to service the debt. The residential real estate segment is segregated from the commercial real estate segment due to the obvious differences in inherent risks in each of these types of properties and borrower types. Consumer loans have risk characteristics including the volatility of the collateral’s value and the inherent risk of loaning on collateral that is mobile and subject to damage without proper insurance coverage.

The analysis for determining the ALLL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components: specific and general allocations. The specific component addresses specific reserves established for loans that were individually evaluated and deemed to be impaired. For these impairment evaluations, the Company assesses loan relationships with balances exceeding $100,000 that show signs of possible impairment based on the payment status, internal risk ratings, or other credit quality factors. A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement.

NOTE 4 - LOAN QUALITY (Continued)

Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations. Loans measured for the ALLL under the specific allocation method normally tend to be impaired construction, real estate, vehicle or unsecured loans.

The general component addresses the reserves established for pools of homogenous loans, including primarily non-classified loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Company's historical loan loss experience (weighted towards most recent periods) and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes factors such as: loan volume, loan collateral, management characteristics, levels of nonperforming loans, results of the loan review process, specific credit concentrations, and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment and experience. As a result of this input, additional loss percentages can be assigned to each pool of loans.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Cash payments received on impaired loans on which the accrual of interest has been discontinued are applied to principal until the loans are returned to accrual status.

The following table presents, by loan segment, the ALLL and changes to the ALLL for the years ended December 31, 2018 and 2017 with the ALLL allocated based on the segment loan volumes:

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. & Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
Allowance at December 31, 2016	$ 218,500	$ 351,129	$ 444,811	$ 351,886	$ 215,262	$ 77,176	$ 177,249	$ 1,836,013
Provision	(38,026)	3,219	57,698	37,788	(26,540)	(21,977)	(12,162)	0
Charge-offs	0	0	0	(22,108)	0	(4,242)	0	(26,350)
Recoveries	22,353	8,324	4,785	0	20,947	3,197	0	59,606
Allowance at December 31, 2017	202,827	362,672	507,294	367,566	209,669	54,154	165,087	1,869,269
Provision	(27,363)	(93,316)	(46,076)	6,010	291,652	(5,275)	(125,632)	0
Charge-offs	0	0	(113,564)	0	(912)	(790)	0	(115,266)
Recoveries	21,996	15,039	0	0	3,625	2,198	0	42,858
Allowance at December 31, 2018	$ 197,460	$ 284,395	$ 347,654	$ 373,576	$ 504,034	$ 50,287	$ 39,455	$ 1,796,861

NOTE 4 - LOAN QUALITY (Continued)

The following tables present, by loan segment, loans that were evaluated for the ALLL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31, 2018 and 2017.

	Secured by Real Estate							
	Commercial - Owner-Occupied	Commercial - Other	Construction, Land Dev. & Vacant Land	Residential Properties	Commercial, Financial and Agricultural	Consumer	Unallocated	Total
December 31, 2018								
Loans Evaluated for Allowance:								
Individually	$ 1,070,622	$ 478,416	$ 904,818	$ 822,589	$ 1,305,201	$ 0	$ 0	$ 4,581,646
Collectively	20,323,295	29,270,873	10,086,341	38,022,499	14,843,910	5,175,843	0	117,722,761
Total	$ 21,393,917	$ 29,749,289	$ 10,991,159	$ 38,845,088	$ 16,149,111	$ 5,175,843	$ 0	$ 122,304,407
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 253,808	$ 0	$ 359,811	$ 0	$ 0	$ 613,619
Collectively	197,460	284,395	93,846	373,576	144,223	50,287	39,455	1,183,242
Allowance at December 31, 2018	$ 197,460	$ 284,395	$ 347,654	$ 373,576	$ 504,034	$ 50,287	$ 39,455	$ 1,796,861
December 31, 2017								
Loans Evaluated for Allowance:								
Individually	$ 174,248	$ 499,798	$ 1,690,440	$ 138,581	$ 964,733	$ 0	$ 0	$ 3,467,800
Collectively	17,142,438	30,652,165	10,318,666	31,065,742	17,720,662	4,576,964	0	111,476,637
Total	$ 17,316,686	$ 31,151,963	$ 12,009,106	$ 31,204,323	$ 18,685,395	$ 4,576,964	$ 0	$ 114,944,437
Allowance Established for Loans Evaluated:								
Individually	$ 0	$ 0	$ 385,205	$ 0	$ 0	$ 0	$ 0	$ 385,205
Collectively	202,827	362,672	122,089	367,566	209,669	54,154	165,087	1,484,064
Allowance at December 31, 2017	$ 202,827	$ 362,672	$ 507,294	$ 367,566	$ 209,669	$ 54,154	$ 165,087	$ 1,869,269

NOTE 4 - LOAN QUALITY (Continued)

The following tables show additional information about those loans considered to be impaired at December 31, 2018 and 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
For the Year Ended December 31, 2018					
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 1,070,622	$ 1,070,622	$ 0	$ 1,092,142	$ 40,008
Commercial - Other	478,416	653,201	0	489,107	28,171
Construction, Land Development & Vacant Land	245,255	245,255	0	245,255	12,191
Residential:					
1 - 4 Family	427,200	427,200	0	284,240	15,825
Other	395,389	395,389	0	398,007	17,905
Other Loans:					
Commercial, Financial and Agricultural	926,140	926,140	0	943,557	57,325
Total Impaired Loans with No Specific Allowance	$ 3,543,022	$ 3,717,807	$ 0	$ 3,452,308	$ 171,425
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 659,563	$ 659,563	$ 253,808	$ 670,824	$ 29,423
Other Loans:					
Commercial, Financial and Agricultural	379,061	379,061	359,811	345,585	33,230
Total Impaired Loans with Specific Allowance	$ 1,038,624	$ 1,038,624	$ 613,619	$ 1,016,409	$ 62,653
Total Impaired Loans	$ 4,581,646	$ 4,756,431	$ 613,619	$ 4,468,717	$ 234,078
For the Year Ended December 31, 2017					
Impaired Loans with No Specific Allowance:					
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 174,248	$ 174,248	$ 0	$ 186,760	$ 12,143
Commercial - Other	499,798	666,963	0	518,163	29,437
Construction, Land Development & Vacant Land	300,698	300,698	0	324,698	12,020
Residential:					
1 - 4 Family	138,581	138,581	0	141,596	6,960
Other Loans:					
Commercial, Financial and Agricultural	964,733	964,733	0	974,102	59,233
Total Impaired Loans with No Specific Allowance	$ 2,078,058	$ 2,245,223	$ 0	$ 2,145,319	$ 119,793
Impaired Loans with Specific Allowance:					
Loans Secured by Real Estate:					
Construction, Land Development & Vacant Land	$ 1,389,742	$ 1,389,742	$ 385,205	$ 1,271,888	$ 37,797
Total Impaired Loans with Specific Allowance	$ 1,389,742	$ 1,389,742	$ 385,205	$ 1,271,888	$ 37,797
Total Impaired Loans	$ 3,467,800	$ 3,634,965	$ 385,205	$ 3,417,207	$ 157,590

NOTE 4 - LOAN QUALITY (Continued)

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or management watch are reviewed regularly by the Company to determine if appropriately classified or to determine if the loan is impaired. The Company's loan portfolio is reviewed for credit quality with samples being selected based on loan size, credit grades, etc., to ensure that the Company's management is properly applying credit risk management processes.

Loans excluded from the scope of the annual review process are generally classified as pass credit until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Company uses the following definitions for risk ratings:

Pass – Strong credit with no existing or known potential weaknesses deserving management's close attention.

Management Watch – Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Company to a sufficient degree of risk to warrant adverse classification. As a general rule, for the purpose of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserves. Loans classified as management watch have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full highly questionable or improbable, based on currently existing facts, condition, and values.

Loss – Loans classified as losses are uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. Certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

NOTE 4 - LOAN QUALITY (Continued)

The following table shows the Company's credit quality indicators by type of loan as of December 31, 2018 and 2017:

As of December 31, 2018	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 16,488,784	$ 3,774,541	$ 1,130,592	$ 0	$ 21,393,917
Commercial - Other	26,110,533	3,638,756	0	0	29,749,289
Construction, Land Development & Vacant Land	10,059,514	0	931,645	0	10,991,159
Residential:					
1 - 4 Family	33,202,008	1,587,531	1,253,802	0	36,043,341
Other	2,801,747	0	0	0	2,801,747
Other Loans:					
Commercial, Financial and Agricultural	14,342,922	432,732	1,373,457	0	16,149,111
Consumer	5,174,715	0	1,128	0	5,175,843
Total Loans	$ 108,180,223	$ 9,433,560	$ 4,690,624	$ 0	$ 122,304,407

As of December 31, 2017	Pass	Management Watch	Substandard	Doubtful	Total Loans
Loans Secured by Real Estate:					
Commercial - Owner-Occupied	$ 13,098,187	$ 3,908,489	$ 310,010	$ 0	$ 17,316,686
Commercial - Other	27,417,159	3,734,804	0	0	31,151,963
Construction, Land Development & Vacant Land	10,345,431	0	1,663,675	0	12,009,106
Residential:					
1 - 4 Family	25,560,280	2,127,421	425,326	0	28,113,027
Other	3,028,250	0	63,046	0	3,091,296
Other Loans:					
Commercial, Financial and Agricultural	17,173,298	458,949	1,053,148	0	18,685,395
Consumer	4,576,964	0	0	0	4,576,964
Total Loans	$ 101,199,569	$ 10,229,663	$ 3,515,205	$ 0	$ 114,944,437

NOTE 4 - LOAN QUALITY (Continued)

The following table provides an aging analysis of the Company's loans as of December 31, 2018 and 2017:

	Current	30-89 Days Past Due	Greater Than 90 Days	Nonaccrual	Total Past Due and Nonaccrual	Total Loans
As of December 31, 2018						
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 20,382,470	$ 0	$ 21,854	$ 989,593	$ 1,011,447	$ 21,393,917
Commercial - Other	29,749,289	0	0	0	0	29,749,289
Construction, Land Development & Vacant Land	10,388,702	575,629	0	26,828	602,457	10,991,159
Residential:						
1 - 4 Family	34,897,387	485,689	0	660,265	1,145,954	36,043,341
Other	2,801,747	0	0	0	0	2,801,747
Other:						
Commercial, Financial and Agricultural	16,097,142	0	495	51,474	51,969	16,149,111
Consumer	5,169,536	6,307	0	0	6,307	5,175,843
Total Loans	$ 119,486,273	$ 1,067,625	$ 22,349	$ 1,728,160	$ 2,818,134	$ 122,304,407
As of December 31, 2017						
Loans Secured by Real Estate:						
Commercial - Owner-Occupied	$ 17,001,491	$ 272,512	$ 27,678	$ 15,005	$ 315,195	$ 17,316,686
Commercial - Other	31,151,963	0	0	0	0	31,151,963
Construction, Land Development & Vacant Land	11,327,400	0	0	681,706	681,706	12,009,106
Residential:						
1 - 4 Family	27,320,787	542,596	0	249,644	792,240	28,113,027
Other	2,945,564	0	82,686	63,046	145,732	3,091,296
Other:						
Commercial, Financial and Agricultural	17,647,847	11,165	964,733	61,650	1,037,548	18,685,395
Consumer	4,576,964	0	0	0	0	4,576,964
Total Loans	$ 111,972,016	$ 826,273	$ 1,075,097	$ 1,071,051	$ 2,972,421	$ 114,944,437

Certain loan modifications are considered troubled debt restructurings (TDRs) when the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Company uses various restructuring techniques, including, but not limited to, deferral of past due interest or principal, implementing A/B note structure, redeeming past due taxes, reduction of interest rates, extending maturities and modification of amortization schedules. The Company typically does not forgive principal balances or past due interest prior to pay off or surrender of the collateral. Loans considered to be TDRs are classified as impaired loans for purposes of determination of the allowance for loans losses, until the Company determines the loans are performing based on terms specified by the restructuring agreements. The allowance for these loans is calculated in the same manner as other impaired loans, as described above. As of December 31, 2018 and 2017, the Company had no commitments to lend funds to borrowers whose terms have been modified as TDRs. Additionally, for the years ending December 31, 2018 and 2017, the Company had no loans modified as TDRs within the previous 12 months for which there was a payment default during the period. The Company did not restructure any loans as troubled debt restructurings during the years ended December 31, 2018 and 2017.

NOTE 5 - PREMISES AND EQUIPMENT

Following is a summary of premises and equipment at December 31:

	2018	2017
Land	$ 1,270,242	$ 1,249,742
Building	6,495,224	6,298,224
Furniture and Equipment	2,009,568	1,989,564
Computer Software	1,108,952	1,108,952
Construction in Process	57,532	0
	10,941,518	10,646,482
Less: Accumulated Depreciation and Amortization	(6,541,989)	(6,334,397)
	$ 4,399,529	$ 4,312,085

Depreciation and amortization expense totaled $244,315 and $253,507 for 2018 and 2017.

The Company leases space for one of its branches under an operating lease. Rental expense was $36,000 and $36,719 for 2018 and 2017. Annual rent commitments under the non-cancelable operating lease are $36,000. The lease was renewed in January 2017 under the second 5-year renewal option, for the period March 2017 – February 2022.

NOTE 6 - FORECLOSED REAL ESTATE

Foreclosed real estate is carried at estimated fair value less costs to sell the property. An analysis of foreclosed real estate for the years ended December 31, 2018 and 2017 follows:

	2018	2017
Balance at Beginning of Year	$ 342,028	$ 1,420,914
Additions to Foreclosed Real Estate	801,351	109,773
Foreclosed Real Estate Sold	(294,624)	(979,289)
Write-downs of Foreclosed Real Estate	(82,460)	(209,370)
Balance at End of Year	$ 766,295	$ 342,028

Expenses applicable to foreclosed real estate for the years ended December 31, 2018 and 2017 include the following:

	2018	2017
Net (Gain) Loss on Sales of Foreclosed Real Estate	$ (32,082)	$ (20,271)
Write-downs of Foreclosed Real Estate	82,460	209,370
Operating Expenses	45,314	41,972
Total	$ 95,692	$ 231,071

NOTE 7 - DEPOSITS

A summary of deposits at December 31 follows:

	2018	2017
Noninterest-Bearing	$ 27,014,450	$ 38,489,540
NOW & MMDA	60,769,739	47,030,070
Savings	26,109,431	23,851,409
Certificates of Deposit of $250,000 or More	2,595,213	4,158,235
Other Time Deposits	23,542,183	26,150,886
	$ 140,031,016	$ 139,680,140

Scheduled maturities of time deposits for the next five years are as follows at December 31, 2018:

2019	$ 17,607,806
2020	4,508,973
2021	1,683,077
2022	1,438,887
2023	898,653
	$ 26,137,396

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are financing arrangements that do not have a stated maturity, but may be cancelled by either party with a five-day written notice. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2018	2017
Average Daily Balance during the Year	$ 6,977,000	$ 5,364,000
Average Interest Rate during the Year	0.17%	0.05%
Maximum Month-End Balance during the Year	$ 9,420,000	$ 6,138,000
Weighted Average Interest Rate at Year-End	0.30%	0.05%

NOTE 9 - INCOME TAX EXPENSE (BENEFIT)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2018 and 2017.

Income tax expense (benefit) as shown in the consolidated statements of operations differs from the amount computed using the statutory federal income tax rate follows:

	2018		2017	
	Amount	Pretax Income	Amount	Pretax Income
Federal Income Tax at Statutory Rate	$ 285,237	21.0 %	$ 378,756	34.0 %
State Income Tax, Net	55,262	4.1	35,875	3.2
Tax Exempt Interest	(25,157)	-1.9	(47,649)	-4.3
Other Nontaxable Income	(17,656)	-1.3	(77,316)	-6.9
Nondeductible Expenses	3,874	0.3	8,519	0.8
Credits and Other, Net	(12,178)	-0.9	(25,597)	-2.3
Change in Federal Tax Rate	0	0.0	917,578	82.4
Change in Valuation Allowance	(183,464)	-13.5	(1,285,825)	-115.4
	$ 105,918	7.8 %	$ (95,659)	-8.6 %

Income Taxes (Benefit) Consist of:	2018	2017
Current (Benefit)	$ (32,386)	$ 20,949
Deferred (Benefit)	138,304	(116,608)
	$ 105,918	$ (95,659)

The deferred tax assets above relate primarily to the provision for loan losses, unrealized losses on foreclosed real estate and investment securities available for sale, and net operating loss carry-forwards. The deferred tax liabilities relate primarily to depreciation of fixed assets, FHLB stock dividends and certain prepaid expenses.

	2018	2017
Deferred Tax Assets	$ 2,283,367	$ 2,646,701
Deferred Tax Liabilities	(426,977)	(460,853)
Net Deferred Tax Assets before Valuation Allowance	1,856,390	2,185,848
Valuation Allowance	0	(200,415)
Net Deferred Tax Assets (Liabilities)	$ 1,856,390	$ 1,985,433

Included in the 2018 deferred tax assets above is $94,560 of deferred tax effect on the net unrealized loss on securities available for sale ($85,299 in deferred tax assets on the net unrealized loss in 2017).

Federal net operating loss carry-forwards are approximately $5.1 million, which expire at various dates from 2032 to 2035, and state net operating loss carry-forwards are approximately $5.4 million at December 31, 2018, which expire at various dates from 2026 to 2030.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. This legislation reduces the federal corporate tax rate from 34% to 21% for tax years beginning after December 31, 2017. In accordance with GAAP, the Company accounted for the effects of this reduction in the tax rate on deferred taxes in the period of enactment. As a result, the Company’s deferred tax assets and liabilities as of December 31, 2017 were adjusted to reflect the effect of the change in enacted tax rates, resulting in a deferred tax expense adjustment of $917,578 for the year ending December 31, 2017.

NOTE 9 - INCOME TAX EXPENSE (BENEFIT) (Continued)

In 2018, The Company adopted Accounting Standards Update No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The guidance requires that an entity reclassify the effect of remeasuring deferred tax liabilities and assets related to items within accumulated other comprehensive income to retained earnings resulting from the establishment of the 21% U.S. federal corporate income tax rate by the Tax Cuts and Jobs Act of 2017. The amount of that reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited directly to other comprehensive income using the newly enacted 21% U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. The amount of this reclassification was $39,671 for the year ended December 31, 2018.

NOTE 10 - RELATED PARTY TRANSACTIONS

The amount of loans to principal officers, directors, and their affiliates at December 31, 2018 and 2017 totaled approximately $76,000 and $118,000, respectively.

Deposit account balances owned by principal officers, directors, and their affiliates at December 31, 2018 and 2017 were approximately $4,330,000 and $2,437,000, respectively.

NOTE 11 - FEDERAL HOME LOAN BANK ADVANCES

The following table is a maturity schedule of advances from the Federal Home Loan Bank as of December 31, 2018:

Date of Advance	Interest Rate	Final Maturity Date	Amount Outstanding at 12/31/18
12/21/05	5.17%	01/01/31	$ 832,154

Interest expense associated with the advances from the FHLB totaled $44,179 for the year ended December 31, 2018 ($133,999 in 2017). Pursuant to collateral agreements with the FHLB, the advances are secured by the Company's FHLB stock and certain qualifying residential first mortgage loans totaling approximately $21,300,000 as of December 31, 2018 ($16,600,000 in 2017), and commercial real estate loans totaling approximately $13,000,000 as of December 31, 2018 ($6,800,000 in 2017). All of the fixed rate advances have a prepayment penalty. The prepayment penalty would be based on the market rates and the length of time remaining until maturity at the time of payoff.

Additionally, the Company maintains a line of credit advance agreement with the FHLB which allows borrowings up to $13,000,000. This line was undrawn as of December 31, 2018 and 2017. The Company also maintains a letter of credit line for the collateralization of public unit deposits up to $20,000,000, for which balances outstanding as of December 31, 2018 and 2017 were $3,375,000 and $500,000, respectively.

NOTE 12 - SUBORDINATED DEBENTURES AND OTHER DEBT / SUBSEQUENT EVENT

On September 20, 2004, the Company borrowed $3,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust II, as part of a private offering. The rate, which varies quarterly with LIBOR, was 4.63% at December 31, 2018. The securities mature on September 20, 2034; however, the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve. $500,000 of these securities were redeemed during 2018. Outstanding securities as of December 31, 2018 and 2017 were $2,500,000 and $3,000,000, respectively.

On December 14, 2006, the Company borrowed $4,000,000 of floating rate mandatory redeemable securities through a special purpose entity, Rogersville Statutory Trust III, as part of a private offering. The rate, which varies quarterly with LIBOR, was 4.02% at December 31, 2018. The securities mature on December 14, 2036; the maturity may be shortened on a quarterly basis, subject to approval of a repayment or refinancing plan by the Federal Reserve. $500,000 of these securities were redeemed during 2018. Outstanding securities as of December 31, 2018 and 2017 were $3,500,000 and $4,000,000, respectively.

The Company has provided a full, irrevocable, and unconditional guarantee on a subordinated basis of the obligations of the Trusts under the preferred securities in the event of a default, as defined in such guarantees. These subordinated debentures allow the Company to defer the payment of quarterly interest payments for up to 20 consecutive quarters without creating an event of default. Pursuant to the debentures, the Company and its affiliates cannot declare or pay any dividends or distributions on their capital stock (other than the payment of dividends or distributions from the Bank to the Holding Company), or repurchase, redeem, or acquire their capital stock during an interest deferred period until the unpaid interest payments have been paid. Accrued but unpaid interest totaled $11,155 at December 31, 2018 ($10,422 at December 31, 2017).

These securities are presented as liabilities on the Company's balance sheet and count as Tier 1 and Tier 2 capital for regulatory capital purposes. In accordance with GAAP, the Trusts are not consolidated with the Company. Accordingly, the Company reports as liabilities the subordinated debentures issued by the Company and held by the Trusts. The Company's equity investment in the Trusts ($217,000) is included in other assets at year-end 2018 and 2017.

In January 2019, the Company authorized the redemption of 500 shares, at $1,000 par value per share, of the Rogersville Statutory Trust II securities and 500 shares, at $1,000 par value per share, of the Rogersville Statutory Trust III securities for a total redemption payment of $1,000,000. These securities were redeemed in March 2019.

The Company also has available federal funds lines (or equivalent thereof) with correspondent banks totaling $18,800,000 and $14,800,000 as of December 31, 2018 and 2017, respectively. None of these lines had balances outstanding as of December 31, 2018 and 2017. No collateral was pledged related to these lines as of December 31, 2018 and 2017.

NOTE 13 - SHAREHOLDERS' EQUITY

As of December 31, 2018 and 2017, the Company's charter authorized the issuance of up to 10,000,000 shares of common stock, no par value, 1,000,000 shares of preferred stock, no par value, and 400,000 shares of Series A and 200,000 shares of Series B Preferred Stock, at a par value of $8.05.

The Series A and Series B preferred stock are noncumulative, have no voting rights, have a dividend and liquidation preference to the common stock, and participate equally with the common stock in a sale or change in control of the Company. Preferred Series A shareholders are entitled to receive a dividend that is 105% of the dividend paid on the common stock. Preferred Series B shareholders are entitled to receive a dividend that is 110% of the dividend paid on the common stock. In the event of a change of control of the corporation, each share of Series A and Series B preferred stock is convertible into one share of common stock. Series A and Series B preferred stock have no redemption rights.

Treasury stock includes 48,432 shares of common stock at a cost of $809,687; 8,408 shares of Series A preferred stock at a cost of $133,742; and 225 shares of Series B preferred stock at a cost of $3,569 at December 31, 2018 and 2017.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS

The Bank and Holding Company are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank’s and Holding Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Holding Company 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 Bank's and Holding Company’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Holding Company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 Capital (as defined in the regulations) to Risk-Weighted Assets (as defined), Common Equity Tier 1 Capital (as defined) to Total Risk-Weighted Assets (as defined), and of Tier 1 Capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2018 and 2017, that the Bank and Holding Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2018 and 2017, the Bank is categorized 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 I Risk-Based, Common Equity Tier 1 Risk-Based Capital, and Tier I Leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank’s category.

The Bank and Holding Company must also maintain a capital conservation buffer consisting of additional Common Equity Tier 1 capital greater than 1.875% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on distributions, including dividend payments, and certain discretionary bonuses to executive officers. The capital conservation buffer requirement began to phase in on January 1, 2016 when a buffer greater than 0.6250% of risk-weighted assets was required, which amount increases each year until the buffer requirement is fully implemented on January 1, 2019. At December 31, 2018, the Bank and Holding Company continued to exceed the minimum required capital ratios applicable to them under the capital adequacy guidelines.

NOTE 14 - REGULATORY CAPITAL REQUIREMENTS (Continued)

The Holding Company's and Bank's actual capital amounts and ratios as of December 31, 2018 and 2017, are also presented in the following table. All dollar amounts are in thousands of dollars.

				For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018							
Total Capital (to Risk-Weighted Assets):							
Holding Company (Consolidated)	$	22,707	17.38%	$ 10,453	8.00%	N/A	N/A
Bank	$	21,004	16.08%	$ 10,447	8.00%	$ 13,058	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):							
Holding Company (Consolidated)	$	13,192	10.10%	$ 5,880	4.50%	N/A	N/A
Bank	$	19,369	14.83%	$ 5,876	4.50%	$ 8,488	6.50%
Tier I Capital (to Risk-Weighted Assets):							
Holding Company (Consolidated)	$	19,129	14.64%	$ 7,840	6.00%	N/A	N/A
Bank	$	19,369	14.83%	$ 7,835	6.00%	$ 10,447	8.00%
Tier I Capital (to Average Assets):							
Holding Company (Consolidated)	$	19,129	11.06%	$ 6,919	4.00%	N/A	N/A
Bank	$	19,369	11.20%	$ 6,915	4.00%	$ 8,644	5.00%
As of December 31, 2017							
Total Capital (to Risk-Weighted Assets):							
Holding Company (Consolidated)	$	22,690	18.39%	$ 9,873	8.00%	N/A	N/A
Bank	$	21,083	17.10%	$ 9,864	8.00%	$ 12,330	10.00%
Common Equity Tier I Capital (to Risk-Weighted Assets):							
Holding Company (Consolidated)	$	12,262	9.94%	$ 5,553	4.50%	N/A	N/A
Bank	$	19,535	15.84%	$ 5,549	4.50%	$ 8,015	6.50%
Tier I Capital (to Risk-Weighted Assets):							
Holding Company (Consolidated)	$	17,994	14.58%	$ 7,404	6.00%	N/A	N/A
Bank	$	19,535	15.84%	$ 7,398	6.00%	$ 9,864	8.00%
Tier I Capital (to Average Assets):							
Holding Company (Consolidated)	$	17,994	10.35%	$ 6,951	4.00%	N/A	N/A
Bank	$	19,535	11.25%	$ 6,949	4.00%	$ 8,686	5.00%

The Bank and Holding Company are also subject to federal and state regulations restricting the amount of dividends paid.

NOTE 15 - STOCK COMPENSATION PLANS

The Company has two stock option plans, the 1994 Employee Stock Option Plan (the employee plan), and the 1994 Outside Directors' Stock Option Plan (the directors' plan), which are described below. The exercise price is the market price at date of grant. In accordance with GAAP, the fair value of any options granted after January 1, 2006 will be recognized as an expense in the income statement, as services by employees and Directors are performed for the Company. All options expire within ten years from the date of grant.

1994 Employee Stock Option Plan - This plan provides for the granting of options to purchase up to 475,000 shares by officers and key employees of the Company. No options were granted in 2018 or 2017. As of December 31, 2018, there are 142,000 options remaining to be granted under this plan. As of December 31, 2018, there are 142,000 options remaining to be granted under this plan.

NOTE 15 - STOCK COMPENSATION PLANS (Continued)

Outside Directors' Stock Option Plan - Adopted in 1994, this plan originally provided for the granting of options to purchase up to 150,000 (as adjusted for stock split) shares of Common Stock by non-employee directors of the Company. These options became exercisable over 5 years. In 2006 this plan was amended upon approval of the shareholders to increase the number of shares of Common Stock that may be issued pursuant to options from 150,000 to 225,000 shares. This Plan has also been amended to extend the Plan through June 30, 2026. No options were granted in 2018 or 2017. As of December 31, 2018, there are 123,000 options remaining to be granted under this plan.

A summary of the status of the Company's stock option plans for the two years ended December 31, 2018 and the changes during those years is presented below:

	Total Option Shares Outstanding	Average Exercise Price	Exercisable Options Outstanding
Options Outstanding at January 1, 2017	20,000	$ 4.75	20,000
Options Granted	0		0
Options which became Exercisable	0		0
Options Expired or Rescinded	0		0
Options Exercised	0		0
Options Outstanding at December 31, 2017	20,000	4.75	20,000
Options Granted	0		0
Options which became Exercisable	0		0
Options Expired or Rescinded	0		0
Options Exercised	0		0
Options Outstanding at December 31, 2018	20,000	4.75	20,000

The following table summarizes information about the stock options outstanding under the Company's plans at December 31, 2018:

Exercise Price	Number Outstanding	Average Remaining Life	Number Exercisable
$ 4.75	20,000	3 years	20,000

NOTE 16 - EARNINGS PER SHARE

The following table illustrates the computation of basic and diluted earnings per share of common stock for the years ended December 31, 2018 and 2017.

	2018			2017		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
Net Income	$ 1,252,353			$ 1,209,646		
Less: Dividends Paid to Preferred Shareholders	(63,772)			(63,772)		
Basic Earnings Per Share						
Net Income Available to Common Shareholders	1,188,581	1,630,812	$ 0.73	1,145,874	1,630,812	$ 0.70
Effect of Dilutive Securities						
Incremental Shares - Exercise of Stock Options		6,050			3,363	
Convertible Preferred Stock	63,772	241,518		63,772	241,518	
Diluted Earnings per Share						
Net Income Available to Common Shareholders Plus Assumed Conversions	$ 1,252,353	1,878,380	$ 0.67	$ 1,209,646	1,875,693	$ 0.64

NOTE 17 - EMPLOYEE BENEFITS

The Company maintains a 401(k) plan for all employees who have attained the age of 21 and have at least three months of service. The plan provides for a discretionary employer matching contribution, in which the employee is 100% vested. The Company may also make additional discretionary contributions (qualified non-elective or profit-sharing contributions) as determined by the Board of Directors. For these contributions, employees begin to vest in the second year and are fully vested after six years. The Company's employer matching contribution to the 401(k) plan amounted to $43,974 in 2018 and $41,368 in 2017.

The Company is providing post-retirement pension benefits to a former employee. A present value-based charge, which is included in non-interest expense, is made each year based on the future benefits to be paid to the employee (or beneficiary) under the plan. Total amounts paid or accrued during the year under such arrangements amounted to approximately $19,801 and $10,511 in both 2018 and 2017.

The Company has a Supplemental Executive Retirement Plan which provides retirement benefits to several retired officers. In addition, the Company also has an Executive Deferred Compensation Plan which provides deferred compensation benefits for certain key officers. The accrued retirement liability for these plans was $1,521,436 at December 31, 2018 ($1,684,107 at December 31, 2017). Expense related to these plans was $190,461 in 2018 and $121,134 in 2017, and is included in salaries and employee benefits expense.

The Company also provides life insurance benefits to certain employees under split-dollar insurance contracts. The accrued liability was $241,451 at December 31, 2018 ($229,017 at December 31, 2017). Expense related to this plan was $12,433 in 2018 and $17,864 in 2017, and is included in salaries and employee benefits expense.

NOTE 18 - OFF-BALANCE SHEET ACTIVITIES

Certain financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The approximate contractual amounts of financial instruments with off-balance sheet risk were as follows at December 31:

	2018		2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to Make Loans	$ 3,928,000	$ 11,417,000	$ 2,624,000	$ 10,984,000
Unused Letters of Credit	0	149,000	0	359,000

Commitments to make loans are generally made for periods of 1 year or less. The fixed rate loan commitments have interest rates ranging from 3.50% to 10.00% and maturities ranging from 1 year to 10 years. Approximately $11,152,000 of the commitments to make loans were collateralized, primarily by real estate, at December 31, 2018 ($9,661,000 at December 31, 2017).

NOTE 19 - FAIR VALUE DISCLOSURES

GAAP establishes a framework for using fair value. It also defines fair value rules as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Company did not elect to adopt the fair value option for any financial instruments. However, other accounting pronouncements require the Company to measure certain financial instruments at fair value as described below.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

A description of valuation methodologies used for assets and liabilities recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investment Securities Available for Sale - Investment securities available for sale are recorded at fair value in accordance with GAAP on a recurring basis. Fair value measurement for these securities is based upon quoted prices of like or similar securities, utilizing Level 2 inputs. These measurements are obtained from a service provider who considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things.

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired in accordance with GAAP and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. The fair value of individually identified impaired loans is measured based on the present value of expected payments or the collateral value if the loan is collateral dependent. Impaired loans are classified within Level 3 of the valuation hierarchy.

Foreclosed Real Estate - Foreclosed real estate is recorded at fair value on a nonrecurring basis. Fair value measurement is based on management's estimate of the amount that will be realized when the property is sold and is classified within Level 3 of the valuation hierarchy.

Assets Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets measured at fair value:

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2018				
U.S. Treasury Securities	$ 1,995,350	$ 1,995,350	$ 0	$ 0
Small Business Admin. Securities	2,291,463	0	2,291,463	0
U.S. Government Agency Securities	10,870,205	0	10,870,205	0
Residential Mortgage-backed Securities	5,160,871	0	5,160,871	0
Tax Exempt Municipal Securities	3,525,466	0	3,525,466	0
Investment Securities Available for Sale	$ 23,843,355	$ 1,995,350	$ 21,848,005	$ 0
As of December 31, 2017				
U.S. Treasury Securities	$ 989,450	$ 989,450	$ 0	$ 0
Small Business Admin. Securities	2,784,669	0	2,784,669	0
U.S. Government Agency Securities	7,393,210	0	7,393,210	0
Residential Mortgage-backed Securities	5,923,846	0	5,923,846	0
Taxable Municipal Securities	386,492	0	386,492	0
Tax Exempt Municipal Securities	6,610,575	0	6,610,575	0
Investment Securities Available for Sale	$ 24,088,242	$ 989,450	$ 23,098,792	$ 0

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

Assets Recorded at Fair Value on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis are included in the table below.

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2018				
Impaired Loans, Net of Specific Allowance	$ 3,968,027	$ 0	$ 0	$ 3,968,027
Foreclosed Real Estate	766,295	0	0	766,295
	$ 4,734,322	$ 0	$ 0	$ 4,734,322
As of December 31, 2017				
Impaired Loans, Net of Specific Allowance	$ 3,082,595	$ 0	$ 0	$ 3,082,595
Foreclosed Real Estate	342,028	0	0	342,028
	$ 3,424,623	$ 0	$ 0	$ 3,424,623

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Company's financial instruments that are not carried at fair value at December 31, 2018 and 2017.

			Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Estimated Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2018					
Financial Assets:					
Cash and Cash Equivalents	$ 12,672,212	$ 12,672,212	$ 12,672,212	$ 0	$ 0
Loans, Net	120,507,546	119,367,935	0	0	119,367,935
Cash Surrender Value of Life Insurance	6,977,939	6,977,939	0	0	6,977,939
Financial Liabilities:					
Deposits	140,031,016	139,624,016	0	0	139,624,016
Securities Sold Under Agreements to Repurchase	8,705,667	8,705,667	0	0	8,705,667
Federal Home Loan Bank Advances	832,154	917,154	0	0	917,154
Subordinated Debentures	6,217,000	6,217,000	0	0	6,217,000
As of December 31, 2017					
Financial Assets:					
Cash and Cash Equivalents	$ 17,721,697	$ 17,721,697	$ 17,721,697	$ 0	$ 0
Loans, Net	113,075,168	112,220,168	0	0	112,220,168
Cash Surrender Value of Life Insurance	6,996,067	6,996,067	0	0	6,996,067
Financial Liabilities:					
Deposits	139,680,140	139,278,140	0	0	139,278,140
Securities Sold Under Agreements to Repurchase	6,104,985	6,104,985	0	0	6,104,985
Federal Home Loan Bank Advances	880,515	1,001,515	0	0	1,001,515
Subordinated Debentures	7,217,000	7,217,000	0	0	7,217,000

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

The methods and assumptions used to estimate fair value are described as follows.

The carrying amount approximates the estimated fair value for cash and cash equivalents, short-term borrowings, demand deposits and securities sold under agreements to repurchase. The fair value of loans is estimated with a discounted cash flow approach using market rates and incorporates a credit risk factor to determine the exit price. For time deposits fair value is based on discounted cash flows using current market rates. Recorded book value of cash surrender value of life insurance is a reasonable estimate of fair value. Fair value of FHLB advances and subordinated debentures is based on current rates for similar financing. The fair value of off-balance sheet loan commitments is considered nominal and not disclosed above. Management does not consider it practicable to estimate the fair value of equity investments carried at cost. Therefore, no estimate of fair value for these investments is disclosed.

Much of the information as well as the amounts disclosed above are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2018 and 2017, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

NOTE 20 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company’s business activity is with customers located within East Tennessee. As of December 31, 2018 and 2017, the Company had concentrations of loans in residential real estate, commercial real estate and commercial lending. Generally, these loans are secured by the underlying real estate or commercial assets. The usual risks associated with such concentrations are generally mitigated by being spread over numerous borrowers and by adequate loan to collateral value ratios. The Company has concentrations in U.S. Government agency and residential mortgage-backed securities that are guaranteed by the Federal National Mortgage Association, the Federal Home Loan Mortgage Association, the Federal Farm Credit Company and the Federal Home Loan Bank. The Company also has a concentration in municipal bonds, which are issued by instrumentalities across the State of Tennessee.

NOTE 21 - COMMITMENTS AND CONTINGENCIES

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

Shareholder Information

www.fcbanktn.bank

423-272-5800

(Ask for Jim Maddox for Shareholder Support)

Stock Transfer Agent

Pacific Stock Transfer Company (PSTC)

If you have any questions regarding address changes, transfers, receiving duplicate 1099s, direct deposit set up, etc., please contact PSTC at:

Contact: **Mr. William Saeger**
PH: **540-216-3011**
EMAIL: **wsaegar@pacificstocktransfer.com**

MAIL:
Pacific Stock Transfer Company
Global Operations
6725 Via Austi Pkwy, Suite 300
Las Vegas, Nevada 89119

PH: 800-785-7782
8:30 a.m. to 7:30 p.m. EST

EMAIL: info@pacificstocktransfer.com

WEB: www.pacificstocktransfer.com

Raymond James

Market Maker for First Community Corporation stock:

Raymond James and Associates, Inc.
Lou C. Coines
Financial Institutions Sales & Trading
222 South Riverside Plaza, 7th Floor
Chicago, Illinois 60606
(800) 800-4693
Lou.Coines@raymondjames.com

OTCMarkets

OTCMarkets contains information about First Community Corporation stock (Profile, Prices, etc.)

http://www.otcmarkets.com/home

Stock Symbols

FCCT	First Community Corporation (Common)
FCCTP	First Community Corporation (Preferred A)
FCCTO	First Community Corporation (Preferred B)

FIRST COMMUNITY CORPORATION
COMMON STOCK AND DIVIDEND INFORMATION
Years Ended December 31, 2017 and 2018

First Community Corporation has only one class of common stock authorized, issued and outstanding. In December 2006, the Company listed its stock on the Over-The-Counter Bulletin Board (OTCBB) quotation service. This company transitioned to the OTC Markets Group quotation service in early 2012. First Community Corporation has appointed Raymond James & Associates, Inc. as the principal market maker for the stock. Information about the stock may be obtained at the OTC Markets Group website at www.otcmarkets.com, under the symbol FCCT. In addition, anyone wishing to buy or sell shares of First Community Corporation stock may contact Raymond James & Associates at 1-800-800-4693. However, there can be no assurance that, at any given time, any persons will be interested in acquiring shares of the Company's common stock.

On February 23, 2007, the Shareholders of First Community Corporation approved a reclassification transaction whereby holders of fewer than 1,500 shares of common stock had their shares exchanged for either Series A Preferred or Series B Preferred stock. An amendment to the Company’s Charter was also filed on February 23, 2007, creating these two new classes of stock.

The Company pays dividends from time to time on the outstanding shares of our stock as determined by the Board of Directors in its discretion based on the Company’s financial performance and condition. Future dividends will depend upon our earnings, financial position, cash requirements and such other factors as the Board of Directors may deem relevant. The following table sets forth the cash dividends declared per share of the Corporation's common stock and the highest and lowest per share prices at which the Corporation's common stock has actually traded in private transactions during the periods indicated. To the best of management's knowledge, such prices do not include any retail mark-up, mark-down or commission. Shares may have been sold in transactions, the price and terms of which are not known to the Corporation. Therefore, the per share prices at which the Corporation's common stock has previously traded may not necessarily be indicative of the true market value of the shares.

2018	High	Low	Dividends per share
First quarter	$ 6.28	6.28	.00
Second quarter	6.85	6.30	.00
Third quarter	7.05	6.70	.00
Fourth quarter	7.25	6.60	.25

2017	High	Low	Dividends per share
First quarter	$ 5.10	4.90	.00
Second quarter	7.00	4.85	.00
Third quarter	6.30	5.80	.00
Fourth quarter	6.30	5.97	.25

The authorized common stock of the Corporation consists of 10,000,000 shares of common stock, no par value per share, of which 1,630,812 were outstanding at December 31, 2018. There were 20,000 shares of the Corporation's common stock that are subject to outstanding options, warrants or securities convertible into common stock. The Corporation had approximately 170 common shareholders of record as of December 31, 2018.

First Community Bank of East Tennessee

Board of Directors, Officers & Staff

As of March 15, 2019

Board of Directors

Tyler K. Clinch, Chairman and President
Tommy W. Young, Secretary
Matthew W. Cleek
Gregory L. DePriest
Steve L. Droke
Dr. David R. Johnson
Sidney K. Lawson
David L. Lunceford
Kathy M. Richards

Executive Officers

Tyler K. Clinch
Chief Executive Officer and President

Steve L. Droke
Executive Vice President and Chief Lending Officer
Director of Special Assets

James B. Maddox
Vice President and
Chief Financial Officer

Officers

Jennifer N. Greene
Senior Vice President and
Chief Information Technology Officer

Steven M. Waller
Senior Vice President and
Regional Area President - Hawkins County

Miranda G. Cooper
Vice President
Marketing and Administration

Vicki J. Gobble
Vice President and
Controller

Stephanie M. Potts
Vice President and
Branch Manager - Church Hill Office

Dana L. Parkinson
Vice President and
Commercial Lending Officer

Ashley Lawson
Assistant Vice President and
Branch Manager - W. Main Street

Allison Ball
Banking Officer
Compliance Specialist

Tammy Hobbs
Banking Officer
Commercial Loan Portfolio Specialist

Paul G. Penland
Senior Vice President and
Chief Credit Officer

Todd Brown
Vice President
Commercial Lender & Administration

Matt Cradic
Vice President and
Senior Credit Analyst

Beverly Oxford
Vice President and
Loan Operations Manager

Debbie G. Price
Vice President and
Branch Manager - East Main Office, Rogersville

Kristin M. Waddle
Vice President and
BSA & Compliance Officer

B. Evelyn Anderson
Banking Officer
Director of Human Resources

Robin Carter
Banking Officer
Commercial Loan Portfolio Specialist

Emily Reese
Banking Officer
Electronic Banking Specialist

Cathy Trent
Banking Officer
Accounting Supervisor

Staff

Autumn Baker
Stacci Baker
Hannah Barrett
Mary Alice Beck
Kayla Blevins
Marc Borghetti
Chris Bowman
Mariah Brown
Angela Burr
Mollie Carr
Susan Cashion
Tammy Cassidy
Abby Chesser
Melissa Collier
Tina Dunn
Cody Ferrell
Kenzie Franklin
Chelsea Graves
Tricia Guidry
Debbie Helton
Vicky Higgenbottom
Karen Horton
Brooke Kincaid
Darla LeBlanc
Mauricia Moore
Haley Morrell
Brenda Nunley
Kathy Payne
Marsha Powell
Linda Rochester
Brandon Russell
Hannah Sexton
Jennifer Starnes
Makala Thurman
Jamie Ward
Carolyn Winstead

Legal Counsel

Hunter, Smith and Davis, LLP

first Community Bank

Te
xt

LOCATIONS

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