Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Ford Sasser
Name of the Holding Company Director and Official

President & CEO
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.

Signature of Holding Company Director and Official

07/28/2021
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 ______
C.I. ______

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

December 31, 2020
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Rio Financial Services,Inc
Legal Title of Holding Company

701 E. Expressway 83
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
McAllen	TX	

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Catherine Grossman	Sr. Exec V. Pres & CFO

956-878-1460
Area Code / Phone Number / Extension

956-878-1760
Area Code / FAX Number

c.grossman@riobk.com
E-mail Address

NA
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."

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)

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Rio Financial Services, Inc. and Subsidiaries

Independent Auditor’s Report and
Consolidated Financial Statements
December 31, 2020 and 2019

Contents

BKD
CPAs & Advisors

8200 W. Interstate 10, Suite 900 | San Antonio, TX 78230-3806
210.341.9400 | Fax 210.341.9434 | bkd.com

Independent Auditor's Report

Audit Committee and Board of Directors
Rio Financial Services, Inc. and Subsidiaries
McAllen, Texas

We have audited the accompanying consolidated financial statements of Rio Financial Services, Inc. and Subsidiaries (Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

San Antonio, Texas
April 7, 2021

Rio Financial Services, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2020 and 2019
(Dollars in Thousands, Except Share Data)

	2020	2019
Assets		
Cash and cash equivalents	**$ 33,616**	$ 21,928
Interest-bearing deposits in banks	**-**	2,499
Debt securities available for sale	**164,712**	118,797
Trading securities	**5,525**	-
Restricted investment securities	**2,777**	860
Loans, net of allowance for loan losses of $3,846 ($3,252 in 2019)	**382,123**	333,758
Bank premises and equipment, net	**51,841**	41,648
Cash surrender value of life insurance	**11,821**	11,520
Goodwill	**6,853**	6,853
Intangible assets, net	**1,843**	2,327
Other real estate owned and foreclosed assets, net	**3,500**	2,680
Accrued interest receivable	**2,608**	2,319
Prepaid expenses and other assets	**1,315**	660
Total assets	**$ 668,534**	$ 545,849
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	**$ 219,970**	$ 153,161
Interest-bearing	**358,900**	318,584
Total deposits	**578,870**	471,745
Federal Home Loan Bank advances	**10,589**	8,588
Long-term debt	**-**	14,000
Subordinated notes payable, net of unamortized debt issuance costs of $403 ($0 in 2019)	**23,597**	-
Accrued interest payable and other liabilities	**2,241**	2,479
Total liabilities	**615,297**	496,812
Commitments and contingencies (Notes 6, 12 and 14)		
Stockholders' equity:		
Preferred stock	**3,500**	3,500
Common stock, $0.01 par value; 10,000,000 shares authorized; 1,643,044 and 1,639,850 shares issued in 2020 and 2019, respectively; 'and 1,485,140 and 1,482,205 shares outstanding in 2020 and 2019, respectively	**16**	16
Additional paid-in capital	**22,015**	21,527
Retained earnings	**30,511**	26,831
Treasury stock, 157,904 shares at cost (157,645 shares in 2019)	**(4,581)**	(3,612)
Accumulated other comprehensive income	**1,776**	775
Total stockholders' equity	**53,237**	49,037
Total liabilities and stockholders' equity	**$ 668,534**	$ 545,849

See notes to consolidated financial statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2020 and 2019
(Dollars in Thousands, Except Share Data)

		2020		2019
Interest income:				
Loans, including fees	**$**	**24,209**	$	25,831
Securities available for sale		**2,632**		2,691
Interest-bearing deposits in banks		**124**		478
		26,965		29,000
Interest expense:				
Deposits		**3,085**		4,827
Borrowings		**316**		379
Long-term debt		**860**		719
		4,261		5,925
Net interest income		**22,704**		23,075
Provision for loan losses		**2,100**		495
Net interest income after provision for loan losses		**20,604**		22,580
Noninterest income:				
Service charges and fees		**2,284**		2,848
Net gains on sales of assets and other real estate owned		**140**		354
Other income		**3,626**		3,031
		6,050		6,233
Noninterest expense:				
Salaries and employee benefits		**11,133**		11,698
Occupancy and equipment expenses		**3,179**		3,475
Other operating expenses		**7,290**		6,341
		21,602		21,514
Income before federal income tax expense		**5,052**		7,299
Federal income tax expense		**1,012**		1,412
Net income	**$**	**4,040**	$	5,887
Earnings per share of common stock:				
Basic	**$**	**2.60**	$	3.79
Diluted	**$**	**2.50**	$	3.66

See notes to consolidated financial statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Net income	**$ 4,040**	$ 5,887
Other items of comprehensive income:		
Unrealized holding gain on securities available for sale	**1,266**	3,127
Total other items of comprehensive income	**1,266**	3,127
Income tax expense related to other items of comprehensive income:		
Unrealized holding gain on securities available for sale	**(265)**	(658)
Total income tax expense	**(265)**	(658)
Comprehensive income after income tax expense	**$ 5,041**	$ 8,356

See notes to consolidated financial statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	$ 3,500	$ 16	$ 21,190	$ 21,318	$ (3,334)	$ (1,694)	$ 40,996
Treasury stock sold	-	-	-	-	1,219	-	1,219
Stock-based compensation expense	-	-	337	-	-	-	337
Net income	-	-	-	5,887	-	-	5,887
Dividends paid	-	-	-	(374)	-	-	(374)
Other comprehensive income, net of tax	-	-	-	-	-	2,469	2,469
Purchase of treasury stock	-	-	-	-	(1,497)	-	(1,497)
Balance at December 31, 2019	3,500	16	21,527	26,831	(3,612)	775	49,037
Treasury stock sold	-	-	-	-	2,345	-	2,345
Stock issuance—dividend reinvestment	-	-	127	-	-	-	127
Stock-based compensation expense	-	-	361	-	-	-	361
Net income	-	-	-	4,040	-	-	4,040
Dividends paid	-	-	-	(360)	-	-	(360)
Other comprehensive income, net of tax	-	-	-	-	-	1,001	1,001
Purchase of treasury stock	-	-	-	-	(3,314)	-	(3,314)
Balance at December 31, 2020	**$ 3,500**	**$ 16**	**$ 22,015**	**$ 30,511**	**$ (4,581)**	**$ 1,776**	**$ 53,237**

See notes to consolidated financial statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Net income	**$ 4,040**	$ 5,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**1,319**	1,205
Provision for loan losses	**2,100**	495
Stock-based compensation expense	**361**	337
Core deposit intangible amortization	**484**	580
Cash surrender value of life insurance	**(301)**	(218)
Deferred income tax benefit	**(227)**	(334)
Net amortization/accretion of investment security premiums and discounts	**1,359**	731
Net gains on sales of assets and other real estate owned	**(140)**	(354)
Other real estate writedowns	**140**	-
Net change in:		
Trading securities	**(5,525)**	-
Prepaid expenses, other assets, and accrued interest receivable	**(717)**	360
Accrued interest payable and other liabilities	**(503)**	360
Net cash provided by operating activities	**2,390**	9,049
Cash flows from investing activities:		
Net change in loans	**(52,522)**	64
Net change in interest-bearing deposits in banks	**2,499**	1,120
Purchases of restricted investment securities	**(1,917)**	(89)
Proceeds from maturities of securities available for sale	**42,712**	27,086
Purchases of securities available for sale	**(88,720)**	(32,886)
Purchase of bank premises and equipment	**(11,512)**	(13,393)
Purchase of bank-owned life insurance	**-**	(4,000)
Proceeds from sales of other real estate owned and fixed assets	**1,237**	1,680
Net cash used in investing activities	**(108,223)**	(20,418)

(Continued)

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019
(Dollars in Thousands)

		2020		2019
Cash flows from financing activities:				
Net change in deposits	**$**	**107,125**	$	19,902
Federal Home Loan Bank advances		**52,500**		-
Federal Home Loan Bank payments		**(50,499)**		(5,490)
Payments of long-term debt		**(14,000)**		-
Proceeds from issuance of subordinated debt		**23,597**		-
Sale of treasury stock		**2,345**		1,219
Dividends paid		**(360)**		(374)
Dividend reinvestment		**127**		-
Purchase of treasury stock		**(3,314)**		(1,497)
Net cash provided by financing activities		**117,521**		13,760
Net increase in cash and cash equivalents		**11,688**		2,391
Cash and cash equivalents at beginning of year		**21,928**		19,537
Cash and cash equivalents at end of year	**$**	**33,616**	$	21,928
Schedules of other cash flow information:				
Interest paid	**$**	**4,427**	$	5,985
Income taxes paid	**$**	**1,450**	$	1,580
Schedules of noncash activities:				
Other assets acquired by foreclosure on loans	**$**	**4,363**	$	2,987
Foreclosed assets sold and financed	**$**	**2,306**	$	-

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements include the accounts of Rio Financial Services, Inc. and the accounts of its wholly owned subsidiaries, Rio Bank (the Bank) and Rio Financial Holdings, Inc., collectively, the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations: The Company provides a variety of financial services to individuals and small businesses through its main office and branches throughout the Rio Grande Valley of Texas. Its primary deposit products are demand, savings, money market accounts, and time deposits, and its primary lending products are commercial and industrial loans and commercial real estate loans.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of the allowance for deferred tax assets, fair values of financial instruments, fair values of assets and liabilities acquired in business combinations and the valuation of other real estate owned.

New and recently issued accounting standards:

Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*: This ASU creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. Amendments to the ASU have made the effective date for implementation of this new standard by nonpublic entities to be fiscal years beginning after December 15, 2022, and interim periods within those years. The Company is currently evaluating the impact of adopting this new guidance on its future consolidated financial statements.

ASU No. 2016-02, *Leases (Topic 842):* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The standard is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of the new standard on its future consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue recognition: The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside the scope of the *FASB Accounting Standards Codification* (ASC) Topic 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, interchange income and other charges and fees. The Company adopted this ASU using the modified-retrospective method applied to all contracts not completed as of January 1, 2019, which resulted in no adjustments. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams.

Material revenue streams under ASC Topic 606 include service charges and other charges and fees. Service charges on deposit accounts mostly consist of fees charged to depositors related to deposit account maintenance fees, overdrafts, wire transfers and additional miscellaneous services provided at the request of the depositor. Other charges and fees primarily consist of ATM fees, merchant services and other service fees. Revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time as the Company's performance obligations are satisfied.

Significant group concentrations of credit risk: Most of the Company's activities are with customers located within Hidalgo, Cameron and Starr counties of Texas and surrounding areas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. Real estate loans represented 70% and 77% of the total portfolio at December 31, 2020 and 2019, respectively.

Interest-bearing deposits in banks: Interest-bearing deposits mature within three years and are carried at cost.

Debt 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. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). During the years ended December 31, 2020 and 2019, the Company had no securities classified as held-to-maturity.

Purchase premiums and discounts are recognized in interest income using the interest method through the maturity or call date of the securities, whichever is earlier. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific-identification method.

Mortgage-backed securities are backed by U.S. government and U.S. government sponsored entities.

Declines in the fair value of 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 that the Company will be required to sell the security before its anticipated recovery.

Trading securities: Trading securities are measured and carried at fair value, and unrealized holding gains and losses are included in income. Because unrealized holding losses are included in income, it is generally unnecessary to evaluate trading securities for impairment.

Note 1. Summary of Significant Accounting Policies (Continued)

Interest income on debt securities is recognized in income as earned, and dividend income on marketable equity securities is recognized in income when dividends are declared.

Restricted investment securities: Restricted investment securities include Federal Home Loan Bank (FHLB) stock and The Independent Bankers Bank stock, which are carried on the consolidated balance sheets at par value or cost. FHLB stock has no market and can only be sold back to the issuer at par value. The Independent Bankers Bank stock has no observable market value changes to be carried at any other basis other than original cost.

Loans: The Company grants real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout the Rio Grande Valley. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and 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 are subject to underwriting standards that evaluate cash flow and fair value of the collateral.

The collectibility of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography and risk criteria.

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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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. 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 (TDR). 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 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 ASC Topic 310, Receivables, and ASC Topic 450, 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 has an external loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Bank premises and equipment: Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives range from one to 40 years.

Long-lived assets: Long-lived assets, including bank premises 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.

Bank-owned life insurance: The Company owns life insurance policies on certain officers and carries the investment as the policies' cash surrender value. The Company pays the premiums, owns the cash value and is the primary beneficiary on the policies.

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

Goodwill and intangible assets: Goodwill represents the excess of purchase price over the fair value of identifiable net assets acquired in a business combination that occurred in 2018. Goodwill is not amortized, but tested for impairment annually or more frequently if a triggering event occurs. For the years ended December 31, 2020 and 2019, the Company determined that no impairment of goodwill has occurred.

Intangible assets are core deposit intangibles recorded in connection with a business combination that occurred in 2018. The core deposit intangible asset is being amortized over the estimated lives of the related deposits which is 10 years. For the year ended December 31, 2020, amortization expense of $484 thousand was recorded ($580 thousand in 2019). Future annual amortization expense (in thousands) is as follows for the year ending: 2021—$405; 2022—$339; 2023—$283; 2024—$237; 2025—$198; future years—$381.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred asset and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using tax rates enacted at the time of measurement. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company accounts for uncertainty in income taxes in accordance with the provisions of ASC Topic 740, Accounting for Uncertainty in Income Taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more than likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes and accounting in interim periods.

The Company files a consolidated income tax return with its subsidiaries. Federal income tax expense and benefit are allocated on a separate-entity return basis.

Deferred income tax assets and liabilities are determined using the liability or balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

The Company is subject to the Texas gross margin tax.

Earnings per share of common stock: Basic earnings per share represent income available to common stockholders (net income less preferred stock dividends) divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method. The average number of common shares outstanding is 1,480,754 and 1,498,756 at December 31, 2020 and 2019, respectively. As the result of dilutive options, the average number of common shares outstanding used to calculate diluted earnings per common share is 1,540,281 and 1,552,111 at December 31, 2020 and 2019, respectively.

Stock option plan: The Company accounts for its stock option plan in accordance with ASC Topic 718, which requires the compensation cost relating to share-based payment transactions be recognized in financial statements and also requires entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award and to recognize the cost over the period the employee is required to provide services for the award. The ASC guidance permits entities to use any option-pricing model that meets the fair value objective of the ASC. As a result, compensation cost has been measured using the fair value of an award on the grant-date and is recognized over the service period, which is usually the vesting period. Forfeitures are accounted for when they occur.

Note 1. Summary of Significant Accounting Policies (Continued)

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 unfunded commitments under lines 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.

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 consolidated balance sheet, such items, are components of comprehensive income.

COVID-19: In March 2020, the outbreak of COVID-19 was recognized as a global pandemic by the World Health Organization resulting in unprecedented uncertainty and volatility in world-wide financial markets. Management continues to monitor the impact of COVID-19 on the Company and its customers, and recognizes the financial impacts as they become known; however, the future extent to which the COVID-19 pandemic may continue to impact our operations and financial condition remain uncertain.

Reclassifications: Certain amounts have been reclassified from prior presentation at December 31, 2019, to conform to classifications at December 31, 2020. There is no effect on previously reported net income or retained earnings.

Note 2. Fair Value Measurements

The Company follows the provisions of the 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 into the following three levels:

Level 1: Inputs are 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: Inputs are observable, 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: Inputs are unobservable and are 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.

Note 2. Fair Value Measurements (Continued)

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, other intangibles, long-lived assets and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

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.

Debt 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 securities, such as certain 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 Treasury, other 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.

Trading securities: U.S. Treasury securities and exchange-listed common stock are reported at fair value utilizing Level 1 inputs. Other securities classified as trading are reported at fair value utilizing Level 2 inputs in the same manner as described above for securities available for sale.

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, 2020 and 2019, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Fair Value Measurements at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
State and municipal securities	$ 39,093	$ -	$ 39,093	$ -
Mortgage-backed securities	121,537	-	121,537	-
GNMA—fixed rate	4,082	-	4,082	-
Trading securities:				
U.S Treasury securities	3,200	-	3,200	-
State and municipal securities	2,016	-	2,016	
Cash equivalent	309	309	-	-
	$ 170,237	$ 309	$ 169,928	$ -

Note 2. Fair Value Measurements (Continued)

	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Securities available for sale:				
State and municipal securities	$ 10,344	$ -	$ 10,344	$ -
Mortgage-backed securities	106,062	-	106,062	-
GNMA—fixed rate	1,592	-	1,592	-
U.S. agency	799	-	799	-
	$ 118,797	$ -	$ 118,797	$ -

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 appraisals, 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 significant 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.

Foreclosed assets: Foreclosed assets consist mainly of other real estate owned, but may include other types of assets repossessed by the Company. Foreclosed assets are adjusted to the lower of carrying value or fair value less the cost of disposal upon transfer of the loans to foreclosed assets. Fair value is generally based upon independent market prices or appraised values of the collateral.

The following table summarizes assets with fair value changes during the years ended December 31, 2020 and 2019, that are measured at fair value by class on a nonrecurring basis, as follows (dollars in thousands):

	Fair Value Measurements at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Foreclosed assets	$ 3,500	$ -	$ -	$ 3,500
	$ 3,500	$ -	$ -	$ 3,500

	Fair Value Measurements at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Foreclosed assets	$ 2,680	$ -	$ -	$ 2,680
Impaired loans	924	-	-	924
	$ 3,604	$ -	$ -	$ 3,604

Note 3. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances of cash and due from banks on hand. At December 31, 2020, these reserve balances were $0 (approximately $9.5 million in 2019).

Note 4. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
State and municipal securities	$ 39,075	$ 386	$ 368	$ 39,093
Mortgage-backed securities	119,270	2,488	221	121,537
GNMA—fixed rate	4,119	44	81	4,082
	$ 162,464	$ 2,918	$ 670	$ 164,712

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
State and municipal securities	$ 10,309	$ 51	$ 16	$ 10,344
Mortgage-backed securities	105,163	1,068	169	106,062
GNMA—fixed rate	1,553	39	-	1,592
U.S. agency	790	9	-	799
	$ 117,815	$ 1,167	$ 185	$ 118,797

There were no securities classified as held-to-maturity at December 31, 2020 and 2019.

Investment securities carried at approximately $48.7 million and $47.8 million at December 31, 2020 and 2019, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2020, were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Securities available for sale:		
Within one year	$ 1,892	$ 1,901
After one year through five years	214	239
After five years through 10 years	16,730	16,708
Over 10 years	20,239	20,245
	39,075	39,093
Mortgage-backed securities	123,389	125,619
	$ 162,464	$ 164,712

No sales of securities available for sale occurred during the years ended December 31, 2020 and 2019.

Note 4. Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (dollars in thousands):

	December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
State and municipal securities	$ 28,110	$ 368	$ -	$ -	$ 28,110	$ 368
Mortgage-backed securities	24,039	221	-	-	24,039	221
GNMA—fixed rate	2,916	81	-	-	2,916	81
	$ 55,065	$ 670	$ -	$ -	$ 55,065	$ 670

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
State and municipal securities	$ 3,170	$ 6	$ 1,972	$ 10	$ 5,142	$ 16
Mortgage-backed securities	17,091	81	13,545	88	30,636	169
	$ 20,261	$ 87	$ 15,517	$ 98	$ 35,778	$ 185

Mortgage-backed securities owned by the Company are issued by the United States government and United States government agencies.

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 that 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 adjusted to fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses. As of December 31, 2020 and 2019, the Company did not have any securities with other-than-temporary impairment.

As of December 31, 2020, there were 34 securities with current unrealized losses (58 securities in 2019). 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 state and municipal securities and mortgage-backed securities is temporary. The contractual cash flows are guaranteed by a government agency or a government-sponsored agency. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments, and it is not anticipated that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020 and 2019.

Note 4. Investment Securities (Continued)

Year-end trading securities, at estimated fair value, were as follows (dollars in thousands):

	December 31			
		2020		2019
U.S. Treasury securities	$	3,200	$	-
State and municipal securities		2,016		-
Cash equivalent		309		-
	$	5,525	$	-

Net gains and losses on trading securities were as follows (dollars in thousands):

	December 31			
		2020		2019
Net gain on sales transactions	$	377	$	-
Net mark-to-market gains		17		-
	$	394	$	-

Note 5. Loans and Allowance for Loan Losses

The classes of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31			
		2020		2019
Commercial	$	112,716	$	69,989
Real estate:				
Commercial		193,407		180,376
Construction and land development		16,512		17,734
Residential		57,893		59,820
Consumer and other		6,338		9,091
		386,866		337,010
Deferred loan fees		897		-
Allowance for loan losses		3,846		3,252
	$	382,123	$	333,758

During the years ended December 31, 2020 and 2019, the Company did not purchase or sell any loans from other nonrelated banks.

Note 5. Loans and Allowance for Loan Losses (Continued)

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows:

Pass: Pass loans are loans to borrowers with acceptable credit quality and risk.

Other assets especially mentioned (OAEM): OAEM loans are loans to borrowers whose credit quality may have deteriorated since origination and are at risk of further decline unless measures are taken to correct the situation.

Substandard: Substandard loans are loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.

Doubtful: Doubtful loans are loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2020 and 2019, the Company's loan portfolio risk grades by loan class were as follows (dollars in thousands):

	December 31, 2020				
	Pass	OAEM	Substandard	Doubtful	Total Loans
Commercial	$ 110,477	$ 468	$ 122	$ 1,649	$ 112,716
Real estate:					
Commercial	182,487	3,696	5,629	1,595	193,407
Construction and land development	16,512	-	-	-	16,512
Residential	56,060	304	1,186	343	57,893
Consumer and other	6,277	-	61	-	6,338
	$ 371,813	$ 4,468	$ 6,998	$ 3,587	$ 386,866

	December 31, 2019				
	Pass	OAEM	Substandard	Doubtful	Total Loans
Commercial	$ 66,593	$ 2,022	$ 1,327	$ 47	$ 69,989
Real estate:					
Commercial	165,495	5,127	6,402	3,352	180,376
Construction and land development	17,640	-	94	-	17,734
Residential	57,404	559	1,299	558	59,820
Consumer and other	8,953	-	136	2	9,091
	$ 316,085	$ 7,708	$ 9,258	$ 3,959	$ 337,010

Note 5. Loans and Allowance for Loan Losses (Continued)

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2020 and 2019, is as follows (dollars in thousands):

	December 31, 2020					
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
Commercial	$ 146	$ 953	$ 1,099	$ 111,617	$ 112,716	$ -
Real estate:						
Commercial	1,602	5,306	6,908	186,499	193,407	3,898
Construction and land development	-	-	-	16,512	16,512	-
Residential	528	332	860	57,033	57,893	193
Consumer and other	1	-	1	6,337	6,338	-
	$ 2,277	$ 6,591	$ 8,868	$ 377,998	$ 386,866	$ 4,091

	December 31, 2019					
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
Commercial	$ 1,615	$ 658	$ 2,273	$ 67,716	$ 69,989	$ -
Real estate:						
Commercial	4,627	398	5,025	175,351	180,376	-
Construction and land development	-	-	-	17,734	17,734	-
Residential	1,291	399	1,690	58,130	59,820	-
Consumer and other	47	-	47	9,044	9,091	-
	$ 7,580	$ 1,455	$ 9,035	$ 327,975	$ 337,010	$ -

Note 5. Loans and Allowance for Loan Losses (Continued)

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, 2020 and 2019, is as follows (dollars in thousands):

	December 31, 2020				
	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
Commercial	$ 1,343	$ -	$ 1,343	$ -	$ 695
Real estate					
Commercial	1,712	-	1,712	-	2,532
Construction and land development	-	-	-	-	-
Residential	343	-	343	-	455
Consumer	-	-	-	-	-
	$ 3,398	$ -	$ 3,398	$ -	$ 3,682

	December 31, 2019				
	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
Commercial	$ 38	$ 9	$ 47	$ 9	$ 123
Real estate					
Commercial	2,423	928	3,351	4	2,721
Construction and land development	-	-	-	-	
Residential	566	-	566	-	250
Consumer	-	-	-	-	1
	$ 3,027	$ 937	$ 3,964	$ 13	$ 3,095

During the years ended December 31, 2020 and 2019, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

As of December 31, 2020 and 2019, there were no loans that have been modified in a TDR. Loans may be 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 evaluates 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. As of December 31, 2020 and 2019, no loans that had been modified within the previous year had defaulted.

Note 5. Loans and Allowance for Loan Losses (Continued)

In response to economic concerns over COVID-19, in March 2020 the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed into law by Congress. The CARES Act included several provisions designed to help financial institutions like the Bank in working with its customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a TDR until January 1, 2022. As of December 31, 2020, the Bank has $736,476 of outstanding loans that were modified during 2020 under the CARES Act guidance, that remain on modified terms. Other loans modified during 2020 under the guidance have since returned to normal repayment status.

The CARES Act and subsequent legislation also approved the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration (SBA) with funding provided by financial institutions. The PPP provides loans to eligible businesses through financial institutions like the Bank, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Bank if the borrower's loan is not forgiven and is then not repaid by the customer. The Bank originated approximately $38.0 million in PPP loans during 2020, of which approximately $33.0 million is still outstanding at December 31, 2020.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2020 and 2019, were as follows (dollars in thousands):

	December 31, 2020			
	Commercial	Real Estate	Consumer and Other	Total
Beginning balance	$ 809	$ 2,331	$ 112	$ 3,252
Provision for loan losses	1,244	521	335	2,100
Charge-offs	(1,064)	(452)	(43)	(1,559)
Recoveries	41	-	12	53
Net charge-offs	(1,023)	(452)	(31)	(1,506)
Ending balance	$ 1,030	$ 2,400	$ 416	$ 3,846
Allocation:				
Individually evaluated for impairment	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	1,030	2,400	416	3,846

	December 31, 2019			
	Commercial	Real Estate	Consumer and Other	Total
Beginning balance	$ 986	$ 1,817	$ 97	$ 2,900
Provision (credit) for loan losses	(15)	330	180	495
Charge-offs	(230)	(2)	(192)	(424)
Recoveries	68	186	27	281
Net charge-offs	(162)	184	(165)	(143)
Ending balance	$ 809	$ 2,331	$ 112	$ 3,252
Allocation:				
Individually evaluated for impairment	$ 9	$ 4	$ -	$ 13
Collectively evaluated for impairment	800	2,327	112	3,239

Note 5. Loans and Allowance for Loan Losses (Continued)

The Company's recorded investment in loans as of December 31, 2020 and 2019, related to each balance in the allowance for loans losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology were as follows (dollars in thousands):

	Commercial	Real Estate	Consumer and Other	Total
Loans individually evaluated for impairment	$ 1,343	$ 2,055	$ -	$ 3,398
Loans collectively evaluated for impairment	111,373	265,757	6,338	383,468
	$ 112,716	$ 267,812	$ 6,338	$ 386,866

	December 31, 2019			
	Commercial	Real Estate	Consumer and Other	Total
Loans individually evaluated for impairment	$ 51	$ 3,913	$ -	$ 3,964
Loans collectively evaluated for impairment	69,938	254,017	9,091	333,046
	$ 69,989	$ 257,930	$ 9,091	$ 337,010

During the years ended December 31, 2020 and 2019, the Company did not implement any significant changes to its allowance for loan loss methodology.

Note 6. Bank Premises and Equipment

Components of bank premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31	
	2020	2019
Land	$ 8,628	$ 8,628
Buildings	47,797	16,829
Equipment and furniture	6,915	5,093
Automobile	102	102
Signs	317	260
Construction and equipment in progress	76	21,411
	63,835	52,323
Less accumulated depreciation	11,994	10,675
	$ 51,841	$ 41,648

In March 2018, the Board of Directors authorized the execution of a construction contract to build a new corporate headquarters for the Company. The building was completed during 2020 and occupancy occurred in September 2020. The total construction costs were approximately $32.6 million.

Note 6. Bank Premises and Equipment (Continued)

Depreciation expense for the years ended December 31, 2020 and 2019, totaled approximately $1.3 million and $1.2 million, respectively.

The Company leases certain premises not used in its banking operations to unrelated third parties under operating lease agreements. For the year ended December 31, 2020, the Company recorded approximately $271 thousand in rental income from such lease agreements. Future minimum rentals due under these leases are as follows (dollars in thousands): 2021—$784; 2022—$743; 2023—$676; 2024—$689; 2025—$703; thereafter—$3,510.

Note 7. Deposits

A summary of deposit accounts is as follows (dollars in thousands):

	December 31	
	2020	2019
Demand accounts	$ 219,970	$ 153,161
NOW accounts	39,502	31,518
Money market accounts	212,265	171,911
Savings accounts	33,468	27,261
Time deposits	73,665	87,894
	$ 578,870	$ 471,745

The aggregate amount of certificates of deposit (CDs), in denominations of $250 thousand or more, was approximately $15.9 million at December 31, 2020 ($17.8 million at December 31, 2019).

At December 31, 2020, the scheduled maturities of CDs are as follows (dollars in thousands):

Years ending December 31:	
2021	$ 41,931
2022	23,236
2023	5,270
2024	1,526
2025	1,702
	$ 73,665

Note 8. Federal Home Loan Bank Advances

The Company has a line-of-credit agreement with FHLB to borrow funds. The balance of FHLB advances at December 31, 2020 and 2019, totaled approximately $10.6 million and $8.6 million, respectively.

The advances outstanding as of December 31, 2020, have fixed interest rates ranging from of 1.84% to 3.07% and are subject to restrictions or penalties in the event of prepayment. These advances are secured by all first mortgage collateral (as defined), all FHLB capital stock and all deposit accounts of the Bank held at FHLB.

Note 8. Federal Home Loan Bank Advances (Continued)

The FHLB advances mature as follows (dollars in thousands):

Years ending December 31:		
2021	$	519
2022		535
2023		5,615
2024		287
2025		2,796
Thereafter		837
	$	10,589

Note 9. Long-Term Debt and Subordinated Notes Payable

At December 31, 2019, the Company had $14.0 million in long-term debt in the form of a promissory note to an unrelated financial institution. Interest was charged at the prime rate, with interest payable quarterly beginning November 30, 2018, and principal payments of $350 thousand per quarter beginning November 30, 2020. The note had a scheduled maturity on August 30, 2023. The balance as of December 31, 2020 and 2019 was $0 and $14 million, respectively; this promissory note was paid in full during 2020 with proceeds from the new subordinated note agreements discussed below.

During 2020, the Company entered into new subordinated note agreements with unrelated investors. The instruments are fixed-to-floating subordinated notes due in 2030 with an initial fixed rate of 5.25%. The interest rate is fixed until 2025 when it converts to a variable rate instrument, subject to quarterly resets, equal to the then three-month secured overnight financing rate plus 486 basis points. The notes require semiannual interest-only payments through 2025, and quarterly thereafter until maturity in 2030. The Company may, at its option, beginning with the interest payment date of February 1, 2026, but not prior thereto and on any scheduled interest payment date thereafter, redeem the subordinated notes in whole or in part. The subordinated note agreements are unsecured. The aggregate balance of the subordinated notes as of December 31, 2020 totaled $24 million.

As of December 31, 2020, the Company had three federal funds line of credit totaling $34.3 million available, with no amounts outstanding.

Note 10. Preferred Stock

The Company is authorized to issue up to 2,000,000 shares of $0.01 par value preferred stock.

As of December 31, 2020 and 2019, the Company has outstanding 127,750 shares of Series B nonvoting preferred stock, which has no maturity date, a liquidation value of $27.40 per share, accrues a cumulative dividend of 4.0% per annum, which is adjustable after the first year to a variable rate equal to U.S. prime plus 0.5% with a floor of 4.0%, is paid on a quarterly basis, is redeemable for cash at the option of the Company any time after December 31, 2021, unless authorized by the holder for an earlier redemption or if a 50.0% or more change in common stock ownership of the Company occurs, and if not redeemed, is convertible into one share of common stock for each share of preferred stock at the option of the holder after December 31, 2021.

Note 11. Income Taxes

The provision (benefit) for federal income taxes consists of and represents the tax effect of the following (dollars in thousands):

	Years Ended December 31	
	2020	2019
Current income tax expense	$ 1,239	$ 1,746
Deferred income tax benefit	(227)	(334)
	$ 1,012	$ 1,412

The provision (benefit) for federal income tax differs from the amount that would be provided by applying the statutory federal income tax rates as indicated in the following analysis (dollars in thousands):

	Years Ended December 31	
	2020	2019
Computed at statutory rate	$ 1,061	$ 1,533
Adjustment for tax-exempt interest	(136)	(83)
Other, net	87	(38)
	$ 1,012	$ 1,412

The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

	December 31	
	2020	2019
Deferred tax assets related to:		
Allowance for loan losses	$ 763	$ 604
Investment securities basis	130	138
Loan discount	87	197
Other	493	197
Total deferred tax assets	1,473	1,136
Deferred tax liabilities related to:		
Depreciation	(1,360)	(1,148)
Other	(387)	(489)
Securities available for sale	(472)	(206)
Total deferred tax liabilities	(2,219)	(1,843)
Net deferred tax liability	$ (746)	$ (707)

The Company files a United States federal income tax return, as well as a state return in Texas. With few exceptions, the Company is no longer subject to United States federal or Texas state tax examinations by tax authorities for years before 2017.

Note 12. Off-Balance-Sheet Activities

Credit-related financial instruments: The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unfunded commitments under lines of credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

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

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	December 31	
	2020	2019
Standby letters of credit	$ 1,958	$ 1,777
Unfunded commitments under lines of credit	49,125	29,645

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines, interim construction loans and overdraft protection agreements, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed.

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

Note 13. Related-Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates. Loans to related parties held by the Company at December 31, 2020 and 2019, totaled approximately $3.7 million and $3.0 million, respectively.

Deposits from related parties held by the Company at December 31, 2020 and 2019, totaled approximately $7.4 million and $5.9 million, respectively.

Note 14. Legal Contingencies

The Company may, from time to time, be involved in litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigations and claims will not be material to the Company's financial position.

Note 15. Employee Benefit Plans

At December 31, 2020 and 2019, the Company has a 401(k) plan and stock option plan.

401(k) plan and Employee Stock Ownership Plan (ESOP): The Company has a 401(k) plan and ESOP designed to benefit substantially all its employees. The Company makes employer matching contributions equal to 100% of an employee's elected salary reduction, not to exceed the first 6% of compensation, which is invested in Company stock. Employer contributions of approximately $433 thousand and $418 thousand were made during the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the ESOP owned 68,295 shares of common stock with a fair value of approximately $2.8 million, all of which had been allocated to employees. Employees who separate from the Company are allowed to sell their shares back to the Company at fair value.

Stock option plan: The Company's current outstanding stock option plan (the Plan) provides for the issuance of options to acquire up to approximately 330,000 shares of the Company's common stock to selected officers. Stock options granted to individual officers to date under the Plan are detailed below. The purchase price of each share of common stock, subject to the options, will be determined at the time an option is granted. Option terms range from five to 10 years from the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model. Expected volatilities are based on historical volatilities of the Company's stock. The risk-free rate for periods within the contractual life of the option is based on the United States Treasury yield curve in effect at the time of grant.

The following valuation assumptions at December 31, 2020, were used for options granted:

Expected volatility	13.35%
Expected dividends	0.75%
Expected term	9 years
Risk-free rate	1.48%

The following valuation assumptions at December 31, 2019, were used for options granted:

Expected volatility	9.00%
Expected dividends	0.50%
Expected term	9 years
Risk-free rate	2.35%-2.67%

Under the Plan, a change in the Company's capital structure, including declaration of a stock dividend, may result in an adjustment to the number of shares subject to the Plan so as to maintain a proportionate number of shares without changing the aggregate option price.

Note 15. Employee Benefit Plans (Continued)

A summary of activity under the Plan as of December 31, 2020 and 2019, and changes during the years ended December 31, 2020 and 2019, are presented below:

	2020			2019		
	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	292,420	$	28.84	238,320	$	26.32
Granted	5,000		40.00	83,000		35.13
Exercised	(42,600)		17.34	(11,060)		23.49
Forfeited	(500)		35.00	(17,840)		27.76
Outstanding at end of the year	254,320	$	31.24	292,420	$	28.84
Vested at the end of the year	114,732	$	32.08	117,588	$	22.53
Nonvested at end of the year	139,588	$	33.25	174,832	$	32.77

Exercise prices as of December 31, 2020, ranged from $21.25 to $40.00. Exercise prices as of December 31, 2019, ranged from $16.67 to $38.50. The weighted-average exercise price is $31.24 as of December 31, 2020 ($28.84 as of December 31, 2019). The weighted-average remaining contractual life is 7.98 years as of December 31, 2020 (6.11 years for vested options; 7.99 years for nonvested options).

A summary of the status of the Company's nonvested shares as of December 31, 2020 and 2019, and changes during the years ended December 31, 2020 and 2019, are presented below:

	2020			2019		
	Number of Shares of Underlying Options		Weighted-Average Grant-Date Fair Value	Number of Shares of Underlying Options		Weighted-Average Grant-Date Fair Value
Nonvested outstanding at beginning of year	174,832	$	7.84	151,776	$	8.51
Granted	5,000		6.97	83,000		6.66
Vested	(39,744)		7.80	(42,104)		7.30
Forfeited	(500)		6.74	(17,840)		9.32
Nonvested outstanding at end of year	139,588	$	7.77	174,832	$	7.84

For stock options granted after January 1, 2006, the Company records compensation cost based on the fair value of the instrument issued, amortized over the vesting period. For the year ended December 31, 2020, the Company recognized approximately $361 thousand in compensation expense for stock options, which is included in salaries and employee benefits (approximately $337 thousand in 2019). As of December 31, 2020, there was approximately $1.1 million of total unrecognized compensation cost related to nonvested stock options granted under the Plan (approximately $1.4 million in 2019).

Note 16. Capital and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy 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 component classification, risk weighting and other factors.

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. 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 table below) of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average assets. In connection with the adoption of the Basel III capital rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income (loss) in common equity Tier 1 capital.

As of December 31, 2020, management believes that the Bank meets all capital adequacy requirements to which it is subject, and that the Bank is correctly categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, common Tier 1, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events that management believes have subsequently changed the Bank's category.

	Actual		Minimum Required for Capital Adequacy		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020:						
Common equity Tier 1 capital to risk-weighted assets	$ 60,425	13.7%	$ 30,971	7.0%	$ 28,759	6.5%
Tier 1 capital to risk-weighted assets	$ 60,425	13.7%	$ 37,608	8.5%	$ 35,396	8.0%
Total capital to risk-weighted assets	$ 64,271	14.5%	$ 46,457	10.5%	$ 44,245	10.0%
Tier 1 capital to average assets	$ 60,425	9.2%	$ 26,301	4.0%	$ 32,876	5.0%
December 31, 2019:						
Common equity Tier 1 capital to risk-weighted assets	$ 52,265	13.4%	$ 27,402	7.0%	$ 25,444	6.5%
Tier 1 capital to risk-weighted assets	$ 52,265	13.4%	$ 33,273	8.5%	$ 31,316	8.0%
Total capital to risk-weighted assets	$ 55,517	14.2%	$ 41,102	10.5%	$ 39,145	10.0%
Tier 1 capital to average assets	$ 52,265	9.6%	$ 21,872	4.0%	$ 27,340	5.0%

Note 17. Subsequent Events

The Company has evaluated subsequent events through April 7, 2021, the date the consolidated financial statements were available to be issued.

Rio Financial Services, Inc
Report Item 2a: Organization Chart
December 31, 2020

RIO FINANCIAL SERVICES, INC

McAllen, Texas
Incorporated in State of Texas LEI N/A
100% owner of

RIO BANK
McALLEN, TEXAS
Incorporated in State of Texas

LEI 5493007MVCEU8QCNWC60

RIO FINANCIAL HOLDINGS, INC
McAllen, TEXAS
Incorporated in State of Texas LEI N/A

Results: A list of branches for your holding company: RIO FINANCIAL SERVICES, INC. (3193033) of MCALLEN, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 07/06/2021.

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*
ADD	11/4/2020	Full Service (Head Office)	956750	RIO BANK HEADQUARTERS	701 E. EXPRESSWAY 83	MCALLEN	TX	78501	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
CHANGE	11/4/2020	Full Service	956750	RIO BANK	1655 NORTH 23RD STREET	MCALLEN	TX	78501-6736	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	3542257	BROWNSVILLE BRANCH	3401 OLD HIGHWAY 77	BROWNSVILLE	TX	78520	CAMERON	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	2798691	EDCOUCH BANKING CENTER BRANCH	442 SANTA ROSA AVENUE	EDCOUCH	TX	78538	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	3185962	EDINBURG BANKING CENTER BRANCH	621 WEST UNIVERSITY ST	EDINBURG	TX	78539-3209	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	367954	ELSA BANKING CENTER BRANCH	300 WEST EDINBURG	ELSA	TX	78543	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	4520757	HARLINGEN BRANCH	601 SOUTH STUART PLACE ROAD	HARLINGEN	TX	78552	CAMERON	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	3657133	JACKSON AVENUE BRANCH	720 EAST JACKSON AVENUE	MCALLEN	TX	78501-1127	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	2991344	NORTH MCALLEN BRANCH	4120 NORTH MCCOLL ROAD	MCALLEN	TX	78504	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	3542266	PALMVIEW BANKING CENTER	401 NORTH BENTSEN PALM DRIVE	MISSION	TX	78572	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	2001421	RIO GRANDE CITY BANKING CENTER BRANCH	712 WEST MAIN ST.	RIO GRANDE CITY	TX	78582	STARR	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	2225517	ROMA BANKING CENTER BRANCH	104 GARCIA ST	ROMA	TX	78584	STARR	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	3542275	SAN JUAN BRANCH	401 WEST STATE HIGHWAY 495	SAN JUAN	TX	78589	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	3962408	WESLACO BRANCH	1000 N WESTGATE DRIVE	WESLACO	TX	78596	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750
OK		Full Service	4347749	WESLACO EAST BANKING CENTER BRANCH	3124 EAST HIGHWAY 83	WESLACO	TX	78596-8318	HIDALGO	UNITED STATES	Not Required	Not Required	RIO BANK	956750

Comments

Rio Financial Services, Inc
Report Item 3 (1): Shareholders
December 31, 2020

Current Shareholders with ownership, control or holding of 5% or more with power to vote as of December 31, 2020

(1)(a) **Name & Address (City, State, Country)**	(1)(b) **Country or Citizenship or Incorporation**	(1)(c) **Number and Percentage Each Class of Voting Securities**
Cayetano & Yolanda Barrera Living Trust, Cayetano & Yolanda Barrera Trustees McAllen, Texas	USA	93,860 – 6.32% Common voted by Cayetano Barrera
C & Y Barrera LTD Cayetano and Yolanda Barrera, Trustees McAllen, Texas	USA	27,443 – 1.85% Common voted by Cayetano Barrera
Yolanda Barrera McAllen, Texas	USA	428 – 0.03% Common
Marcus Barrera McAllen, Texas	USA	1,319 – 0.09% Common
Rio Trust fbo Marcus Barrera McAllen, Texas	USA	619 – 0.04% Common voted by Marcus Barrera
Victoria Barrera Cappadona McAllen, Texas	USA	1,319 – 0.09% Common
		Barrera Family total shares 124,988 8.42% total

A. Ford Sasser McAllen, Texas	USA	135,014 – 9.10% Common
Rio Bank ESOP Plan McAllen, Texas	USA	68,295 – 4.60% Common voted by A Ford Sasser
M. Stuart Sasser Corpus Christi, Texas	USA	70,609 -4.75% Common
Keleigh D. Hughes Sasser Heritage Trust Corpus Christ, Texas	USA	13,927 – 0.94% Common voted by Keleigh D Hughes
Sasser Holdings Corpus Christi, Texas	USA	4,040 - 0.27% Common voted by M. Stuart Sasser
Michael Ford Sasser Corpus Christi, Texas	USA	18,430 – 1.24% Common
Milton Stuart Sasser, Jr Houston, Texas	USA	18,430 – 1.24% Common
Kristen Sasser Sterett Corpus Christi, Texas	USA	18,731 – 1.26% Common *Family total shares 314,302 23.4% total*
Baldomero Vela & Connie Vela Family LTD McAllen, Texas	USA	76,341 - 5.14% Common voted by Baldomero Vela

Baldomero Vela Legacy Trust McAllen, Texas	USA	1,006 – 0.07% Common voted by Baldomero Vela
Angela Vela McAllen, Texas	USA	392 – 0.03% Common
Baldomero Vela III McAllen, Texas	USA	383 – 0.03% Common
Victoria Ysabel Vela McAllen, Texas	USA	392 – 0.03% Common
Vela's Next Generation, LTD McAllen, Texas	USA	123,280 - 8.30% Common voted by Daniel D Vela
Daniel D Vela McAllen, Texas	USA	4,828 - 0.33% Common
Andres D Vela McAllen, Texas	USA	4,791– 0.32% Common
Daniel A Vela McAllen, Texas	USA	4,794 - 0.32% Common
Angelina N Vela McAllen, Texas	USA	4,791 – 0.32% Common
Daniel Vela f b o Ileana Vela McAllen, Texas	USA	4,791– 0.32% Common
		Family total shares 225,789 15.21%

D & M Nelson LTD Tiana Scruggs Austin, Texas	USA	58,006 – 3.70% Common voted by Tiana Scruggs
Tiana Scruggs Austin, Texas	USA	37,477 – 2.52% Common *Family total 95,483 6.22%*

Rio Financial Services, Inc

Report Item 3 (2): Shareholders not listed in 3(1) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending December 31,2020.

NONE

Rio Financial Services, Inc
Report Item 4: Insiders
December 31, 2020

Name & Address/Country	Principal Occupation	Title/Position (a) the bank holding company (b) direct and indirect subsidiaries of the bank holding company (c) any other company, if 25 % or more of its outstanding voting securities or proportionate interest in a partnership are held.	% Ownership
Ford Sasser			
McAllen, Texas/USA	Bank Officer	(a) President, CEO, Director Rio Financial Services, Inc.	9.10%
		(b) President, CEO, Director Rio Bank	0%
		(c)LEAF Investments, LLC, owner	100%
		(c) Dos Jardines Ltd, partner equal shareholder	50%
		(C) 23rd and Pecan Ltd, owner	100%
		(c) Ringold Circle, Ltd, owner	100%
		(c) Gusta Ltd, partner, majority shareholder	66.67%
		(c) FoGa Ltd, partner, equal shareholder	50%
		(c) Rio Bank 401k plan, trustee, owner	25%
		(c) RKF, LLC, partner equal shareholder	50%
		(c) FTS-I LLC, partner equal shareholder	33.3%
		(c) FTS III LLC, partner equal shareholder	33.3%
		(c) M & F, LLC, partner equal shareholder	50%
		(c) Family Pasture LLC, owner	100%
Rio Bank ESOP Plan	401k Plan	(a) Principal Shareholder	4.60%
McAllen, Texas USA		(b) NA	
		(c)Rio Bank 401k Plan	
Cayetano Barrera	Retired Physician	(a) Director / Chairman Emeritus Rio Financial Services, Inc	8.17%

McAllen, Texas USA		(b) Director & Chairman Emeritus Rio Bank	0%
		(c) B Twin LLC, partner equal shareholder	50%
		(c) Mission Investment Group, partner equal shareholder	25%
Yolanda Barrera	Homemaker	(a) Principal Shareholder	0.03%
McAllen, Texas USA		(b) NA	
		(c)NA	
Marcus Barrera	Attorney	(a) Director of Rio Financial Services, Inc	0.17%
McAllen, Texas USA		(b) Director of Rio Bank	0%
		(b) Barrera & Sanchez Law Office, partner equal shareholder	50%
		(c) B Twin Servicing, LLC, owner	100%
		(c) C & Y Barrera, LTD, partner equal shareholder	33.3%
Victoria Barrera Cappadona	Sales	(a) Principal Shareholder	0.09%
Linn, Texas USA		(b) NA	
		(c) Rio Grande Mesquite, LLC, owner	100%
C. Trebes Sasser	Real Estate	(a) Director Rio Financial Services, Inc	4.20%
San Antonio, Texas USA		(b) Director Rio Bank	0%
		(c) Sasser Ranches, LLC, owner	100%
		(c) Sasser Properties, LLC, partner majority shareholder	74%
		(c) Sasser Resources, LLC, partner equal shareholder	50%
		(c) Sasser Royalties, LLC, partner equal shareholder	50%
		(c) 5701 Broadway Ltd, partner majority shareholder	74%
		(c) 1514 Broadway, LLC, partner equal shareholder	50%
		(c) 325 West Jones, LLC, partner equal shareholder	50%
		(c) SA Industrial Properties, Ltd, partner equal shareholder	50%
		(c) Alamo Heights Center, Ltd, partner shareholder	36.5%
		(c) Bel-Aire, Ltd, partner majority shareholder	74%
		(c) Broadway, Ltd, partner majority shareholder	74%
		(c) Colony House, Ltd, partner majority shareholder	58%
		(c) Harrigan, Ltd, partner majority shareholder	69%
		(c) Townsend, Ltd, partner majority shareholder	74%

		(c) Ridgemont Properties, Inc, owner	100%
		(c) Maverick Parking, Ltd, partnership shareholder	30%
		(c) FTS II LLC, partnership equal partner	33.3%
		(c) FTS III LLC, partnership equal partner	33.3%
Stuart Sasser Corpus Christi, Texas USA	Rancher	(a) Director Rio Financial Services, Inc (b) Director Rio Bank	4.75% 0%
		(c) Dos Jardines Ltd, partnership equal shareholder	50%
		(c) FTS I LLC, partnership equal shareholder	33.3%
		(c) FTS III LLC, partnership equal shareholder	33.3%
		(c) Los Medio, owner	100%
		(c) DAHCO Exploration, owner	50%
Sasser Holdings Corpus Christi, Texas USA	Ranching	(a) Principal Shareholder (b) NA (c) Ranch holdings, partnership equal shareholder	0.27% 25%
Keleigh Sasser Corpus Christi, Texas USA	Oil & Gas	(a) Principal Shareholder (b) NA (c)DAHCO Exploration, owner	0.94% 50%
Michael Ford Sasser Corpus Christi, Texas USA	Oil & Gas	(a) Principal Shareholder (b) NA (c) Ranch holdings, partnership equal shareholder (c) DAHCO	1.24% 25% 0%
Milton Stuart Sasser, Jr Houston, Texas USA	Attorney	(a) Principal Shareholder (b) NA (c) Ranch holdings, partnership equal shareholder	1.24% 25%
Kristen Sasser Sterett Corpus Christi, Texas USA	Accountant	(a) Principal Shareholder (b) NA	1.26%

		(c)Ranch holdings, partnership equal shareholder	25%
Baldomero Vela, Jr McAllen, Texas USA	Pharmacist	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c) Velacorp Ltd dba Lee's Pharmacy partnership majority shareholder (c) Bald Properties, partnership equal shareholder (c) 3 RPH Partnership, partnership majority shareholder (c) BD San Pedro Ranch, LLC, partnership equal shareholder	5.21% 0% 45% 25% 45% 50%
Angela Vela McAllen, Texas USA	Nurse	(a) Principal Shareholder (b) NA (c) NA	0.03%
Victoria Vela McAllen, Texas USA	Nurse	(a) Principal Shareholder (b) NA (c) NA	0.03%
Baldomero Vela III McAllen, Texas USA	Student	(a) Principal Shareholder (b) NA (c)NA	0.03%
Daniel D. Vela McAllen, Texas USA	Pharmacist	(a) Director /Chairman of the Board of Rio Financial Services, Inc (b) Director/ Chairman of the Board of Rio Bank (c) Velacorp Ltd, dba Lee's Pharmacy, partnership majority shareholder (c) DAAIV FAMILY LTD, partnership majority shareholder (c) DAAIV MGT LLC, partnership equal shareholder	8.63% 0%% 45% 49.5% 50%
Angelina N Vela McAllen, Texas USA	Accountant	(a) Principal Shareholder (b) NA (c)NA	0.32%
Daniel Vela fbo Ileana Vela McAllen, Texas USA	Student	(a) Principal Shareholder (b) NA (c)NA	0.32%

Andres D Vela McAllen, Texas USA	Architect	(a) Principal Shareholder (b) NA (c)NA	0.32%
Daniel A Vela McAllen, Texas USA	Engineer	(a) Principal Shareholder (b) NA (c)NA	0.32%
Craig Lewis McAllen, Texas USA	Retired Banker	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c)N/A	0.24% 0%
Ed Zinsmeister McAllen, Texas/USA	Retired Banker	(a) Director Rio Financial Services, Inc (b) Director of Rio Bank (c)N/A	1.33% 0%
Catherine Grossman McAllen, Texas USA	Bank Officer	(a) Advisory Director / Sr E VP/CFO Rio Financial Services, Inc (b) Sr Exec Vice President / CFO Rio Bank (c) N/A	0.03% 0%
Brian Humphreys, Jr McAllen, Texas USA	Bank Officer	(a) Advisory Director Rio Financial Services, Inc. (b) Sr Exec Vice President/Chief Lending Officer Rio Bank (c) Abalso, owner	0.09% 0% 100%
Omar Rodriguez McAllen, Texas USA	Bank Officer	(a) Advisory Director Rio Financial Services, Inc (b) Advisory Director Rio Bank (c) N/A	0% 0%
Tatiana Bravo McAllen, Texas USA	Bank Officer	(a) Exec Vice President Rio Financial Services, Inc (b) Exec Vice President Rio Bank (c) N/A	0% 0%
Michelle Castellanos	Bank Officer	(a) Exec Vice President Rio Financial Services, Inc	0%

McAllen, Texas USA		(b) Exec Vice President Rio Bank (c) N/A	0%
Albert Guajardo Edinburg, Texas USA	Bank Officer	(a) Exec Vice President/Rio Financial Services, Inc (b) Exec Vice President/ Rio Bank (c) N/A	0.11% 0%
Carol Hawkins McAllen, Texas USA	Bank Officer	(a) Exec Vice President/Rio Financial Services, Inc (b) Exec Vice President/Rio Bank (c) N/A	0.16% 0%
Rosario Hinojosa McAllen, Texas USA	Bank Officer	(a) Exec Vice President/Rio Financial Services, Inc (b) Exec Vice President/Rio Bank (c) N/A	0.31% 0%
Rick Perez Mission, Texas USA	Bank Officer	(a) Exec Vice President/Rio Financial Services, Inc (b) Exec Vice President/Rio Bank (c) N/A	0.77% 0%
Darrell Williams McAllen, Texas USA	Bank Officer	(a) Exec Vice President/ Rio Financial Services, Inc (b) Exec Vice President/Rio Bank (c)N/A	0% 0%