

## DEAR SHAREHOLDERS:

Another increase in short-term interest rates in the third quarter and the reduction in the corporate income tax rate continued to drive FCN's earnings. Net interest income improved from \$9.6 million at September 30, 2017 to \$10.7 million at September 30, 2018. Management of non-interest expenses also contributed to the Bank's strong performance. Through the third quarter, FCN Banc Corp generated net income of \$4,243,589 (\$2.82 per share) compared to \$3,118,436 (\$2.08 per share) last year.

While loans have shown a modest increase, the balance sheet does not reflect the strength of this year's secondary market activity for residential loans. FCN's year-to-date revenues from secondary market lending activities are up 31% over last year's level. The continued momentum of the housing sector in our markets along with the relatively low long-term interest rates has contributed to our secondary market loan growth. Further evidence of the strength of the housing sector is seen in the bank's \$3.6 million increase in construction and land development loans. Commercial lending activities, including commercial real estate, have increased \$8.2 million since September of last year.

FCN's third quarter Return on Average Assets and Return on Average Equity were 1.28% and 12.10% respectively. The Tier 1 Capital Ratio continued to strengthen to 10.66%. The Board of Directors was pleased to again increase the dividend in response to the Bank's strong performance in the third quarter.

On behalf of the Board of Directors and the employees of FCN, thank you for your continued support.

Sincerely,



Kenneth T. Wanstrath  
Chairman,  
Board of Directors



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# BUILDING STRONGER COMMUNITIES.

2018 THIRD QUARTER REPORT

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| SEPTEMBER 30                                   | 2018                  | 2017                  |
|--|-----------------------|-----------------------|
| <b>Assets</b>                                  |                       |                       |
| Cash and cash equivalents                      | \$ 26,861,778         | \$ 24,610,986         |
| Investment securities                          | 143,664,273           | 155,489,218           |
| Short-term investments                         | 30,181                | 1,053,329             |
| Loans  | 253,778,571           | 243,864,860           |
| Allowance for loan losses                      | (4,669,478)           | (4,764,835)           |
| Net loans                                      | <u>249,109,092</u>    | <u>239,100,025</u>    |
| Premises and equipment                         | 5,590,979             | 5,446,272             |
| Federal Reserve, FHLB Stock & Farmer Mac Stock | 1,144,483             | 1,104,150             |
| Interest receivable                            | 1,817,255             | 1,588,027             |
| Other Assets                                   | 16,288,090            | 15,621,289            |
| Total Assets                                   | <u>\$ 444,506,133</u> | <u>\$ 444,013,296</u> |
| <b>Liabilities</b>                             |                       |                       |
| Deposits                                       |                       |                       |
| Noninterest-bearing                            | \$ 74,033,768         | \$ 73,113,697         |
| Interest-bearing                               | 310,471,574           | 313,623,874           |
| Total Deposits                                 | <u>384,505,342</u>    | <u>386,737,571</u>    |
| Short-term borrowings                          | 10,790,120            | 8,156,162             |
| Federal Home Loan Bank advances                | -                     | -                     |
| Interest payable                               | 392,681               | 342,372               |
| Other liabilities                              | 1,598,267             | 2,013,483             |
| Total liabilities                              | <u>397,286,409</u>    | <u>397,249,588</u>    |
| <b>Stockholders' Equity</b>                    |                       |                       |
| Common stock, \$6.25 par value                 |                       |                       |
| Authorized - 10,000,000 shares                 |                       |                       |
| Issued - 1,576,960                             | 9,856,000             | 9,856,000             |
| Capital surplus                                | 620,000               | 620,000               |
| Retained earnings                              | 40,191,626            | 36,871,800            |
| Treasury stock                                 | (1,244,993)           | (1,251,257)           |
| Accumulated other comprehensive income (loss)  | (2,202,909)           | 667,165               |
| Total stockholders' equity                     | <u>47,219,724</u>     | <u>46,763,708</u>     |
| Total liabilities and stockholders' equity     | <u>\$ 444,506,133</u> | <u>\$ 444,013,296</u> |

## CONSOLIDATED STATEMENTS OF INCOME

|                                     | THREE MONTHS ENDED<br>SEPTEMBER 30 |                     |
|-------------------------------------|------------------------------------|---------------------|
|                                     | 2018                               | 2017                |
| <b>Interest Income:</b>             |                                    |                     |
| Loans receivable                    | \$ 3,182,776                       | \$ 2,772,563        |
| Investment securities               | 906,263                            | 846,946             |
| Short-term investments              | 125,847                            | 107,325             |
| Total interest income               | <u>4,214,886</u>                   | <u>3,726,834</u>    |
| <b>Interest Expense:</b>            |                                    |                     |
| Interest on deposits                | 500,712                            | 414,931             |
| Other interest                      | 31,728                             | 18,157              |
| Total interest expense              | <u>532,440</u>                     | <u>433,088</u>      |
| Net interest income                 | <u>3,682,446</u>                   | <u>3,293,746</u>    |
| Provision for possible loan losses  | -                                  | -                   |
| Net interest income after provision | <u>3,682,446</u>                   | <u>3,293,746</u>    |
| <b>Non-interest income</b>          |                                    |                     |
| Service charges on deposit accounts | 106,856                            | 115,656             |
| Other income                        | 508,313                            | 643,303             |
| Total non-interest income           | <u>615,169</u>                     | <u>758,959</u>      |
| <b>Non-interest expense</b>         |                                    |                     |
| Salaries and employee benefits      | 1,464,460                          | 1,356,003           |
| Occupancy expense                   | 155,318                            | 158,980             |
| Other expense                       | 853,598                            | 1,007,853           |
| Total non-interest expense          | <u>2,473,375</u>                   | <u>2,522,836</u>    |
| Income before taxes                 | 1,824,240                          | 1,529,869           |
| Income tax expense                  | 347,545                            | 377,515             |
| Net income                          | <u>\$ 1,476,695</u>                | <u>\$ 1,152,354</u> |
| <b>Common share data:</b>           |                                    |                     |
| Net income per share                | \$ 0.98                            | \$ 0.77             |
| Cash dividends per share            | \$ 0.31                            | \$ 0.28             |
| Weighted-Average Shares Outstanding | 1,502,945                          | 1,502,740           |

## CONSOLIDATED STATEMENTS OF INCOME

|                                     | YEAR TO DATE<br>SEPTEMBER 30 |                     |
|-------------------------------------|------------------------------|---------------------|
|                                     | 2018                         | 2017                |
| <b>Interest Income:</b>             |                              |                     |
| Loans receivable                    | \$ 9,199,806                 | \$ 8,180,568        |
| Investment securities               | 2,619,517                    | 2,495,267           |
| Short-term investments              | 350,707                      | 261,858             |
| Total interest income               | <u>12,170,030</u>            | <u>10,937,693</u>   |
| <b>Interest Expense:</b>            |                              |                     |
| Interest on deposits                | 1,404,037                    | 1,245,958           |
| Other interest                      | 88,551                       | 54,908              |
| Total interest expense              | <u>1,492,589</u>             | <u>1,300,866</u>    |
| Net interest income                 | <u>10,677,441</u>            | <u>9,636,827</u>    |
| Provision for possible loan losses  | -                            | -                   |
| Net interest income after provision | <u>10,677,441</u>            | <u>9,636,827</u>    |
| <b>Non-interest income</b>          |                              |                     |
| Service charges on deposit accounts | 314,977                      | 330,725             |
| Other income                        | 1,786,864                    | 1,680,703           |
| Total non-interest income           | <u>2,101,841</u>             | <u>2,011,428</u>    |
| <b>Non-interest expense</b>         |                              |                     |
| Salaries and employee benefits      | 4,403,754                    | 3,944,831           |
| Occupancy expense                   | 452,273                      | 458,666             |
| Other expense                       | 2,696,042                    | 3,053,906           |
| Total non-interest expense          | <u>7,552,068</u>             | <u>7,457,403</u>    |
| Income before taxes                 | 5,227,214                    | 4,190,853           |
| Income tax expense                  | 983,625                      | 1,072,417           |
| Net income                          | <u>\$ 4,243,589</u>          | <u>\$ 3,118,436</u> |
| <b>Common share data:</b>           |                              |                     |
| Net income per share                | \$ 2.82                      | \$ 2.08             |
| Cash dividends per share            | \$ 0.90                      | \$ 0.84             |
| Weighted-Average Shares Outstanding | 1,502,945                    | 1,502,740           |