RBank

~~August 14, 2019~~ August 15, 2019
[initials]

Federal Reserve Bank of Dallas
Attn: Mike Frank, NIC Analyst
2200 North Pearl Street
Dallas, Texas 75201-2216

Re: R Corp Financial FR Y-6, ~~2018 Revision~~ 2nd revision
[initials]

Mr. Frank:

After performing all suggested changes, please find the revised 2018 R Corp Financial FR-Y6 for final filing. If you have any questions about the FR-Y6 report, please feel free to either call or email me.

If you have questions in regards the Audited Financial Statement, please feel free to reach Marc Bone CFO at 512.485.0481 or via email mbone@rbanktexas.com.

Sincerely,

[signature]

Iliana McNair
Secretary of the Board of Directors
R Corp Financial
imcnair@rbanktexas.com
512.600.6919

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

AMENDED
AUG 16 2019

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

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

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

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

I, Steve Stapp
Name of the Holding Company Director and Official

President | Chief Executive Officer | Director
Title of the Holding Company Director and Official

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

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

Steve Stapp
Signature of Holding Company Director and Official

8·15·19
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 4478027
C.I.

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

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

Reporter's Name, Street, and Mailing Address

R Corp Financial
Legal Title of Holding Company

3600 East Palm Valley Blvd
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Round Rock	TX	78665

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Marc Bone	Chief Financial Officer

512.485.0481
Area Code / Phone Number / Extension

512.244.5951
Area Code / FAX Number

mbone@rbanktexas.com
E-mail Address

none
Address (URL) for the Holding Company's web page

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

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

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

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

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

R Corp Financial

Round Rock, Texas

LEI: N/A
Incorporated in Texas

R Bank

Round Rock, Texas

Incorporated in Texas
LEI: 549300RLNUFWOJLX7W13

100% Wholly Owned Subsidiary of R Corp Financial

Results: A list of branches for your depository institution: R BANK (ID_RSSD: 3821037).
This depository institution is held by R CORP FINANCIAL (4478027) of ROUND ROCK, TX.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	3821037	R BANK	3600 EAST PALM VALLEY BOULEVARD	ROUND ROCK	TX	78665	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	3814477	HIGHWAY 29 BRANCH	360 E HIGHWAY 29	BERTRAM	TX	78605	BURNET	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	4904517	EDNA BANKING CENTER	814 NORTH WELLS STREET	EDNA	TX	77957	JACKSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	4412870	GEORGETOWN BRANCH	2415 WILLIAMS DRIVE	GEORGETOWN	TX	78628-3247	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	3467574	JARRELL BANKING CENTER	50 W FM 487	JARRELL	TX	76537	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	4495239	ROLLINGWOOD BRANCH	3103 BEE CAVE ROAD SUITE 110	ROLLINGWOOD	TX	78746	TRAVIS	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	4803423	ROUND ROCK BANKING CENTER	1900 ROUND ROCK AVENUE	ROUND ROCK	TX	78681	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK		Full Service	582766	SCHWERTNER BANKING CENTER	110 MAIN STREET	SCHWERTNER	TX	76573	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	

Form FR Y-6 | R Corp Financial Round Rock, Texas | Fiscal Year December 31 2018

Number and Percentage of Each Class of Voting Securities (1)(c)

Name & Address (1)(A)	Additonal Information	Country (1)(B)	Number of Shares	Number of Shares held	Warrants Available for	Stock Options Available for	Total Shares Owned	Total Available	Ownership
Lynn Nolan Ryan| Georgetown Tx USA		USA	535,426	-	-	1,000	536,426	2,849,637	18.82%
Nolan Reese Ryan | Austin, Tx USA		USA	97,997	-	-	7,000	104,997	2,849,637	3.68%
Grace Lien Schlegel Trust	N Reese Ryan TTEE	USA	2,900	-	-	-	2,900	2,849,637	0.10%
Nolan Montgomery Bivins Trust	N Reese Ryan TTEE	USA	11,804	-	-	-	11,804	2,849,637	0.41%
Lela Teel Bivins Trust	N Reese Ryan TTEE	USA	11,803	-	-	-	11,803	2,849,637	0.41%
Robert Reid Ryan | Houston, Tx USA		USA	97,955	-		7,000	104,955	2,849,637	3.68%
Andrew Bivins | Amarillo, Tx USA		USA	81,693	-	15,000	7,000	103,693	2,849,637	3.64%
Caroline Avery Ryan Trust	Wendi Bivins TTEE	USA	11,804	-	-	-	11,804	2,849,637	0.41%
Ella Reese Ryan Trust	Wendi Bivins TTEE	USA	11,804	-	-	-	11,804	2,849,637	0.41%
Jackson Ray Ryan Trust	Wendi Bivins TTEE	USA	11,804	-	-	-	11,804	2,849,637	0.41%
Julia Elizabeth Ryan Trust	Wendi Bivins TTEE	USA	11,804	-	-	-	11,804	2,849,637	0.41%
Victoria Lynn Ryan Trust	Wendi Bivins TTEE	USA	11,804	-	-	-	11,804	2,849,637	0.41%
Total for Lynn Nolan Ryan			898,598		15,000	22,000	935,598	2,849,637	32.83%
Don Sanders | Houston, Tx USA		USA	70,216	-	-	-	70,216	2,849,637	2.46%
Sanders 2003 Children's Trust | Houston, Tx USA [5]		USA	172,179	-	-	-	172,179	2,849,637	6.04%
Brad Sanders | Houston, Tx USA		USA	200	-	-	7,000	7,200	2,849,637	0.25%
Bret Sanders | Houston, Tx USA		USA	399	-	-	7,000	7,399	2,849,637	0.26%
Total for Sanders Family			242,994			14,000	256,994	2,849,637	9.02%

Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018

Name & Address (2)(a)	Country of Citizenship (2)(b)	Number & % of Ea. Class of Voting Security (2) (c)
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A
N/A	N/A	N/A

(5) Donald V Wier Turstee, Don Sanders Trustor, Bret and Brad Sanders Beneficiaries

Ownership percentages are based on the following as the denominator (2,849,637) when calculating ownership: 12/31/2018 shares outstanding of 2,566,837; 12/31/2018 warrants outstanding of 176,500; and 12/31/2018 options outstanding of 106,300; for a total of 2,849,637 shares. This number assumes that all warrants and options have been exercised.

Form FR Y-6

R Corp Financial
Round Rock, Texas
Fiscal Year Ending December 31,2018

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Nolan Reese Ryan Austin, TX, USA	Business Manager | Large Corporation	Director, Chairman	Chairman, R Bank	CEO, Round Rock Express Baseball Club	4.60%(1)	0.00%	Bivins Ryan Investment, LLC -33.0% | Shope & Ryan Management Inc - 33.0% | Carr Ryan RE I LLC 45.0% | Carr Ryan RE II LLC 44.640% | Ryan Sturat Holdings LLC 71.430% | Ryan Stuart Holdings LLC 28.570% | Ryan Sanders Baseball GP LLC 100% | RSB Holdings I LLC 100% | RSB Holdings II 100%
Steve Stapp** Round Rock, TX, USA	Banker	Director, President | CEO	President/CEO, R Bank	N/A	1.34%	0.00%	None
Lynn Nolan Ryan Georgetown, TX, USA	Retired professional baseball player	Director	None	Executive Advisor, Houston Astros Baseball	18.82%	0.00%	FB Holdco, LLC 100.0000% LNR Enterprises Management LLC 50.0000% LNR Interests, Lp 100.0000% LNR Management, LLC 100.0000% Nolan Ryan Ranch 100.0000% Round Rock Baseball, Inc 39.7000% RRE Holdings, Inc 29.2500% RRE Investors, Lp 29.2400% Ryan Family Ranch Management, LLC 50.0000% Ryan Family Ranch Investments, LP 49.5000% Ryan's Dry Creek Ranch 50.0000%
Robert Reid Ryan Houston, TX USA	Business Manager | Large Corporation	Director	None	President, Houston Astros Baseball	3.68%	0.00%	Bivins Ryan Investment, LLC -33.0% | Shope & Ryan Management Inc - 33.0%
Temple Aday** Round Rock, TX USA	Commercial contractor	Director	None	CEO, Aday and Associates - Construction	1.79%	0.00%	Aday & Associates - 100% AMAA Investments - 100% Lone Oak Barn 100% | Aquatech Waterproofing - 50%
Malvin Green** Georgetown, TX, USA	Retired banker	Director	None	N/A	0.66%	0.00%	None
Chris Ellis Austin, TX, USA	Commercial Real Estate Development	Director	None	Founding Principal - Endeavor Real Estate	2.18%	0.00%	1346 Thorpe Lane Ltd 28.8756% 3904 Waters Edge Ltd 48.4200% 4200 Rivercrest LLC 50.0% , CE Cabo A202Ltd 100%, CE Cabo A206Ltd 100%, CEWY Ltd 100%, ERG AS Woodland Holdings Ltd 31.0182%, ERG Humpty Dumpty Holdings Ltd 45.25%, ERG PA Investors 28.57% , Fall Creek Ventures Ltd 50% Burnet Montview Partners LTd. 27.2470%
Andrew Bivins Amarillo, TX, USA	Rancher	Director	None	JA Cattle Company Ltd. - Managing Partner	3.64%	0.00%	Bivins Ryan Investment, LLC -33.0%
Jared Shope Fort Worth, TX, USA	Entreprenuer, Real Estate Development - Self Employed	Director	None	Partner, Lone Star Bean	2.42%	0.00%	2SP Partners, LLC 33.0000% Bluebonnet Management, LLC 33.0000% CD Sports, LLC 50.0000% Foch St. Partners, LLC 33.0000% Purple Investments, LLC 25.0000% Shope & Ryan Management Inc 33.0000% TF Clothing LLC 50%
Rob Bridges** Austin, TX, USA	Insurance Agent	Director	None	Partner, Wortham Insurance	0.45%	0.00%	CCR Investments - 33%
Brad Sanders Houston, TX, USA	Entreprenuer, Restaurantuer	Director	None	N/A	0.25%	0.00%	None
Bret Sanders Houston, TX, USA	Investment Banker	Director	None	Director of NASDAQ trading -	0.26%	0.00%	None
Richard Stuart II Weatherford, TX, USA	Entreprenuer, Restaurantuer	Director	None	N/A	2.73%	0.00%	2SP Partners, LLC 33.0000% Bluebonnet Management, LLC 33.0000% Foch St. Partners, LLC 33.0000% RLS II Properties Management, Inc 100.0000% Weatherford Chicken Express, LLC 100.0000% Stuart Group Incd 50.0%
Chris Bubela** Edna, TX, USA	Banker	Executive Officer, R Corp Financial	Chief Lending Officer, R Bank	N/A	0.46%	0.00%	None
Judy Kirkland La Grange, TX USA	Banker	Executive Officer, R Corp Financial	Chief Operations Officer, R Bank	N/A	0.06%	0.00%	None
Mike Shaw Austin, TX, USA	Banker	Executive Officer, R Corp Financial	Chief Credit Officer, R Bank	N/A	0.18%	0.00%	None
Mark Kesselring** Round Rock, TX, USA	Banker	Officer, R Corp Financial	SVP, IT/Facilities R Bank	N/A	0.04%	0.00%	None
Shonnie Stapp** Round Rock, TX, USA	Banker	Officer, R Corp Financial	VP, Mortgage Lending R Bank	N/A	0.00%	0.00%	None
Marcus R Bone, Leander, TX, USA	Banker	Executive Officer, R Corp Financial	Chief Financial Officer, R Bank	N/A	0.00%	0.00%	UX Allen Ranch, LLC 25% Allen Ranch Heirs, GP - 25%
William K Reagan II Austin, TX, USA	Sales	Advisory Director R Corp Financial	None	President Reagan Advertising	0.73%	0.00%	None
Josh Galatzan Austin, TX, USA	Banker	Advisory Director R Corp Financial	None	N/A	0.06%	0.00%	None

Scott Carr Austin, TX, USA	Commercial Real Estate Development	Advisory Director R Corp Financial	None	President Carr Development	0.55%	0.00%	None
Brian Fell Austin, TX, USA	Optometrist	Advisory Director R Corp Financial	None	N/A	0.09%	0.00%	None
Wendi Bivins Amarillo, Tx USA	Principal Security Holder	N/A	N/A	N/A	2.05%	0.00%	None

Notes:

Ownership percentages are based on the following as the denominator (2,849,637) when calculating ownership: 12/31/2018 shares outstanding of 2,566,837; 12/31/2018 warrants outstanding of 176,500; and 12/31/2018 options outstanding of 106,300; for a total of 2,849,637 shares. This number assumes that all warrants and options have been exercised.

**Indicates that some (or all) of shares owned are jointly held with spouse (1) Percentage includes power to vote or influence vote

R CORP FINANCIAL AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

FHK | Experience. That counts!

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

FHK | Experience. That counts!
CERTIFIED PUBLIC ACCOUNTANTS

9501 Console Drive, Suite 200
San Antonio, TX 78229
www.fhkcpa.com
210.614.2284
210.614.2285 fax

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
R Corp Financial and Subsidiary
Round Rock, Texas

We have audited the accompanying consolidated financial statements of R Corp Financial and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of R Corp Financial and Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

The consolidated financial statements for the year ended December 31, 2016, were audited by other auditors, whose report dated May 1, 2017, expressed an unmodified opinion on those statements.

Report of Supplementary Information

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

Fisher, Herbst & Kemble, P.C.

San Antonio, Texas
May 14, 2018

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Share Data)

December 31,		**2017**		2016
ASSETS				
Cash and non-interest bearing deposits in other banks	**$**	**2,339**	$	2,861
Interest bearing deposits in other banks		**13,893**		19,720
Total cash and cash equivalents		**16,232**		22,581
Securities available-for-sale, at estimated market value		**78,607**		75,434
Securities held-to-maturity, at cost		**4,517**		3,186
Loans, net		**340,627**		292,518
Loans held-for-sale		**348**		2,522
Other real estate owned		**243**		-
Accrued interest receivable		**1,567**		1,421
Premises and equipment, net		**3,901**		2,743
Restricted stock		**1,279**		1,265
Net deferred tax asset		**836**		2,012
Goodwill		**4,667**		4,667
Intangibles, net		**960**		1,188
Other assets		**602**		442
Total assets	**$**	**454,386**	$	409,979
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Non-interest bearing	**$**	**78,454**	$	78,767
Interest bearing demand		**198,523**	$	176,670
Interest bearing time		**123,883**		96,180
Total deposits		**400,860**		351,617
Accrued interest payable		**232**		175
Deferred gain on sale leaseback		**1,397**		2,159
Borrowings		**18,300**		23,000
Other liabilities		**407**		528
Total liabilities		**421,196**		377,479
Commitments and contingencies		-		-
Shareholders' Equity				
Common stock - $5 par value; 10,000,000 shares authorized; **2,525,837** and 2,513,537 shares outstanding in 2017 and 2016, respectively		**12,629**		12,568
Capital surplus		**20,925**		20,797
Treasury stock 5,000 shares at cost		**(80)**		(80)
Retained earnings (accumulated deficit)		**624**		(50)
Accumulated other comprehensive income (loss)		**(908)**		(735)
Total shareholders' equity		**33,190**		32,500
Total liabilities and shareholders' equity	**$**	**454,386**	$	409,979

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

Years Ended December 31,	**2017**	2016
INTEREST INCOME		
Interest and fees on loans	**$ 17,772**	$ 14,913
Investment securities	**1,675**	1,691
Interest bearing deposits in other banks	**270**	195
Federal funds sold	**-**	2
Total interest income	**19,717**	16,801
INTEREST EXPENSE		
Deposits	**2,519**	2,469
Other borrowed funds	**486**	327
Total interest expense	**3,005**	2,796
NET INTEREST INCOME	**16,712**	14,005
PROVISION FOR LOAN LOSSES	**1,000**	575
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**15,712**	13,430
NON-INTEREST INCOME		
Deposit service charges and fees	**450**	419
Interchange fees	**337**	286
Gain on sale of securities, net	**130**	169
Gain on sale of premises and equipment, net	**751**	137
Other income	**83**	139
Total non-interest income	**1,751**	1,150
NON-INTEREST EXPENSE		
Loss on other real estate owned	**6**	-
Salaries and employee benefits	**6,682**	6,199
Professional services	**738**	753
Data processing	**2,124**	1,878
Occupancy and equipment	**1,904**	1,298
Depreciation and amortization	**840**	1,001
Regulatory and insurance expense	**497**	412
Advertising and marketing	**359**	363
Office and communications expense	**420**	417
Other expense	**607**	681
Total non-interest expense	**14,177**	13,002
INCOME BEFORE INCOME TAXES	**3,286**	1,578
INCOME TAXES - FEDERAL	**1,101**	174
NET INCOME	**$ 2,185**	$ 1,404

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)

Years Ended December 31,		2017		2016
NET INCOME	$	**2,185**	$	1,404
OTHER ITEMS OF COMPREHENSIVE INCOME				
Adjustment for gain on sale of available-for-sale securities		**(130)**		(169)
Unrealized holding loss (gain) arising during period		**95**		(1,395)
Total other items of comprehensive income		**(35)**		(1,564)
INCOME TAX EFFECT ON OTHER ITEMS OF COMPREHENSINVE INCOME (LOSS)				
Adjustment for gain on sale of available-for-sale securities		**44**		58
Unrealized holding gain (loss) arising during period		**(182)**		474
Total other items of comprehensive income		**(138)**		532
Comprehensive income	**$**	**2,012**	$	372

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in Thousands)

Years Ended December 31, 2017 and 2016

	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2015	$ 12,556	$ 20,738	$ (80)	$ 51	$ 297	$ 33,562
Net income	-	-	-	1,404	-	1,404
Net change in available-for-sale securities	-	-	-	-	(1,032)	(1,032)
Stock option expense	-	15	-	-	-	15
Exercise of stock options	12	44	-	-	-	56
Dividends declared	-	-	-	(1,505)	-	(1,505)
Balance at December 31, 2016	12,568	20,797	(80)	(50)	(735)	32,500
Net income	-	-	-	**2,185**	-	**2,185**
Stock option expense	-	**12**	-	-	-	**12**
Exercise of stock options	**22**	**77**	-	-	-	**99**
Exercise of warrants	**39**	**39**	-	-	-	**78**
Net change in available-for-sale securities	-	-	-	-	**(173)**	**(173)**
Dividends declared	-	-	-	**(1,511)**	-	**(1,511)**
Balance at December 31, 2017	**$ 12,629**	**$ 20,925**	**$ (80)**	**$ 624**	**$ (908)**	**$ 33,190**

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

Years Ended December 31,		2017		2016
OPERATING ACTIVITIES				
Net income	$	2,185	$	1,404
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		1,000		575
Stock-based compensation expense		12		15
Depreciation and amortization		840		1,001
Gain on sale of available-for-sale securities, net		(130)		(169)
Deferred gain on sale		(762)		-
Net amortization on investment securities		615		685
Loss on sale of other real estate owned		6		-
Loss (gain) on sale of premises and equipment		11		(137)
Deferred income tax benefit		1,038		(1,282)
Net changes in:				
Accrued interest receivable, prepaid expenses and other assets		1,868		(298)
Accrued interest payable and other liabilities		(64)		421
Net cash provided by operating activities		6,619		2,215
INVESTING ACTIVITIES				
Activity in securities available-for-sale:				
Proceeds from sales, maturities and paydowns		51,935		68,353
Purchases		(55,598)		(65,151)
Activity in securities held-to-maturity:				
Proceeds from maturities and paydowns		153		306
Purchases		(1,514)		(210)
Purchase of The Independent Bankers Financial Corporation Stock		-		(17)
Purchase of Federal Home Loan Bank Stock		(14)		(944)
Net change in loans		(49,625)		(51,247)
Proceeds from the sale of other real estate owned		267		-
Proceeds from the sale of premises and equipment and vehicles		-		8,761
Purchase of premises and equipment		(1,781)		(898)
Net cash used by investing activities		(56,177)		(41,047)
FINANCING ACTIVITIES				
Net change in deposits		49,243		22,947
Proceeds from (payments on) borrowings		(4,700)		15,000
Proceeds from stock options exercised		99		56
Proceeds from warrants exercised		78		-
Dividends declared		(1,511)		(1,505)
Net cash provided by financing activities		43,209		36,498
DECREASE IN CASH AND CASH EQUIVALENTS		(6,349)		(2,334)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		22,581		24,915
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	16,232	$	22,581
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid for interest	$	2,948	$	2,750
Cash paid for income taxes	$	390	$	1,270

See notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Consolidation – The accompanying consolidated financial statements include the accounts of R Corp Financial and its wholly-owned subsidiary, R Bank (the "Bank"), (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations – R Corp Financial (the "Company") through its bank subsidiary, R Bank, operates branch locations in Round Rock, Austin, Georgetown, Jarrell, Schwertner, Bertram and Edna, Texas. The Bank's primary source of revenue is from investing funds received from depositors and from providing loan and other banking services to its customers. The Bank is subject to regulation by the Texas Department of Banking and the Federal Deposit Insurance Corporation ("FDIC"). The Company is subject to regulation by the Federal Reserve Board.

In September of 2014, the Board of Directors of the Company approved the creation of a separate subsidiary which will wholly own DR Storage Solutions, LLC ("DRSS"), a newly formed data storage site housed in the Round Rock East location. At December 31, 2014, the entity was in the development stage. In September of 2015, the Board of Directors of the Company approved the dissolution of DRSS. In October of 2015, the Board of Directors of the Company approved the formation of RBQ Holdings, LLC ("RBQ"), a limited liability company, which will hold a commercial grade barbeque pit and other related equipment. RBQ is a wholly-owned subsidiary of the Bank. Total investment of approximately $7 thousand has been included in other assets on the consolidated balance sheets.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of goodwill and the valuation of available-for-sale securities.

New and Recently Issued Accounting Standards – *ASU 2016-02, "Leases (Topic 842)."* In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary; lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact this change will have on the Company's financial statements, but believes it will have little impact on operating results but will create significant additional assets and debt obligations, primarily related to leased premises and equipment treated as operating leases under current GAAP.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor. The amendments will be effective for fiscal years beginning after December 15, 2020 and are expected to have a significant impact on the Company's consolidated financial statements. The Company has formed a CECL committee that is assessing data and system needs in order to evaluate the impact of adopting the new guidance. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. We expect the adoption will result in a material increase to the allowance for loan losses balance. At this time, the impact is being evaluated.

ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." In May 2014, the FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. The amendments will be effective for annual periods beginning after December 15, 2018. We are finalizing our assessment and have identified the revenue line items within the scope of this new guidance. We do not expect the new standard to result in a material change for revenue because the majority of the Company's financial instruments are not within the scope of Topic 606. The Company is evaluating revenue streams within Other Noninterest Income including service charges on deposit accounts and income from fiduciary activities.

ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." In March 2016, the FASB amended existing guidance to simplify the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; (c) classification on the statement of cash flows; and (d) policy election to estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. The amendments will be effective for annual periods beginning after December 15, 2017 and are not expected to have a significant impact on the Company's consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting". In May 2017, the FASB provided guidance about which changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met: (a) the fair value (or calculate value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. (b) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. (c) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendment will be effective for annual periods beginning after December 15, 2017 and is not expected to have a significant impact on the Company's consolidated financial statements.

ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." In January 2016, the FASB amended existing guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). It eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments will be effective for fiscal years beginning after December 15, 2018 and are not expected to have a significant impact on the Company's consolidated financial statements.

Significant Group Concentrations of Credit Risk – Most of the Company's activities are with customers located in Central Texas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

Securities – Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2017 and 2016, the Company had no securities classified as trading securities.

(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to (1) the length of time and the extent to which the fair value has been less than the amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted Stock – The following investments are considered restricted stock with limited marketability and is carried at cost. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No other-than-temporary write-downs have been recorded on these securities. There has been no impairment to date. At December 31, 2017 and 2016, restricted stock consisted of the following:

	2017	2016
TIB	**$ 178**	$ 178
Federal Home Loan Bank	**1,101**	1,087
Total restricted stock	**$ 1,279**	$ 1,265

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

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans and agriculture loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectibility of real estate and agriculture loans may be adversely affected by conditions in the real estate and agriculture markets or the general economy. Management monitors and evaluates real estate and agriculture loans based on collateral, geography and risk criteria.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower's income.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

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

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate 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. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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 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 shortfall in relation to the principal and interest owed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral, if the loan is collateral-dependent.

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan. In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include interest rate reductions, payment forbearance or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses – The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with the *FASB Accounting Standards Codification* ("ASC"), Receivables, and ASC, Contingencies. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations and loan quality trends, including trends in nonaccrual, past-due and classified loans; current period loan charge-offs and recoveries. The determination also includes qualitative aspects, such as changes in local, regional or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Premises and Equipment – Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. Land is carried at cost. Leasehold improvements are amortized on a straight-line basis over the lease period or the estimated useful lives of the related assets, whichever is shorter. Gains and losses on dispositions are included in other noninterest income or expense.

Long-lived Assets – Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from operations of the asset are less than the carrying value of the asset. The cash flows used for this analysis are those directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds its fair value.

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

Goodwill and Core Deposit Intangible Assets – Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Under ASC Topic 350, goodwill is not amortized but is tested for impairment on an annual basis, or between annual tests if an event occurs or circumstances change that would reduce the fair value of the reporting unit below its carrying amount. The Company's goodwill impairment assessment in 2017 and 2016 concluded no impairment existed.

Core deposit intangible assets represent the value assigned to the existing deposits as part of the Company's acquisitions. The core deposit intangibles have finite lives and are being amortized on a declining balance basis over 10 years.

Deferred Gain on Sales Leaseback – Bank premises sold and leased back are accounted by the provisions of ASC Topic 840, under which sale-leaseback transactions that result in the seller retaining the use of the majority of the property defer the gain on the sale and recognize it over the lease term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Income Taxes – The Company prepares and reports income tax returns on a consolidated basis. The Bank continues to record tax provisions and deferrals as a single entity for financial reporting purposes. Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for possible credit losses, the amortization of identifiable intangibles and accumulated depreciation. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will be either taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. In addition, management does not believe there are any unrecorded deferred tax liabilities that are material to the financial statements.

Management believes that all significant tax positions utilized by the Company will more likely than not be sustained upon examination. As of December 31, 2017, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2014 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the consolidated statements of income.

Texas margin tax is recorded in other noninterest expense and totaled approximately **$21** thousand and $13 thousand for the years ended December 31, 2017 and 2016, respectively.

Accounting for Stock Options and Warrants – The Company accounts for its stock options and warrants as required under U.S. GAAP, which requires that such transactions be recognized as compensation cost in the consolidated statements of income based on their fair values on the date of the grant. See Note 14 for more information related to stock options and warrants.

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

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold. The Company maintains cash in deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

(Dollars in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Comprehensive Income – Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Revenue Recognition – Interest income and expense are recognized on the accrual method based on the outstanding balances. Other revenue is recognized at the time the service is rendered or transactions occur.

Advertising – Advertising costs are expensed as incurred. For the years ended December 31, 2017 and 2016, advertising costs totaled **$147,411** and $143,738, respectively.

Reclassifications – Certain reclassifications were made to the 2016 consolidated financial statement presentation in order to conform to the 2017 consolidated financial statement presentation with no effect on reported assets, income or shareholders' equity. A reclassification between non-interest bearing and interest bearing demand deposits of approximately $70,585,000 was completed and resulted in no change total deposits reported at December 31, 2016.

Subsequent Events – In April 2018, the Company, renegotiated the sales price in the sale leaseback of the Schwertner and Edna locations (See Note 13 for discussion of original transaction). As a result the price of the properties sold was reduced by $915,000. Lease expense was also reduced as a result of the lower sales price effective as of the original date of the sale, October 27, 2016, totaling $126,983. The Company and the purchasers of the properties also negotiated an amount for lost opportunity cost of $48,091. The following entry was recorded effective as of April 30, 2018.

	Debit	Credit
Deferred gain	$ 251,910	
Retained earnings	$ 584,198	
Cash		$ 836,108

The Company has performed a review of subsequent events through the date of the opinion, which is the date the consolidated financial statements were available for issuance, and concludes there were no other events or transactions occurring during this period that required disclosure in the consolidated financial statements. Any events occurring after this date have not been factored into the consolidated financial statements being presented.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company, as a participant of the Federal Reserve System, is required to maintain reserves for the purpose of facilitating the implementation of monetary policy. These reserves are maintained in the form of balances held at a pass-through correspondent bank or by vault cash. The Bank did not have a reserve requirement as of December 31, 2017. The Bank's reserve requirement was approximately $5.5 million at December 31, 2016. Accordingly, cash and due from bank balances were restricted to that extent.

3. FAIR VALUE DISCLOSURES

The Company follows the provisions of ASC, Fair Value Measurements and Disclosures. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a class basis rather than a major category basis for assets and liabilities and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.

Level 2 – Observable inputs, other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities. Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets and for disclosures of certain financial instruments.

3. FAIR VALUE DISCLOSURES (continued)

There were no significant transfers among the three hierarchy levels of input. A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available-for-sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2017 and 2016, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2017				
Securities available-for-sale	**$ -**	**$ 78,607**	**$ -**	**$ 78,607**
December 31, 2016				
Securities available-for-sale	$ -	$ 75,434	$ -	$ 75,434

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

Impaired Loans – The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

3. FAIR VALUE DISCLOSURES (continued)

The following table summarizes financial assets (dollars in thousands) as of December 31, 2017 and 2016, that are measured at fair value by class on a nonrecurring basis, segregated by the level of the valuations inputs within the fair value hierarchy utilized to measure fair value are as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2017				
Impaired loans	**$ -**	**$ -**	**$ 788**	**$ 788**
December 31, 2016				
Impaired loans	$ -	$ -	$ 1,478	$ 1,478

During the years ended December 31, 2017 and 2016, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for the loan losses based upon the fair value of the underlying collateral based on collateral valuations utilizing Levels 3 valuation inputs.

	2017	2016
Carrying value of impaired loans	**$ 818**	$ 1,551
Specific valuation allowance allocations	**(30)**	(73)
Fair value of impaired loans	**$ 788**	$ 1,478

Non-Financial Assets and Non-Financial Liabilities

Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include the following:

Other Real Estate – Certain foreclosed properties, upon initial recognition and subsequent remeasurement were valued and reported at fair value through charge-offs to the allowance for loan losses and writedowns included in current period earnings. The fair value of such other real estate owned, upon initial recognition and subsequent remeasurement, is estimated utilizing Level 3 inputs. Fair values were based primarily on third party appraisals; however, based on the current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity. See Note 6, for the activity that occurred in Other Real Estate for the years ended December 31, 2017 and 2016.

3. FAIR VALUE DISCLOSURES (continued)

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

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2017				
Other real estate	**$ -**	**$ -**	**$ 243**	**$ 243**
December 31, 2016				
Other real estate	$ -	$ -	$ -	$ -

Fair Value of Financial Instruments

The Company is required under current authoritative guidance to disclose the estimated fair value of its financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

(Dollars in Thousands)

3. FAIR VALUE DISCLOSURES (continued)

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Level 2 Inputs:				
Cash and cash equivalents	$ **16,232**	$ **16,232**	$ 22,581	$ 22,581
Securities available-for-sale	**78,607**	**78,607**	75,434	75,434
Securities held-to-maturity	**4,517**	**4,439**	3,186	3,089
Restricted stock	**1,279**	**1,279**	1,272	1,272
Accrued interest receivable	**1,567**	**1,567**	1,421	1,421
Level 3 Inputs:				
Loans, net	$ **340,627**	$ **329,095**	$ 292,518	$ 290,474
Loans held-for-sale	**348**	**348**	2,522	2,522
Financial Liabilities				
Level 2 Inputs:				
Non-interest bearing deposits	$ **78,454**	$ **78,454**	$ 78,767	$ 78,767
Interest bearing deposits	**322,406**	**323,054**	272,850	273,282
Accrued interest payable	**232**	**232**	175	175
Borrowings	**18,300**	**18,300**	23,000	23,000

The following methods and assumptions were used by the Company in estimating the fair value of the above classes of financial instruments.

Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable – The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Securities Held-to-Maturity – Fair value estimates are based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Restricted Stock – The carrying value of these investments approximates fair value based on the redemption provisions contained in each.

3. FAIR VALUE DISCLOSURES (continued)

Loans, Net – Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, consumer, and other loans with each category further segmented into fixed and adjustable rate interest terms.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term.

Fair values are adjusted for credit risk based on assessment of risk identified with specific loans, and risk adjustments on the remaining portfolio based on credit loss experience. Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

Loans Held-for-Sale – The fair value is based on sales data received from sale of loan in subsequent month.

Deposits – The fair value of deposits with no stated maturity, such as checking, now and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Borrowings – The fair value of the Company's borrowings are estimated using discounted cash flow analysis based on the interest rate that would be effective December 31, 2017, if the borrowings repriced according to their stated terms.

4. SECURITIES

Securities have been classified according to management's intent. The amortized cost and estimated fair values of securities at December 31, 2017 and 2016, are summarized as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2017				
Available-for-sale:				
U.S. government agencies -				
mortgage-backed securities	**$ 39,647**	**$ 30**	**$ 914**	**$ 38,763**
State and political subdivisions	**40,109**	**186**	**451**	**39,844**
	$ 79,756	**$ 216**	**$ 1,365**	**$ 78,607**
Held-to-maturity:				
U.S. government agencies -				
mortgage-backed securities	**$ 1,765**	**$ -**	**$ 32**	**$ 1,733**
State and political subdivisions	**2,752**	**-**	**46**	**2,706**
Total	**$ 4,517**	**$ -**	**$ 78**	**$ 4,439**
December 31, 2016				
Available-for-sale:				
U.S. government agencies -				
mortgage-backed securities	$ 32,667	$ 70	$ 1,068	$ 31,669
State and political subdivisions	43,881	310	426	43,765
	$ 76,548	$ 380	$ 1,494	$ 75,434
Held-to-maturity:				
U.S. government agencies -				
mortgage-backed securities	$ 728	$ -	$ 19	$ 709
State and political subdivisions	2,458	-	78	2,380
Total	$ 3,186	$ -	$ 97	$ 3,089

At December 31, 2017, the Company had investment securities carried at approximately **$29.7 million** ($21.8 million at December 31, 2016) pledged to secure public funds and for other purposes required or permitted by law.

4. SECURITIES (continued)

The amortized cost and estimated fair value of debt securities at December 31, 2017, by contractual maturities, are shown below. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage backed investments generally will receive both principal and interest payments on a monthly basis (dollars in thousands).

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one to five years	**$ 19,299**	**$ 19,226**	**$ -**	**$ -**
Due in five to ten years	**16,209**	**16,146**	**2,437**	**2,393**
Due in over ten years	**4,601**	**4,472**	**315**	**313**
Total	**40,109**	**39,844**	**2,752**	**2,706**
U.S. government agencies - mortgage-backed securities	**39,647**	**38,763**	**1,765**	**1,733**
Total	**$ 79,756**	**$ 78,607**	**$ 4,517**	**$ 4,439**

Gross realized gains and losses on sales of securities available-for-sale for the years ended December 31, 2017 and 2016, were as follows (dollars in thousands):

	2017	2016
Gross gains	**$ 130**	$ 182
Gross losses	**$ -**	$ (13)

4. SECURITIES (continued)

Information pertaining to debt securities with gross unrealized losses at December 31, 2017 and 2016, aggregated by investment category is as follows (dollars in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31,2017						
Available-for-sale						
U.S. government agencies - mortgage-backed securities	**$ 13,643**	**$ 157**	**$ 21,015**	**$ 757**	**$ 34,658**	**$ 914**
State and political subdivisions	**23,305**	**335**	**3,548**	**116**	**26,853**	**451**
Total	**$ 36,948**	**$ 492**	**$ 24,563**	**$ 873**	**$ 61,511**	**$ 1,365**
Held-to-maturity						
U.S. government agencies - mortgage-backed securities	**$ 1,177**	**$ 19**	**$ 557**	**$ 13**	**$ 1,734**	**$ 32**
State and political subdivisions	**2,706**	**46**	**-**	**-**	**2,706**	**46**
Total	**$ 3,883**	**$ 65**	**$ 557**	**$ 13**	**$ 4,440**	**$ 78**
December 31,2016						
Available-for-sale						
U.S. government agencies - mortgage-backed securities	$ 27,398	$ 964	$ 1,789	$ 104	$ 29,187	$ 1,068
State and political subdivisions	21,351	407	595	19	21,946	426
Total	$ 48,749	$ 1,371	$ 2,384	$ 123	$ 51,133	$ 1,494
Held-to-maturity						
U.S. government agencies - mortgage-backed securities	$ 709	$ 19	$ -	$ -	$ 709	$ 19
State and political subdivisions	2,379	78	-	-	2,379	78
Total	$ 3,088	$ 97	$ -	$ -	$ 3,088	$ 97

As of December 31, 2017, there were 126 securities with unrealized losses (99 securities in 2016). Based upon an evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the decline in fair value of these debt securities is temporary. In addition, the Company does not have the intent to sell these debt securities prior to their anticipated recovery.

4. SECURITIES (continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery. Declines in the fair value of held-to-maturity and available-for-sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by portfolio segment at December 31, 2017 and 2016, are summarized as follows (dollars in thousands):

	2017	2016
Real estate	**$ 183,438**	$ 153,595
Commercial and industrial	**147,358**	127,023
Agriculture	**8,262**	8,782
Consumer	**5,213**	6,002
Other loans	**15**	275
Total loans	**344,286**	295,677
Less: Deferred costs (fees)	**(1)**	27
Less: Allowance for possible credit losses	**(3,658)**	(3,186)
Total	**$ 340,627**	$ 292,518

Loan Participations Purchased and Sold – In the normal course of business, the Company acquires and transfers interests in loans under participation agreements with other financial institutions. Total outstanding loan participations purchased at December 31, 2017 and 2016, were **$3.9 million** and $1.3 million, respectively. Total outstanding loan participations sold at December 31, 2017 and 2016, were **$17.3 million** and $16.4 million, respectively.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Portfolio Segments and Loan Classes – The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. The Company's loans are segmented by type. Diversification of the loan portfolio is a means of managing the risks associated with fluctuations in economic conditions. In order to manage the diversification of the portfolio, the Company subsegments loans into classes. The Company subsegments real estate loans into the following classes: commercial real estate mortgage, construction and land development, farmland, 1-4 family residential and multi-family residential loans. There are no significant subsegments within the commercial and industrial, agriculture, consumer or other loans. Information and risk management practices specific to the Company's loan segments and classes are as follows.

Real Estate – The Company makes commercial real estate mortgage loans which are primarily viewed as cash flow loans and secondarily as loans secured by real estate. The properties securing the Company's commercial real estate mortgage loans can be owner occupied or nonowner occupied. Concentrations within the various types of commercial properties are monitored by management in order to assess the risks in the portfolio. The repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property and securing the loan. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. The Company seeks to minimize these risks in a variety of ways in connection with underwriting these loans, including giving careful consideration to the property's operating history, future operating projections, current and projected occupancy, location and the physical condition of the property.

Construction and land development loans are generally nonowner occupied and are subject to certain risks attributable to the fact that loan funds are advanced over the construction phase and the project is of uncertain value prior to its completion. Construction loans are generally based upon estimates of costs and value associated with the completed project with repayment dependent, in part, on the success of the ultimate project rather than the ability of the borrower or guarantor to repay the loan. The Company has underwriting and funding procedures designed to address what it believes to be the risks associated with such loans; however, no assurance can be given the procedures will prevent losses resulting from the risks described above.

The Company extends credit to farmers secured by farmland and improvements thereon. Farmland includes land known to be used for agricultural purposes such as crop and livestock production. The Company's real estate lending activities also include the origination of 1-4 family residential and multi-family residential loans. The terms of these loans typically range from five to 30 years and are secured by the properties financed. The Company requires the borrowers to maintain mortgage title insurance and hazard insurance. While the Company maintains a portion of the 1-4 family residential loans for its own portfolio, many are sold into the secondary market.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Commercial and Industrial – The Company's commercial and industrial loans represent credit extended to small to medium-sized businesses generally for the purpose of providing working capital and equipment purchase financing. Commercial and industrial loans often are dependent on the profitable operations of the borrower. These credits are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may also incorporate a personal guarantee. Some shorter term loans may be extended on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The cash flows of borrowers may not be as expected and the collateral securing these loans may fluctuate, increasing the risk associated with this loan segment. As a result of the additional complexities, variables and risks, commercial loans typically require more thorough underwriting and servicing than other types of loans.

Agriculture – The Company provides crop production and farm equipment loans to local area farmers. The Company evaluates these borrowers primarily based on their historical profitability, level of experience in their particular agricultural industry, overall financial capacity and the availability of secondary collateral, including crop insurance, to withstand economic and natural variations common to the industry.

Consumer – The Company's consumer loans include automobile loans and other loans such as home improvement loans, home equity loans, personal loans (collateralized and uncollateralized) and deposit account collateralized loans. The terms of these loans typically range from one to 10 years and vary based on the nature of collateral and size of the loan. Consumer loan repayments are dependent on the borrower's continuing financial stability and, thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as deemed appropriate by management.

Other Loans – From time to time, the Company elects to buy participations in loans to municipal entities through its correspondent bank, TIB. These loans are secured, are extended to municipalities in the Company's market area and provide tax-exempt interest income to the Company. Other loans also include overdrawn deposit accounts.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Past Due and Nonaccrual Loans – The following is an aging analysis of loans, segregated by loan class, as of December 31, 2017 and 2016 (dollars in thousands).

	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2017						
Real estate	**$ 83**	**$ -**	**$ 83**	**$ 183,355**	**$ 183,438**	**$ -**
Commercial and industrial	**313**	**21**	**334**	**126,964**	**147,358**	**-**
Agriculture	**-**	**-**	**-**	**8,782**	**8,262**	**-**
Consumer	**8**	**-**	**8**	**5,993**	**5,213**	**-**
Other loans	**-**	**-**	**-**	**275**	**15**	**-**
Total	**$ 404**	**$ 21**	**$ 425**	**$ 325,369**	**$ 344,286**	**$ -**
December 31, 2016						
Real estate	$ 218	$ 10	$ 228	$ 153,367	$ 153,595	$ 10
Commercial and industrial	59	-	59	126,964	127,023	-
Agriculture	-	-	-	8,782	8,782	-
Consumer	-	9	9	5,993	6,002	9
Other loans	-	-	-	275	275	-
Total	$ 277	$ 19	$ 296	$ 295,381	$ 295,677	$ 19

For purposes of determining the allowance for possible credit losses, management considers loans in its portfolio by segment and loan class. Each class of loan requires judgment to determine the estimation method that fits the credit risk characteristics of its segment or class. To facilitate the assessment of risk, management reviews reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. The Company utilizes an independent third party loan review service to review the credit risk assigned to loans on a periodic basis and the results are presented to management for review.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

An analysis of activity in the allowance for possible credit losses, by loan segment, at December 31, 2017 and 2016, is as follows (dollars in thousands).

	Real Estate	Commercial and Industrial	Agriculture	Consumer and Other	Total Loans
December 31, 2017					
Balance at beginning of year	$ 2,793	$ 353	$ 13	$ 27	$ 3,186
Provision (credit) for possible credit losses	104	16	(5)	885	$ 1,000
Charge-offs	(212)	(290)	-	(27)	$ (529)
Recoveries	-	-	-	1	1
Net recoveries (charge-offs)	(212)	(290)	-	(26)	(528)
Balance at year end	$ 2,685	$ 79	$ 8	$ 886	$ 3,658
Allocation:					
Individually evaluated for impairment	$ -	$ 30	$ -	$ -	$ 30
Collectively evaluated for impairment	2,685	49	8	886	3,628
	$ 2,685	$ 79	$ 8	$ 886	$ 3,658
December 31, 2016					
Balance at beginning of year	$ 2,275	$ 490	$ 31	$ 59	$ 2,855
Provision (credit) for possible credit losses	518	74	(18)	1	575
Charge-offs	-	(211)	-	(40)	(251)
Recoveries	-	-	-	7	7
Net recoveries (charge-offs)	-	(211)	-	(33)	(244)
Balance at year end	$ 2,793	$ 353	$ 13	$ 27	$ 3,186
Allocation:					
Individually evaluated for impairment	$ 73	$ -	$ -	$ -	$ 73
Collectively evaluated for impairment	2,720	353	13	27	3,113
	$ 2,793	$ 353	$ 13	$ 27	$ 3,186

(Dollars in Thousands)

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

	Real Estate	Commerical and Industrial	Agriculture	Consumer and Other	Total Loans
December 31, 2017					
Loans individually evaluated for impairment	$ -	$ 732	$ -	$ 43	$ 775
Loans collectively evaluated for impairment	183,438	146,626	8,262	5,185	343,511
Ending balance	$ 183,438	$ 147,358	$ 8,262	$ 5,228	$ 344,286
December 31, 2016					
Loans individually evaluated for impairment	$ 1,551	$ -	$ -	$ -	$ 1,551
Loans collectively evaluated for impairment	152,044	127,023	8,782	6,277	294,126
Ending balance	$ 153,595	$ 127,023	$ 8,782	$ 6,277	$ 295,677

Risk Grading – As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for possible credit losses management assigns and tracks loan grades to be used as credit quality indicators. The following is a general description of the loan grades used as of December 31, 2017 and 2016.

Pass – This category indicates prudent underwriting and a normal amount of risk. The range of risk within these credits can vary from little to no risk with cash securing a credit, to a level of risk that requires a strong secondary source of repayment on the debt. Pass credits with a higher level of risk may be to borrowers that are highly leveraged, undercapitalized or in an industry or economic area that is known to carry a higher level of risk, volatility or susceptibility to weaknesses in the economy.

Other Assets Especially Mentioned (or Watch) (OAEM) – Assets in this category contain more than the normal amount of risk and are referred to as OAEM, in accordance with regulatory guidelines. These assets possess clearly identifiable temporary weaknesses or trends that, if not corrected or revised, will result in a condition that exposes the Company to higher level of risk of loss.

Substandard – Assets in this category have unsatisfactory credit quality with well-defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Generally, assets in this category are inadequately protected by the current sound worth and paying capacity of the obliger or the collateral pledged, if any. Typically, these credits are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Often, the assets in this category will have a valuation allowance representative of management's estimated loss that is probable to be incurred.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Doubtful – Assets in this category are placed on nonaccrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Generally, these credits will have a valuation allowance based upon management's best estimate of the losses probable to occur in the liquidation of the debt.

Loss – Assets in this category are considered uncollectible and of such little value as to question their continued existence as assets on the Bank's financial statements. Such assets are to be charged off or charged down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. This category does not intend to imply that the debt, or some portion of it will never be paid, nor does it in any way imply that the debt will be forgiven.

The following table presents risk grades by loan class at December 31, 2017 and 2016. The Company had no loans classified as loss at December 31, 2017 and 2016 (dollars in thousands).

Credit Risk Profile by Internally Assigned Guide

	Pass	OAEM	Substandard	Doubtful	Total Loans
December 31, 2017					
Real estate	**$ 180,986**	**$ 2,251**	**$ 201**	**$ -**	**$ 183,438**
Commercial and industrial	**146,482**	**876**	**-**	**-**	**147,358**
Agriculture	**8,262**	**-**	**-**	**-**	**8,262**
Consumer	**4,437**	**-**	**776**	**-**	**5,213**
Other loans	**15**	**-**	**-**	**-**	**15**
Total	**$ 340,182**	**$ 3,127**	**$ 977**	**$ -**	**$ 344,286**
December 31, 2016					
Real estate	$ 150,516	$ 1,200	$ 1,879	$ -	$ 153,595
Commercial and industrial	126,794	-	229	-	127,023
Agriculture	8,782	-	-	-	8,782
Consumer	3,986	2,016	-	-	6,002
Other loans	275	-	-	-	275
Total	$ 290,353	$ 3,216	$ 2,108	$ -	$ 295,677

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Credit Risk Profile Based on Payment Activity

	Real Estate	Commercial and Industrial	Agriculture	Consumer	Other	Total
December 31, 2017						
Performing	**$ 183,355**	**$ 147,024**	**$ 8,262**	**$ 5,205**	**$ 15**	**$ 343,861**
Nonperforming	**83**	**334**	**-**	**8**	**-**	**425**
Total	**$ 183,438**	**$ 147,358**	**$ 8,262**	**$ 5,213**	**$ 15**	**$ 344,286**
December 31, 2016						
Performing	$ 153,367	$ 126,964	$ 8,782	$ 5,993	$ 275	$ 295,381
Nonperforming	228	59	-	9	-	296
Total	$ 153,595	$ 127,023	$ 8,782	$ 6,002	$ 275	$ 295,677

Loans are considered impaired and placed on nonaccrual status when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due.

An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2017 and 2016, is as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2017					
Real estate	**$ -**	**$ -**	**$ -**	**$ -**	**$ 776**
Commercial and industrial	**628**	**105**	**733**	**30**	**387**
Agriculture	**-**	**-**	**-**	**-**	**-**
Consumer	**85**	**-**	**85**	**-**	**43**
Other loans	**-**	**-**	**-**	**-**	**-**
Total	**$ 713**	**$ 105**	**$ 818**	**$ 30**	**$ 1,206**
December 31, 2016					
Real estate	$ 842	$ 709	$ 1,551	$ 73	$ 1,145
Commercial and industrial	-	-	-	-	-
Agriculture	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
Total	$ 842	$ 709	$ 1,551	$ 73	$ 1,145

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

During the years ended December 31, 2017 and 2016, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

	2017			2016		
	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructuring						
Real estate	**1**	**$ 37**	**$ 37**	-	$ -	$ -
Commercial and industrial	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-

	2017		2016	
	Number	Recorded Investment	Number	Recorded Investment
Troubled Debt Restructurings that Subsequently Defaulted:				
Real estate	**4**	**$ 213**	None	N/A
Commercial and industrial	-	-	-	-
Agriculture	-	-	-	-
Consumer and other	-	-	-	-

As of December 31, 2017 and 2016, the Company had **$37 thousand** and $1.6 million, respectively, that have been modified in a troubled debt restructuring and consist entirely of commercial real estate loans. These loans are generally modified by allowing the borrower concessions that delay the payment of principal or interest beyond contractual requirements, but not the forgiveness of either principal or interest. The Company has evaluated any possible impairment loss on such loans consistent with its accounting for impaired loans and recognized such loss through a charge-off to the allowance for loan loss account.

6. OTHER REAL ESTATE OWNED

Other real estate owned consisted of the following at December 31, 2017 and 2016 (dollars in thousands):

	2017	2016
Balance at beginning of year	**$ -**	$ -
Property acquired through foreclosure	**516**	-
Property sold	**(273)**	-
Write-down on other real estate	**-**	-
Balance at end of year	**$ 243**	$ -

6. OTHER REAL ESTATE OWNED (continued)

	2017	2016
Balance at beginning of year	$ -	$ -
Property acquired through foreclosure	516	-
Property sold	(273)	-
Write-down on other real estate	-	-
Balance at end of year	$ 243	$ -

During 2017, the Company sold other real estate owned for a sales price of **$267 thousand** which resulted in a loss of **$6 thousand**.

7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2017 and 2016 (dollars in thousands):

	2017	2016
Leasehold improvements	$ 960	$ 813
Furniture, fixtures and equipment	4,885	4,599
Construction in process	1,390	88
	7,235	5,500
Less accumulated depreciation and amortization	(3,334)	(2,757)
Premises and equipment, net	$ 3,901	$ 2,743

	2017	2016
Depreciation expense	$ 612	$ 773

In 2017, the Company disposed of assets with a cost of $47 thousand which resulted in a loss of $11 thousand. In addition to the assets sold in Note 13, in 2016, the Company disposed of fully-depreciated assets, with a cost of $7 thousand and resulted in no gain or loss.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill that is not subject to amortization, and identifiable core deposit intangibles, which are being amortized on a straight-line basis over the estimated useful life, determined by management to be 10 years. Management determined no impairment existed on these intangibles at December 31, 2017. Goodwill and core deposit intangibles, net of accumulated amortization, are as follows at December 31, 2017 and 2016 (dollars in thousands):

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
December 31, 2017			
Goodwill	**$ 4,667**	**$ -**	**$ 4,667**
Core deposit intangibles	**1,669**	**(709)**	**960**
	$ 6,336	**$ (709)**	**$ 5,627**
December 31, 2016			
Goodwill	$ 4,667	$ -	$ 4,667
Core deposit intangibles	1,669	(481)	1,188
	$ 6,336	$ (481)	$ 5,855

The future remaining amortization expense related to the core deposit intangibles will be approximately as follows at December 31, 2017 (dollars in thousands):

Years Eding December 31	
2018	$ 228
2019	228
2020	228
2021	228
2022	48
Total	$ 960

8. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Activity for the goodwill and core deposit intangible assets for the years ended December 31, 2017 and 2016, is as follows (dollars in thousands):

	Core Deposit Intangible	Goodwill
Net balance at December 31, 2015	$ 1,416	$ 4,639
Amortization	(228)	-
Adjustment to goodwill	-	28
Net balance at December 31, 2016	1,188	4,667
Amortization	**(228)**	-
Net balance at December 31, 2017	**$ 960**	**$ 4,667**

9. DEPOSITS

The aggregate amount of time deposits in the amount of $250 thousand or more at December 31, 2017 and 2016, totaled approximately **$52.8 million** and $42.1 million, respectively.

At December 31, 2017, the scheduled maturities of all time deposits are as follows (dollars in thousands):

2018	$ 70,451
2019	48,748
2020	4,638
2021	46
Total	$ 123,883

The Company had no brokered deposits or major concentrations of deposits from any single or related groups of depositors at December 31, 2017 and 2016. Overdrawn deposit accounts at December 31, 2017 and 2016 totaled approximately **$15 thousand** and $11 thousand, respectively, and have been included in other loans.

10. BORROWINGS

Federal Home Loan Bank Advances – The Company had available borrowings at December 31, 2017, through the Federal Home Loan Bank of approximately **$144.9 million**, which are secured by a blanket lien on certain real estate and commercial loans. At December 31, 2017, the Company had **$9.0** million in outstanding advances on this credit facility. Outstanding advances at December 31, 2017, carried interest rates ranging from 1.43% to 1.60% and matured in January 2018. At December 31, 2016, the Company had $15.0 million in outstanding advances on this credit facility.

Available Lines of Credit – At December 31, 2017, the Company had available unsecured over-night federal funds of credit with one correspondent bank aggregating $22.5 million. The Company did not have any outstanding borrowings on the line at December 31, 2017 and 2016.

Note Payable – The Company entered into a note agreement with an unrelated bank for up to $13.0 million and the maturity date of the note is August 23, 2019 and the interest rate is Wall Street Journal prime rate plus 0.25 percent. As of December 31, 2017 and 2016, the balance outstanding is $9.3 million and 8.0 million, respectively. Accrued and unpaid interest are paid quarterly and principal is due in full at maturity. The note is collateralized by the common stock of R Corp Financial. The note includes various financial covenants related to capital ratios, classified assets and return on assets. The Company was not in compliance with the return on average assets requirement as of December 31, 2017 due to the tax adjustment which was a result of the change in the deferred tax rate (See Note 11 for further discussion). The lender waived the covenant requirement for December 31, 2017.

11. INCOME TAXES

The components of the Company's provision for federal income tax expense for the years ended December 31, 2017 and 2016, are as follows (dollars in thousands):

	2017	2016
Current income tax	**$ 680**	$ 1,456
Deferred income tax	**421**	(1,282)
Federal income tax expense	**$ 1,101**	$ 174

11. INCOME TAXES (continued)

Federal income tax expense at the statutory rate of 34 percent for the years ended December 31, 2017 and 2016, for the Company differs from the federal income tax expense for financial reporting purposes as follows (dollars in thousands):

	2017	2016
Tax expense to statutory rate	$ 1,117	$ 537
Deduct effects of:		
Nondeductible dues, meals and entertainment and other	18	37
Tax-exempt	(347)	(365)
Stock-based compensation and other	313	(35)
Total income tax expense	$ 1,101	$ 174

Deferred income taxes are provided for differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Management believes it is more likely than not the full tax benefit of deferred tax assets will be realized; therefore, no valuation allowance was considered necessary at December 31, 2017 and 2016.

Deferred tax assets and liabilities at December 31, 2017 and 2016, are as follows (dollars in thousands):

	2017	2016
Deferred tax assets (liabilities):		
Net operating loss and credit carryforwards	$ -	$ 267
Allowance for possible credit losses	768	1,050
Transaction costs	27	194
Core deposit intangible	(202)	(410)
Unrealized loss on securities	241	378
Deferred gain	293	1,184
Depreciation	(426)	(888)
Other	135	237
Deferred tax asset, net	$ 836	$ 2,012

In 2017, tax legislation was passed which reduced the corporate tax rate applicable to the Bank from 34% to 21%. The new tax rate will be effective for tax years 2018 and after. In 2017, the Bank revalued its deferred tax assets and liabilities to reflect the new lower tax rates. The revaluation resulted in an increase in federal income tax expense of **$366** for the year ended December 31, 2017.

11. INCOME TAXES (continued)

Additionally, in the year ended December 31, 2017, a charge of **$149** was included in income tax – unrealized holding loss in the statement of comprehensive income for the effect of the tax change on net deferred tax assets related to the net unrealized loss on available-for-sale securities. GAAP prescribes that a revaluation resulting from a change in tax rates be recognized as a charge to income tax expense in the year the tax legislation was enacted, with amounts included in accumulated other comprehensive income (loss) related to the deferred tax consequences of the unrealized holding gain or loss on available-for-sale securities that was recorded prior to the tax change being released from accumulated other comprehensive income as the related securities are sold, matured, or as pay-downs are received. Had the Bank accounted for the revaluation of net deferred tax assets related to available-for-sale securities as prescribed by GAAP, federal income tax for the year ended December 31, 2017 would have increased by **$149** and income tax – unrealized holding loss would have decreased by the same amount. There would be no impact to total shareholders' equity. Management does not believe this has a material impact on the financial statements.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Funded Loan Commitments – In the normal course of business, the Company enters into various transactions, which, in accordance with U.S. GAAP, are not included in its consolidated balance sheets. The Company through its Bank subsidiary enters into these transactions to meet the financing needs of its customers. These financial instruments include commitments to extend credit at both fixed and variable rates of interest. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated financial statements. The contract or notional amounts of those instruments reflect the extent of the involvement the Company has in particular classes of financial instruments.

The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

The following is a summary of the various financial instruments whose contract amounts represent credit risk at December 31, 2017 and 2016 (dollars in thousands):

	Contract Amount	
	2017	2016
Commitments to extend credit	**$ 66,248**	$ 62,470
Standby letters of credit	**2,228**	1,061
Total	**$ 68,476**	$ 63,531

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to extend credit carry both fixed and variable rates of interest. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

Some of the loans that have outstanding commitments may be subject to participation agreements in which the Bank will sell a percentage of the commitment when funded, pursuant to the participation agreement.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

Lease Commitments – Future minimum lease commitments by year and in the aggregate under noncancelable related-party operating leases are as follows at December 31, 2017 (dollars in thousands):

Year ending December 31,	
2018	$ **1,251**
2019	**1,139**
2020	**572**
2021	**570**
2022	**510**
Thereafter	**4,250**
	$ **8,292**

It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on approximately the same terms and conditions if available. Total rent expense was approximately **$1.3 million** and $606 thousand for the years ended December 31, 2017 and 2016, respectively.

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Company sub-leases space to related parties and future minimum lease income by year and in the aggregate are as follows at December 31, 2017 (dollars in thousands):

Year ending December 31,		
2018	$	81
2019		60
	$	141

Total rent income was approximately **$99 thousand** and $91 thousand for the years ended December 31, 2017 and 2016, respectively and is included as a reduction of occupancy expense within the consolidated statements of income.

Legal Matters – The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Company, it is the opinion of management that the disposition or ultimate determination of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

13. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has and expects to continue to conduct routine banking business with related parties, including its executive officers, directors, shareholders and their affiliates in which they directly or indirectly have 5 percent or more beneficial ownership.

Loans – In the opinion of management, loans to related parties were entered into in the ordinary course of business, and were made on the same terms and conditions as similar transactions with unaffiliated persons.

Loans to such borrowers as of and for the years ended December 31, 2017 and 2016, are summarized as follows (dollars in thousands):

		2017		2016
Balance at beginning of year	$	1,276	$	837
New loans during the year		-		750
Repayments during the year		(23)		(311)
Balance at end of year	$	1,253	$	1,276

13. RELATED PARTY TRANSACTIONS (continued)

Unfunded Commitments – At December 31, 2017 and 2016, the Company had no unfunded commitments to related parties.

Deposits – The Company held deposits from related parties that totaled approximately **$17.1 million** and $28.9 million at December 31, 2017 and 2016, respectively.

Rents – Beginning November 1, 2014, the Company made rental payments to a related party under a 15-year lease in the amount of approximately $30 thousand per month. The rent increases at month 61 to $30,750 per month and again at month 121 to $32 thousand per month. The leased property is used as a Bank branch location and for corporate operations.

The Company has two corresponding subleases with two related parties under which the Company will receive a total of $6,700 per month through September 30, 2019. Under the agreement the related party subtenants are granted the option to extend the term for two additional terms of five years with rents escalating to a total of $7,100 and $7,450 for each consecutive extension.

During 2016, the Company sold five of its branch locations for cash to an investor group, which included current shareholders. The sales price was $8.5 million, which was an amount equal to current independent property appraisals of the locations sold. The Company then leased the locations back from the investor group under operating leases with market rental rates and terms. The transaction resulted in a gain on sale of $2.3 million, of which **$762 thousand** and $137 thousand has been recognized in income during the years ended December 31, 2017 and 2016 respectively, and **$1.4 million** remains deferred at December 31, 2017, and will be recognized over the terms of the leases which extend through September 2019.

14. EQUITY AWARDS

Stock Options and Stock Warrants – The Bank adopted a stock option plan (the Plan) under which options to purchase shares of the Bank's common stock may be granted to employees and directors at a price established at the date of grant. In 2014, as a result of the holding company formation, the Plan was adopted by the Company. The Company has reserved 180,000 shares of common stock for issuance under the Plan and, at December 31, 2017 and 2016, options representing 96,200 shares were available for future grant.

Cash received in exercise of share options during the years ended December 31, 2017 and 2016, was **$99 thousand** and $56 thousand, respectively.

(Dollars in Thousands)

14. EQUITY AWARDS (continued)

As remuneration for services provided by each of the directors who organized the opening of the Bank, the Bank issued warrants to acquire shares of Bank common stock to each organizer in October 2009. Each warrant entitles the holder to acquire one share of the common stock at a price of $10.00 per share which was considered by management to be equal to the fair market value of the stock. When the holding company was capitalized in 2014, the warrants were converted to entitle directors to purchase shares of Company common stock. These warrants vested upon issuance and must be exercised within 10 years from the date of grant. During the year ended December 31, 2017, **7,750** warrants were exercised and cash received by the Company in exercise of warrants was **$78 thousand**. No warrants were exercised in the year ended December 31, 2016. At December 31, 2017 and 2016, **78,750** and 86,500 warrants were issued and outstanding to Bank organizers, respectively. At December 31, 2017 and 2016, the intrinsic value associated with these warrants totaled approximately **$1.4 million** and $1.6 million, respectively.

The table below sets forth pertinent information regarding Company stock options for the years ended December 31, 2017 and 2016:

	2017		2016	
	Number of Shares of Underlying Options	Weighted-Average Exercise Prices	Number of Shares of Underlying Options	Weighted-Average Exercise Prices
Outstanding at beginning of the year	**71,016**	**$ 23.39**	58,800	$ 22.27
Granted	**14,500**	**28.04**	14,500	28.04
Exercised	**(4,550)**	**21.94**	(2,284)	24
Outstanding at end of the year	**80,966**	**24.30**	71,016	23.39
Exercisable at end of the year	**66,466**	**23.49**	56,516	22.20
Unvested at end of the year	**14,500**	**$ 28.04**	14,500	$ 28.04

The following table summarizes information about stock options outstanding at December 31, 2017:

	Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Intrinsic Value Per Option	Weighted-Average Remaining Contractual Life	Number Outstanding	Weighted Average Exercise Price	Intrinsic Value Per Option
$ 10.00	**2,250**	**$ 18.04**	**2**	**2,250**	**$ 10.00**	**$ 18.04**
$ 21.00	**37,216**	**$ 7.04**	**6**	**37,216**	**$ 21.00**	**$ 7.04**
$ 28.04	**41,500**	**$ -**	**8**	**27,000**	**$ 28.04**	**$ -**
	80,966		**8**	**66,466**		

(Dollars in Thousands)

14. EQUITY AWARDS (continued)

The total intrinsic value for all options outstanding at December 31, 2017 and 2016, was **$303 thousand** and $330 thousand, respectively, which is attributable to vested options.

A summary of changes in unvested options for the years ended December 31, 2017 and 2016, was as follows:

	2017		2016	
	Number of Shares of Underlying Options	Weighted-Average Exercise Prices	Number of Shares of Underlying Options	Weighted-Average Exercise Prices
Unvested outstanding at beginning of the year	**14,500**	**$ 2.41**	1,500	$ 2.41
Granted	**14,500**	**0.95**	14,500	0.86
Vested	**(14,500)**	**(2.41)**	(1,500)	2.41
Unvested outstanding at end of the year	**14,500**	**0.95**	14,500	0.86

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. For options granted in 2017 and 2016, the following assumptions were used:

	2017	2016
Dividend yield	**4.58%**	4.56%
Expected volatility	**10.0%**	10.0%
Risk-free interest rate	**2.45%**	2.45%
Expected life in years	**9**	9

For options granted, compensation costs are recognized in the consolidated statements of income based on their fair values on the date of the grant. For the years ended December 31, 2017 and 2016, compensation expense of **$12 thousand** and $15 thousand, respectively, was recorded.

In February 2017, the Company approved the modification of the Non-Qualified Stock Option Award Agreement and 2014 Stock Option Incentive Plan to extend the option term from 10 years to 15 years for grants originating in 2017 and beyond.

15. EMPLOYEE BENEFIT PLAN

The Bank provides a 401(k) benefit plan (the "401(k) Plan") for all eligible employees. The Bank may make discretionary contributions under the 401(k) Plan. Company contributions to the 401(k) Plan totaled **$131 thousand** and $109 thousand for the years ended December 31, 2017 and 2016, respectively.

16. REGULATORY MATTERS

Capital Requirements – Banks are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for R Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

R Bank's Common Equity Tier 1 capital consists of common stock and related paid-in capital, net of treasury stock (if any), and retained earnings. In connection with the adoption of the Basel III Capital Rules, the election was made to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 for R Bank is reduced by goodwill (if any) and other intangible assets (if any), net of associated deferred tax liabilities (if any) and subject to transition provisions.

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital as allowed by regulation. R Bank did not have any additional Tier 1 capital beyond Common Equity Tier 1 as of December 31, 2017 and 2016.

Total capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for R Bank includes a permissible portion of the allowance for loan losses.

The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill (if any) and other intangible assets (if any), allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill (if any) and other intangible assets (if any), among other things.

16. REGULATORY MATTERS (continued)

When fully phased in on January 1, 2019, the Basel III Capital Rules will require R Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and is being phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to R Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2017 and 2016 for R Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2017 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2017, capital levels at R Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as of December 31, 2017 at R Bank exceed the minimum levels necessary to be considered "well capitalized."

R Bank is subject to the regulatory capital requirements administered by the regulatory authorities. Regulatory authorities can initiate certain mandatory actions if R Bank fails to meet the minimum capital requirements, which could have a direct material effect on the financial statements. Management believes, as of December 31, 2017, that R Bank meets all capital adequacy requirements to which it is subject.

16. REGULATORY MATTERS (continued)

The following is a summary of capital ratios for the Bank as of December 31, 2017 and 2016 (dollars in thousands):

	Actual		Minimum Reserve Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phase-In		Minimum Required - Basel III Fully Phase-In	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
December 31, 2017								
Common Equity Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	**$ 37,627**	**11.02%**	**$ 19,633**	**5.75%**	**$ 23,901**	**7.00%**	**$ 22,194**	**6.50%**
Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	**$ 37,627**	**11.02%**	**$ 24,755**	**7.25%**	**$ 29,023**	**8.50%**	**$ 27,315**	**8.00%**
Total Capital Ratio (to Risk-Weighted Assets) Bank	**$ 41,285**	**12.09%**	**$ 31,587**	**9.25%**	**$ 35,855**	**10.50%**	**$ 34,148**	**10.00%**
Tier 1 Leverage Ratio (to Average Assets) Bank	**$ 37,627**	**8.38%**	**$ 17,960**	**4.00%**	**$ 17,960**	**4.00%**	**$ 22,450**	**5.00%**
December 31, 2016								
Common Equity Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	$ 35,748	11.30%	$ 16,241	5.125%	$ 22,183	7.00%	$ 20,599	6.50%
Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	$ 35,748	11.30%	$ 20,995	6.625%	$ 26,937	8.50%	$ 25,353	8.00%
Total Capital Ratio (to Risk-Weighted Assets) Bank	$ 38,934	12.30%	$ 27,333	8.625%	$ 33,275	10.50%	$ 31,691	10.00%
Tier 1 Leverage Ratio (to Average Assets) Bank	$ 35,748	8.80%	$ 16,285	4.00%	$ 16,285	4.00%	$ 20,357	5.00%

SUPPLEMENTARY INFORMATION

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

(Dollars in Thousands, Except Share Data)

December 31, 2017

	R Corp	R Bank	Eliminations	Consolidated R Corp and Subsidiary
ASSETS				
Cash and non-interest bearing deposits in other banks	$ 82	$ 2,257	$ -	**$ 2,339**
Interest bearing deposits in other banks	-	13,893	-	**13,893**
Total cash and cash equivalents	82	16,150	-	**16,232**
Securities available-for-sale, at estimated market value	-	78,607	-	**78,607**
Securities held-to-maturity, at cost	-	4,517	-	**4,517**
Loans, net	-	340,627	-	**340,627**
Loans held-for-sale	-	348	-	**348**
Other real estate owned	-	243	-	**243**
Accrued interest receivable	-	1,567	-	**1,567**
Premises and equipment, net	42	3,859	-	**3,901**
Restricted stock	-	1,279	-	**1,279**
Net deferred tax asset	45	791	-	**836**
Goodwill	-	4,667	-	**4,667**
Intangibles, net	-	960	-	**960**
Other assets	297	305	-	**602**
Investment in subsidiary - R Bank	41,991	-	(41,991)	-
Inter-company receivables	96	-	(96)	-
Total assets	$ 42,553	$ 453,920	$ (42,087)	**$ 454,386**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Non-interest bearing	$ -	$ 78,454	$ -	**$ 78,454**
Interest bearing demand	-	198,523	-	**198,523**
Interest bearing time	-	123,883	-	**123,883**
Total deposits	-	400,860	-	**400,860**
Accrued interest payable	-	232	-	**232**
Deferred gain on sale leaseback	-	1,397	-	**1,397**
Borrowings	9,300	9,000	-	**18,300**
Other liabilities	63	344	-	**407**
Inter-company payables	-	96	(96)	-
Total liabilities	9,363	411,929	(96)	**421,196**
Shareholders' Equity				
Common stock	12,629	8,888	(8,888)	**12,629**
Capital surplus	20,925	31,149	(31,149)	**20,925**
Treasury stock	(80)	-	-	**(80)**
Retained earnings (accumulated deficit)	624	2,862	(2,862)	**624**
Accumulated other comprehensive income (loss)	(908)	(908)	908	**(908)**
Total shareholders' equity	33,190	41,991	(41,991)	**33,190**
Total liabilities and shareholders' equity	$ 42,553	$ 453,920	$ (42,087)	**$ 454,386**

See Report of Independent Auditors.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME
(Dollars in Thousands)

Year Ended December 31, 2017

	R Corp	R Bank	Eliminations	Consolidated R Corp and Subsidiary
INTEREST INCOME				
Interest and fees on loans	$ -	$ 17,772	$ -	$ 17,772
Investment securities	-	1,675	-	1,675
Interest bearing deposits in other banks	-	270	-	270
Federal funds sold	-	-	-	-
Total interest income	-	19,717	-	19,717
INTEREST EXPENSE				
Deposits	-	2,519	-	2,519
Other borrowed funds	396	90.00	-	486
Total interest expense	396	2,609	-	3,005
NET INTEREST INCOME	(396)	17,108	-	16,712
PROVISION FOR LOAN LOSSES	-	1,000	-	1,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	(396)	16,108	-	15,712
NON-INTEREST INCOME				
Deposit service charges and fees	-	450	-	450
Interchange fees	-	337	-	337
Gain on sale of securities, net	-	130	-	130
Gain on sale of premises and equipment, net	-	751	-	751
Other income	-	83	-	83
Net earnings of subsidiary - R Bank	2,580	-	(2,580)	-
Total non-interest income	2,580	1,751	(2,580)	1,751
NON-INTEREST EXPENSE				
Loss on other real estate owned	-	6	-	6
Salaries and employee benefits	160	6,522	-	6,682
Professional services	6	732	-	738
Data processing	-	2,124	-	2,124
Occupancy and equipment	-	1,904	-	1,904
Depreciation and amortization	8	832	-	840
Regulatory and insurance expense	-	497	-	497
Advertising and marketing	-	359	-	359
Office and communications expense	-	420	-	420
Other expense	4	603	-	607
Total non-interest expense	178	13,999	-	14,177
INCOME BEFORE INCOME TAXES	2,006	3,860	(2,580)	3,286
INCOME TAXES - FEDERAL	(179)	1,280	-	1,101
NET INCOME	$ 2,185	$ 2,580	$ (2,580)	$ 2,185

See Report of Independent Auditors.