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, Steve Stapp
Name of the Holding Company Director and Official

CEO & Director
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

04/28/2021
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

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

Reporter's Name, Street, and Mailing Address

R Corp Financial
Legal Title of Holding Company

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

City	State	Zip Code
Round Rock	TX	78665

n/a
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Iliana McNair	Secretary of BOD AVP

512.600.6919
Area Code / Phone Number / Extension

none
Area Code / FAX Number

imcnair@r.bank
E-mail Address

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

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

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

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

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

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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Physical Location (if different from mailing address)

R CORP FINANCIAL AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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CERTIFIED PUBLIC ACCOUNTANTS

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San Antonio, TX 78229
www.fhkcpa.com
210.614.2284
210.614.2285 fax

REPORT OF INDEPENDENT AUDITORS

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of R Corp Financial and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Report of Supplementary Information

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

Fisher, Herbst + Kemble, P.C.

San Antonio, Texas
March 25, 2021

R CORP FINANCIAL AND SUBSIDIARY

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

Years Ended December 31,	**2020**	2019
ASSETS		
Cash and non-interest bearing deposits in other banks	**$ 4,046**	$ 2,687
Interest bearing deposits in other banks	**126,854**	23,963
Total cash and cash equivalents	**130,900**	26,650
Securities available-for-sale, at estimated market value	**49,806**	66,950
Securities held-to-maturity, at cost	**16,962**	4,635
Loans, net	**519,081**	435,747
Loans held-for-sale	**5,963**	2,235
Accrued interest receivable	**3,672**	1,888
Premises and equipment, net	**6,166**	6,437
Restricted stock	**1,656**	1,638
Net deferred tax asset	**249**	212
Goodwill	**4,667**	4,667
Intangibles, net	**278**	505
Other assets	**1,180**	1,368
Total assets	**$ 740,580**	$ 552,932
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	**$ 157,807**	$ 79,934
Interest bearing demand	**324,212**	207,561
Interest bearing time	**187,763**	187,310
Total deposits	**669,782**	474,805
Accrued interest payable	**341**	540
Borrowings	**11,505**	21,750
Other liabilities	**915**	737
Total liabilities	**682,543**	497,832
Shareholders' Equity		
Common stock - $5 par value; 10,000,000 shares authorized; **3,219,072** and 3,214,072 shares outstanding in 2020 and 2019, respectively	**16,095**	16,070
Capital surplus	**36,249**	36,146
Treasury stock **13,949** shares in 2020 and 15,949 shares in 2019, at cost	**(399)**	(457)
Retained earnings	**5,524**	3,263
Accumulated other comprehensive income	**568**	78
Total shareholders' equity	**58,037**	55,100
Total liabilities and shareholders' equity	**$ 740,580**	$ 552,932

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

Years Ended December 31,	**2020**	2019
INTEREST INCOME		
Interest and fees on loans	**$ 28,937**	$ 24,258
Investment securities	**1,215**	1,523
Interest bearing deposits in other banks	**221**	665
Total interest income	**30,373**	26,446
INTEREST EXPENSE		
Deposits	**4,998**	5,419
Other borrowed funds	**616**	926
Total interest expense	**5,614**	6,345
NET INTEREST INCOME	**24,759**	20,101
PROVISION FOR LOAN LOSSES	**1,270**	900
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**23,489**	19,201
NON-INTEREST INCOME		
Deposit service charges and fees	**708**	599
Interchange fees	**600**	553
Gain on sale of securities, net	**186**	4
Gain on sale of premises and equipment, net	**1**	504
Gain on loans held-for-sale	**1,187**	387
Other income	**158**	50
Total non-interest income	**2,840**	2,097
NON-INTEREST EXPENSE		
Salaries and employee benefits	**11,834**	9,105
Professional services	**1,468**	1,334
Data processing	**1,874**	1,568
Occupancy and equipment	**2,295**	2,147
Depreciation and amortization	**1,269**	1,155
Regulatory and insurance expense	**435**	406
Advertising and marketing	**578**	430
Office and communications expense	**331**	492
Other expense	**1,092**	1,017
Total non-interest expense	**21,176**	17,654
INCOME BEFORE INCOME TAXES	**5,153**	3,644
INCOME TAXES	**972**	650
NET INCOME	**$ 4,181**	$ 2,994

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)

Years Ended December 31,	2020	2019
NET INCOME	**$ 4,181**	$ 2,994
OTHER ITEMS OF COMPREHENSIVE INCOME		
Adjustment for gain on sale of available-for-sale securities	**(186)**	(4)
Unrealized holding loss arising during period	**806**	1,937
Total other items of comprehensive income	**620**	1,933
INCOME TAX EFFECT ON OTHER ITEMS OF COMPREHENSIVE INCOME (LOSS)		
Adjustment for gain on sale of available-for-sale securities	**39**	1
Unrealized holding loss arising during period	**(169)**	(407)
Total other items of comprehensive income	**(130)**	(406)
Comprehensive income	**$ 4,671**	$ 4,521

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

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

Years Ended December 31, 2020 and 2019

	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2018	$ 12,859	$ 21,169	$ (80)	$ 2,094	$ (1,449)	$ 34,593
Net income	-	-	-	2,994	-	2,994
Common stock issued	3,026	14,679	-	-	-	17,705
Stock option expense	-	19	-	-	-	19
Exercise of stock options	16	50	-	-	-	66
Exercise of warrants	169	169	-	-	-	338
Treasury stock acquired	-	-	(450)	-	-	(450)
Treasury stock issued	-	60	73	-	-	133
Net change in available-for-sale securities	-	-	-	-	1,527	1,527
Dividends declared	-	-	-	(1,825)	-	(1,825)
Balance at December 31, 2019	16,070	36,146	(457)	3,263	78	55,100
Net income	**-**	**-**	**-**	**4,181**	**-**	**4,181**
Common stock issued	**5**	**24**	**-**	**-**	**-**	**29**
Stock option expense	**-**	**14**	-	-	-	**14**
Exercise of stock options	**20**	**64**	-	-	-	**84**
Treasury stock issued	**-**	**1**	**58**	-	-	**59**
Net change in available-for-sale securities	**-**	**-**	**-**	**-**	**490**	**490**
Dividends declared	**-**	**-**	**-**	**(1,920)**	**-**	**(1,920)**
Balance at December 31, 2020	**$ 16,095**	**$ 36,249**	**$ (399)**	**$ 5,524**	**$ 568**	**$ 58,037**

See notes to the consolidated financial statements.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

Years Ended December 31,	**2020**	2019
OPERATING ACTIVITIES		
Net income	**$ 4,181**	$ 2,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,270**	900
Stock-based compensation expense	**14**	19
Depreciation and amortization	**1,269**	1,157
Gain on sale of available-for-sale securities, net	**(186)**	(4)
Gain on sale of mortgages held-for-sale	**(1,187)**	(387)
Originations from mortgages held-for-sale	**(82,605)**	(25,745)
Proceeds from the sale of mortgages held-for-sale	**80,064**	24,611
Deferred gain on sale	**-**	(475)
Net amortization on investment securities	**457**	516
Gain on sale of premises and equipment	**(1)**	(29)
Deferred income tax benefit	**(167)**	30
Net changes in:		
Accrued interest receivable, prepaid expenses and other assets	**(1,596)**	(284)
Accrued interest payable and other liabilities	**(21)**	407
Net cash provided by operating activities	**1,492**	3,710
INVESTING ACTIVITIES		
Activity in securities available-for-sale:		
Proceeds from calls, maturities and paydowns	**170,858**	126,273
Sales	**19,559**	3,014
Purchases	**(172,926)**	(132,850)
Activity in securities held-to-maturity:		
Proceeds from maturities and paydowns	**4,432**	-
Purchases	**(16,757)**	-
Purchase of Federal Home Loan Bank Stock	**(18)**	(39)
Net change in loans	**(84,604)**	(52,305)
Proceeds from the sale of premises and equipment and vehicles	**7**	30
Purchase of premises and equipment	**(777)**	(1,979)
Net cash used by investing activities	**(80,226)**	(57,856)
FINANCING ACTIVITIES		
Net change in deposits	**194,977**	53,023
Proceeds from (payments on) borrowings	**(10,245)**	(8,000)
Issuance of common stock	**29**	17,705
Purchase of treasury stock	**-**	(450)
Issuance of shares from treasury stock	**59**	133
Proceeds from stock options exercised	**84**	66
Proceeds from warrants exercised	**-**	338
Dividends declared	**(1,920)**	(1,825)
Net cash provided by financing activities	**182,984**	60,990
INCREASE IN CASH AND CASH EQUIVALENTS	**104,250**	6,844
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**26,650**	19,806
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 130,900**	$ 26,650
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	**$ 5,813**	$ 6,188
Cash paid for income taxes	**$ 798**	$ 445

See notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

In October of 2015, the Board of Directors of the Company approved the formation of RBQ Holdings, LLC ("RBQ"), a limited liability company, which will hold a commercial grade barbeque pit and other related equipment. RBQ is a wholly-owned subsidiary of the Bank. Total investment of approximately $7 thousand has been included in other assets on the consolidated balance sheets. In November of 2020, the Board of Directors of the Company approved the formation of R Corp I & S, R Corp I & S is considered an insurance subsidiary that is wholly owned by R Corp. There were no transactions related to the new business in 2020.

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

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

Cash and Cash Equivalents – For purposes of the consolidation statements of cash flows, cash and cash equivalents include cash, balances due from banks and federal funds sold. The Company considers all highly liquid investments with original maturities of three months or less and federal funds sold to be cash equivalents. The FDIC Deposit Insurance Coverage is $250,000. The majority of cash and cash equivalents of the Company are maintained with major financial institutions. As such, interest bearing, non-transaction account deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. The Company has not experienced any losses in such accounts.

(Dollars in Thousands)

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

Securities – Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2020 and 2019, the Company had no securities classified as trading securities.

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

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

Restricted Stock – The following investments are considered restricted stock with limited marketability and is carried at cost. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No other-than-temporary write-downs have been recorded on these securities. There has been no impairment to date. At December 31, 2020 and 2019, restricted stock consisted of the following:

	2020	2019
TIB	**$ 178**	$ 178
Federal Home Loan Bank	**1,478**	1,460
Total restricted stock	**$ 1,656**	$ 1,638

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

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

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

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Such evaluations involve reviews of historical and projected cash flows 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.

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

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

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING 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. These concessions may include interest rate reductions, payment forbearance or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

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

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

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

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

Loans Held-for-Sale – Loans held-for-sale, which are primarily mortgage loans, are reported at the lower of cost or market value on an aggregate loan portfolio basis. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold including any deferred origination fees and costs. Any gains and losses recognized on sales of mortgage loans are included in earnings.

Premises and Equipment – Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is computed principally on the straight-line method over the estimated useful lives of the assets. The estimated useful lives range from 1 to 40 years. Land is carried at cost. Leasehold improvements are amortized on a straight-line basis over the lease period or the estimated useful lives of the related assets, whichever is shorter. Gains and losses on dispositions are included in other noninterest income or expense. Repairs and maintenance are charged to expense as incurred and expenditures for renewals and betterments are capitalized.

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

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

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

Goodwill and Core Deposit Intangible Assets – Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Under ASC Topic 350, goodwill is not amortized but is tested for impairment on an annual basis, or between annual tests if an event occurs or circumstances change that would reduce the fair value of the reporting unit below its carrying amount. The Company's goodwill impairment assessment in 2020 and 2019 concluded no impairment existed.

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

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

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

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

Management believes that all significant tax positions utilized by the Company will more likely than not be sustained upon examination. As of December 31, 2020, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2017 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the consolidated statements of income. Texas margin tax is recorded in other noninterest expense and totaled approximately **$25 thousand** and $25 thousand for the years ended December 31, 2020 and 2019, respectively.

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

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

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

Advertising – Advertising costs are expensed as incurred. For the years ended December 31, 2020 and 2019, advertising costs totaled **$506 thousand** and $315 thousand, respectively.

Adoption of New Accounting Standards – ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". In January 2017, the FASB amended existing guidance to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform an annual, or interim, goodwill impairment test by comparing fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. The amendment was effective for annual periods beginning after December 15, 2019 and the adoption of the guidance did not have an impact on the Company's consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company, as a participant of the Federal Reserve System, is required to maintain reserves for the purpose of facilitating the implementation of monetary policy. These reserves are maintained in the form of balances held at the Federal Reserve or by vault cash. The Bank did not have a reserve requirement as of December 31, 2020 and 2019.

3. FAIR VALUE DISCLOSURES

The Company follows the provisions of ASC 820, Fair Value Measurements and Disclosures. The disclosures required that fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a class basis rather than a major category basis for assets and liabilities and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

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

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

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

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

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

3. FAIR VALUE DISCLOSURES (continued)

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

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

The following table summarizes assets measured at fair value by class on a recurring basis as reported on the consolidated balance sheets as of December 31, 2020 and 2019, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020				
Securities available-for-sale	**$ -**	**$ 49,806**	**$ -**	**$ 49,806**
December 31, 2019				
Securities available-for-sale	$ -	$ 66,950	$ -	$ 66,950

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

Impaired Loans – The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table.

3. FAIR VALUE DISCLOSURES (continued)

Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

The following table summarizes financial assets (dollars in thousands) as of December 31, 2020 and 2019, that are measured at fair value by class on a nonrecurring basis, segregated by the level of the valuations inputs within the fair value hierarchy utilized to measure fair value are as follows:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
December 31, 2020				
Impaired loans	**$ -**	**$ -**	**$ 443**	**$ 443**
December 31, 2019				
Impaired loans	$ -	$ -	$ 78	$ 78

During the years ended December 31, 2020 and 2019, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for the loan losses based upon the fair value of the underlying collateral based on collateral valuations utilizing Levels 3 valuation inputs.

	2020	2019
Carrying value of impaired loans	**$ 462**	$ 78
Specific valuation allowance allocations	**(19)**	-
Fair value of impaired loans	**$ 443**	$ 78

3. FAIR VALUE DISCLOSURES (continued)

Non-Financial Assets and Non-Financial Liabilities

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

Other Real Estate – Certain foreclosed properties, upon initial recognition and subsequent remeasurement were valued and reported at fair value less costs to sell through charge-offs to the allowance for loan losses and write-downs included in current period earnings. The fair value of such other real estate owned, upon initial recognition and subsequent remeasurement, is estimated utilizing Level 3 inputs. Fair values were based primarily on third party appraisals; however, based on the current economic conditions, comparative sales data typically used in the appraisals may be unavailable or more subjective due to the lack of real estate market activity. See Note 6, for the activity that occurred in Other Real Estate for the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, there were no non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis.

Fair Value of Financial Instruments

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

4. SECURITIES

Securities have been classified according to management's intent. The amortized cost and estimated fair values of securities at December 31, 2020 and 2019, are summarized as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2020				
Available-for-sale:				
U.S. government agencies -				
mortgage-backed securities	**$ 22,385**	**$ 257**	**$ -**	**$ 22,642**
State and political subdivisions	**26,702**	**523**	**61**	**27,164**
	$ 49,087	**$ 780**	**$ 61**	**$ 49,806**
Held-to-maturity:				
U.S. government agencies -				
mortgage-backed securities	**$ 4,304**	**$ 93**	**$ 27**	**$ 4,370**
Commerical Paper	**9,971**	**-**	**-**	**9,971**
State and political subdivisions	**2,687**	**79**	**-**	**2,766**
Total	**$ 16,962**	**$ 172**	**$ 27**	**$ 17,107**
December 31, 2019				
Available-for-sale:				
U.S. government agencies -				
mortgage-backed securities	$ 39,669	$ 32	$ 312	$ 39,389
State and political subdivisions	27,182	389	10	27,561
	$ 66,851	$ 421	$ 322	$ 66,950
Held-to-maturity:				
U.S. government agencies -				
mortgage-backed securities	$ 1,926	$ 38	$ 17	$ 1,947
State and political subdivisions	2,709	50	-	2,759
Total	$ 4,635	$ 88	$ 17	$ 4,706

4. SECURITIES

At December 31, 2020, the Company had investment securities carried at approximately **$28.6 million** ($36.1 million at December 31, 2019) pledged to secure public funds and for other purposes required or permitted by law.

Gross realized gains and losses on sales of securities available-for-sale for the years ended December 31, 2020 and 2019, were as follows (dollars in thousands):

	2020	2019
Gross gains	**$ 186**	$ 4
Gross losses	**$ -**	$ -

The amortized cost and estimated fair value of debt securities at December 31, 2020, by contractual maturities, are shown below. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed investments generally will receive both principal and interest payments on a monthly basis (dollars in thousands).

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	**$ 3,804**	**$ 3,825**	**$ 9,971**	**$ 9,970**
Due in one to five years	**12,439**	**12,688**	**2,372**	**2,431**
Due in five to ten years	**10,170**	**10,354**	**-**	**-**
Due in over ten years	**289**	**297**	**315**	**336**
Total	**26,702**	**27,164**	**12,658**	**12,737**
U.S. government agencies - mortgage-backed securities	**22,385**	**22,642**	**4,304**	**4,370**
Total	**$ 49,087**	**$ 49,806**	**$ 16,962**	**$ 17,107**

4. **SECURITIES** (continued)

Information pertaining to debt securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category is as follows (dollars in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Available-for-sale						
State and political subdivisions	**$ 5,574**	**$ 61**	**$ -**	**$ -**	**$ 5,574**	**$ 61**
Total	**$ 5,574**	**$ 61**	**$ -**	**$ -**	**$ 5,574**	**$ 61**
Held-to-maturity						
U.S. government agencies - mortgage-backed securities	**$ 1,079**	**$ 27**	**$ -**	**$ -**	**$ 1,079**	**$ 27**
Total	**$ 1,079**	**$ 27**	**$ -**	**$ -**	**$ 1,079**	**$ 27**
December 31, 2019						
Available-for-sale						
U.S. government agencies - mortgage-backed securities	$ 7,007	$ 21	$ 18,264	$ 291	$ 25,271	$ 312
State and political subdivisions	3,462	4	2,064	6	5,526	10
Total	$ 10,469	$ 25	$ 20,328	$ 297	$ 30,797	$ 322
Held-to-maturity						
U.S. government agencies - mortgage-backed securities	$ -	$ -	$ 1,436	$ 17	$ 1,436	$ 17
Total	$ -	$ -	$ 1,436	$ 17	$ 1,436	$ 17

4. SECURITIES (continued)

As of December 31, 2020, there were 25 securities with unrealized losses (44 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 these debt securities is temporary. In addition, the Company does not have the intent to sell these debt securities prior to their anticipated recovery.

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

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by portfolio segment at December 31, 2020 and 2019, are summarized as follows (dollars in thousands):

	2020	2019
Real estate	**$ 358,390**	$ 322,108
Commercial and industrial	**147,558**	104,601
Agriculture	**6,079**	4,356
Consumer	**12,406**	8,362
Other loans	**1,601**	1,053
Total loans	**526,034**	440,480
Less: Deferred costs (fees)	**(1,008)**	(13)
Less: Allowance for possible credit losses	**(5,945)**	(4,720)
Total	**$ 519,081**	$ 435,747

Loan Participations Purchased and Sold – In the normal course of business, the Company acquires and transfers interests in loans under participation agreements with other financial institutions. Total outstanding loan participations purchased at December 31, 2020 and 2019, were **$12.0 million** and $10.0 million, respectively. Total outstanding loan participations sold at December 31, 2020 and 2019 were **$31.0 million** and $33.6 million, respectively.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

Payment Protection Plan – During 2020, the Small Business Administration ("SBA") offered the Paycheck Protection Program ("PPP") in response to the global pandemic. The SBA program offered unsecured PPP loans with an interest rate of 1% and, depending on the origination date, a maturity date of two years or five years. Loan payments were deferred for borrowers who apply for forgiveness of the loan from the SBA. If no forgiveness is applied for, payments are deferred for ten months after the end of the covered period. As of December 31, 2020, outstanding PPP loans not yet forgiven by the SBA were **$43.4 million** and included within the commercial loan category.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The Company earned processing fees on each originated loan between 1% and 5%, depending on the size of the loan. Fees for individual loans were deferred and recognized over the life of the loan or until forgiven by the SBA. As of December 31, 2020, the Company had deferred PPP origination fees remaining in the amount of **$971 thousand** and included in Unearned Loan Fees. Total fees recognized for the year ended December 31, 2020, were **$1.7 million** and are included within the balance of the interest and fees on loans on the consolidated statement of income.

Past Due and Nonaccrual Loans – The following is an aging analysis of loans, segregated by loan class, as of December 31, 2020 and 2019 (dollars in thousands). As of December 31, 2020, there were no loans past due 90 days or greater and accruing interest. As of December 31, 2019, there was one real estate loan past due 90 days or greater and accruing interest in the amount of $29 thousand.

	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due	Current Loans	Total Loans
December 31, 2020					
Real estate	**$ 215**	**$ -**	**$ 215**	**$ 358,175**	**$ 358,390**
Commercial and industrial	**40**	**14**	**54**	**147,504**	**147,558**
Agriculture	**-**	**-**	**-**	**6,079**	**6,079**
Consumer	**-**	**-**	**-**	**12,406**	**12,406**
Other loans	**-**	**-**	**-**	**1,601**	**1,601**
Total	**$ 255**	**$ 14**	**$ 269**	**$ 525,765**	**$ 526,034**
December 31, 2019					
Real estate	$ 269	$ 29	$ 298	$ 321,810	$ 322,108
Commercial and industrial	797	18	815	103,786	104,601
Agriculture	276	-	276	4,080	4,356
Consumer	5	-	5	8,357	8,362
Other loans	-	-	-	1,053	1,053
Total	$ 1,347	$ 47	$ 1,394	$ 439,086	$ 440,480

(Dollars in Thousands)

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

As of December 31, 2020 and 2019, the Company had non-accrual loans as follows:

	2020	2019
Real estate	**$ 427**	$ -
Commercial and industrial	**33**	115
Agriculture	**-**	-
Consumer	**-**	-
Other loans	**-**	-
Total	$ 460	$ 115

The effect of not recognizing interest income on nonaccrual loans in accordance with the original terms was approximately **$26 thousand** and $4 thousand for the years ended December 31, 2020 and 2019, respectively.

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

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

An analysis of activity in the allowance for possible credit losses, by loan segment, at December 31, 2020 and 2019, is as follows (dollars in thousands).

	Real Estate	Commercial and Industrial	Agriculture	Consumer and Other	Total Loans
December 31, 2020					
Balance at beginning of year	$ 3,698	$ 922	$ 30	$ 70	$ 4,720
Provision (credit) for possible credit losses	727	527	13	3	1,270
Charge-offs	-	(41)	-	(17)	(58)
Recoveries	-	-	-	13	13
Net recoveries (charge-offs)	-	(41)	-	(4)	(45)
Balance at year end	$ 4,425	$ 1,408	$ 43	$ 69	$ 5,945
Allocation:					
Individually evaluated for impairment	$ -	$ 19	$ -	$ -	$ 19
Collectively evaluated for impairment	4,425	1,389	43	69	5,926
	$ 4,425	$ 1,408	$ 43	$ 69	$ 5,945

(Dollars in Thousands)

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

	Real Estate	Commercial and Industrial	Agriculture	Consumer and Other	Total Loans
December 31, 2019					
Balance at beginning of year	$ 3,510	$ 695	$ 16	$ 36	$ 4,257
Provision (credit) for possible credit losses	188	641	14	57	900
Charge-offs	-	(426)	-	(27)	(453)
Recoveries	-	12	-	4	16
Net recoveries (charge-offs)	-	(414)	-	(23)	(437)
Balance at year end	$ 3,698	$ 922	$ 30	$ 70	$ 4,720
Allocation:					
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	3,698	922	30	70	4,720
	$ 3,698	$ 922	$ 30	$ 70	$ 4,720

	Real Estate	Commercial and Industrial	Agriculture	Consumer and Other	Total Loans
December 31, 2020					
Loans individually evaluated for impairment	**$ 427**	**$ 35**	**$ -**		**$ 462**
Loans collectively evaluated for impairment	**357,963**	**147,523**	**6,079**	**14,007**	**525,572**
Ending balance	**$ 358,390**	**$ 147,558**	**$ 6,079**	**$ 14,007**	**$ 526,034**
December 31, 2019					
Loans individually evaluated for impairment	$ -	$ 78	$ -	$ -	$ 78
Loans collectively evaluated for impairment	322,108	104,523	4,356	9,415	440,402
Ending balance	$ 322,108	$ 104,601	$ 4,356	$ 9,415	$ 440,480

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Risk Grading – As part of the on-going monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for possible credit losses management assigns and tracks loan grades to be used as credit quality indicators. The following is a general description of the loan grades used as of December 31, 2020 and 2019.

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

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

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

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

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

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table presents risk grades by loan class at December 31, 2020 and 2019. The Company had no loans classified as loss at December 31, 2020 and 2019 (dollars in thousands).

Credit Risk Profile by Internally Assigned Grade

	Pass	OAEM	Substandard	Doubtful	Total Loans
December 31, 2020					
Real estate	**$ 312,317**	**$ 40,507**	**$ 5,566**	**$ -**	**$ 358,390**
Commercial and industrial	**144,838**	**2,301**	**419**	**-**	**147,558**
Agriculture	**6,079**	**-**	**-**	**-**	**6,079**
Consumer	**12,406**	**-**	**-**	**-**	**12,406**
Other loans	**1,601**	**-**	**-**	**-**	**1,601**
Total	**$ 477,241**	**$ 42,808**	**$ 5,985**	**$ -**	**$ 526,034**
December 31, 2019					
Real estate	$ 314,824	$ 4,709	$ 2,575	$ -	$ 322,108
Commercial and industrial	99,682	4,725	194	-	104,601
Agriculture	4,356	-	-	-	4,356
Consumer	8,362	-	-	-	8,362
Other loans	1,053	-	-	-	1,053
Total	$ 428,277	$ 9,434	$ 2,769	$ -	$ 440,480

Credit Risk Profile Based on Payment Activity

	Real Estate	Commercial and Industrial	Agriculture	Consumer	Other	Total
December 31, 2020						
Performing	**$ 358,175**	**$ 147,504**	**$ 6,079**	**$ 12,406**	**$ 1,601**	**$ 525,765**
Nonperforming	**215**	**54**	**-**	**-**	**-**	**269**
Total	**$ 358,390**	**$ 147,558**	**$ 6,079**	**$ 12,406**	**$ 1,601**	**$ 526,034**
December 31, 2019						
Performing	$ 321,810	$ 103,786	$ 4,080	$ 8,357	$ 1,053	$ 439,086
Nonperforming	298	815	276	5	-	1,394
Total	$ 322,108	$ 104,601	$ 4,356	$ 8,362	$ 1,053	$ 440,480

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

An analysis of impaired loans, segregated by class of loans, as of December 31, 2020 and 2019 was as follows (dollars in thousands).

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2020					
Real estate	**$ 427**	**$ -**	**$ 427**	**$ -**	**$ 214**
Commercial and industrial	**16**	**19**	**35**	**19**	**57**
Agriculture	**-**	**-**	**-**	**-**	**-**
Consumer		**-**	**-**	**-**	**-**
Other loans	**-**	**-**	**-**	**-**	**-**
Total	**$ 443**	**$ 19**	**$ 462**	**$ 19**	**$ 270**
December 31, 2019					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial and industrial	78	-	78	-	248
Agriculture	-	-	-	-	-
Consumer	-	-	-	-	-
Other loans	-	-	-	-	-
Total	$ 78	$ -	$ 78	$ -	$ 248

As of December 31, 2020 and 2019, the Company had **$21 thousand** and $26 thousand, respectively, that have been modified in a troubled debt restructuring and consist entirely of commercial real estate loans. These loans are generally modified by allowing the borrower concessions that delay the payment of principal or interest beyond contractual requirements, but not the forgiveness of either principal or interest. The Company has evaluated any possible impairment loss on such loans consistent with its accounting for impaired loans and recognized such loss through a charge-off to the allowance for loan loss account.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral of payments. The Company is following guidance of the FFIEC which exempts the COVID 19 modifications from being reported and accounted for as a Troubled Debt Restructure ("TDR"). These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company modified 19 commercial and consumer loans with outstanding balances of $25.7 million.

For the years ended December 31, 2020 and 2019, no troubled debt restructurings occurred and no subsequent default of any troubled debt restructurings.

6. OTHER REAL ESTATE OWNED

As of December 31, 2020 and 2019, the Company did not have any other real estate owned.

7. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2020 and 2019 (dollars in thousands):

	2020	2019
Land	**$ 509**	$ 509
Land improvements	**62**	-
Building	**1,641**	1,099
Leasehold improvements	**1,298**	1,173
Furniture, fixtures and equipment	**8,243**	7,458
Construction in process	**184**	998
	11,937	11,237
Less accumulated depreciation and amortization	**(5,771)**	(4,800)
Premises and equipment, net	**$ 6,166**	$ 6,437

	2020	2019
Depreciation expense	**$ 1,042**	$ 930

In 2020, the Company disposed of and sold assets for a sales price of **$7 thousand** which resulted in a net gain of **$1 thousand.** In 2019, the Company disposed of and sold assets for a sales price of $30 thousand which resulted in a net gain of $29 thousand.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill that is not subject to amortization, and identifiable core deposit intangibles, which are being amortized on a straight-line basis over the estimated useful life, determined by management to be 10 years. Management determined no impairment existed on these intangibles at December 31, 2020. Goodwill and core deposit intangibles, net of accumulated amortization, are as follows at December 31, 2020 and 2019 (dollars in thousands):

	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
December 31, 2020			
Goodwill	**$ 4,667**	**$ -**	**$ 4,667**
Core deposit intangibles	**1,669**	**(1,391)**	**278**
	$ 6,336	**$ (1,391)**	**$ 4,945**
December 31, 2019			
Goodwill	$ 4,667	$ -	$ 4,667
Core deposit intangibles	1,669	(1,164)	505
	$ 6,336	$ (1,164)	$ 5,172

During each of the years ended December 31, 2020 and 2019, amortization expense related to core deposit intangibles were **$227 thousand** and $227 thousand respectively.

The future remaining amortization expense related to the core deposit intangibles will be approximately as follows at December 31, 2020 (dollars in thousands):

Years Ending December 31	
2021	$ 101
2022	101
2023	76
Total	$ 278

9. DEPOSITS

The aggregate amount of time deposits in the amount of $250 thousand or more at December 31, 2020 and 2019, totaled approximately **$66.7 million** and $66.3 million, respectively.

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

2021	$	166,471
2022		15,945
2023		2,600
2024		1,021
2025		1,726
Total	$	187,763

The Company had no brokered deposits or major concentrations of deposits from any single or related groups of depositors at December 31, 2020 and 2019.

10. BORROWINGS

Federal Home Loan Bank Advances – The Company had available borrowings at December 31, 2020, through the Federal Home Loan Bank of approximately $173 million, which are secured by a blanket lien on certain real estate and commercial loans. At December 31, 2020 the Company had **$0** in outstanding advances on this credit facility. At December 31, 2019, the Company had $10 million in outstanding advances on this credit facility.

Available Lines of Credit – At December 31, 2020, the Company had available unsecured over-night federal funds of credit with two correspondent bank aggregating $22.5 million. The Company did not have any outstanding borrowings on the line at December 31, 2020 and 2019.

Note Payable – The Company entered into a note agreement with an unrelated bank for up to $11.75 million and the maturity date of the note is July 25, 2025 and the interest rate is 4.25%. As of December 31, 2020 and 2019, the balance outstanding is **$11.5 million** and $11.75 million, respectively. Accrued and unpaid interest are paid quarterly, principal payments started in October 2020. The note is collateralized by the common stock of R Bank.

11. INCOME TAXES

The components of the Company's provision for federal income tax expense for the years ended December 31, 2020 and 2019, are as follows (dollars in thousands):

	2020	2019
Taxes current	$ 1,138	$ 620
Deferred taxes (credit) relating to:		
Depreciation	120	40
Provision for possible loan losses	(257)	(97)
Organization expenses	11	11
Core deposits intangible	(48)	(47)
Deferred gain on sales leaseback	-	100
FHLB stock dividend	4	7
Non-qualified stock options - Exercised	7	7
Non-accrual loan interest	(5)	9
Other	2	-
Federal income tax expense	$ 972	$ 650

Federal income tax expense at the statutory rate of 21% for the years ended December 31, 2020 and 2019, for the Company differs from the federal income tax expense for financial reporting purposes as follows (dollars in thousands):

	2020	2019
Tax expense to statutory rate	$ 1,082	$ 765
Deduct effects of:		
Nondeductible dues, meals and entertainment and other	18	29
Tax-exempt	(134)	(149)
Stock-based compensation and other	3	4
Other	3	1
Total income tax expense	$ 972	$ 650

Deferred income taxes are provided for differences between financial statement carrying amount of existing assets and liabilities and their respective tax bases. Management believes it is more likely than not the full tax benefit of deferred tax assets will be realized; therefore, no valuation allowance was considered necessary at December 31, 2020 and 2019.

11. INCOME TAXES (continued)

Deferred tax assets and liabilities at December 31, 2020 and 2019, are as follows (dollars in thousands):

	2020	2019
Deferred tax assets (liabilities):		
Allowance for possible credit losses	**$ 1,248**	$ 991
Transaction costs	**28**	27
Core deposit intangible	**(58)**	(106)
Unrealized loss on securities	**(151)**	(21)
Depreciation	**(871)**	(751)
Other	**53**	72
Deferred tax asset, net	**$ 249**	$ 212
Federal income tax receivable (payable)	$ (185)	$ 88

12. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The following is a summary of the various financial instruments whose contract amounts represent credit risk at December 31, 2020 and 2019 (dollars in thousands):

	Contract Amount	
	2020	2019
Commitments to extend credit	**$ 95,941**	$ 91,047
Standby letters of credit	**5,256**	4,791
Total	**$ 101,197**	$ 95,838

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

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

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

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

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Lease Commitments – Future minimum lease commitments by year and in the aggregate under noncancelable related-party operating leases are as follows at December 31, 2020 (dollars in thousands):

Year ending December 31,		
2021	$	**1,524**
2022		**1,379**
2023		**770**
2024		**630**
2025		**595**
Thereafter		**1,656**
	$	**6,554**

It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on approximately the same terms and conditions if available. Total rent expense was approximately **$1.7 million** and $1.5 million for the years ended December 31, 2020 and 2019, respectively.

The Company sub-leases space to related parties and future minimum lease income by year and in the aggregate are as follows at December 31, 2020 (dollars in thousands):

Year ending December 31,		
2021	$	**85**
2022		**85**
2023		**85**
2024		**71**
	$	**326**

Total rent income was approximately **$85** and $120 thousand for the years ended December 31, 2020 and 2019, respectively and is included as a reduction of occupancy expense within the consolidated statements of income.

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

13. RELATED PARTY TRANSACTIONS

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

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

Loans to such borrowers as of and for the years ended December 31, 2020 and 2019, are summarized as follows (dollars in thousands):

	2020	2019
Principal outstanding, beginning of year	**$ 575**	**$ 615**
New loans made in current year	**923**	**130**
Repayments	**(31)**	**(170)**
Principal outstanding, end of year	**$ 1,467**	$ 575

Unfunded Commitments – At December 31, 2020 and 2019, the Company had no unfunded commitments to related parties.

Deposits – The Company held deposits from related parties that totaled approximately **$43.4 million** and $21.8 million at December 31, 2020 and 2019, respectively.

Rents – During the years ended December 31, 2020 and 2019, the Company made rental payments to a related party of approximately **$1.2** million and $1.2 million, respectively.

The Company had one corresponding sublease with a related party under which the Company will receive a total of $7,100 per month through September 30, 2024. Under the agreement the related party subtenant is granted the option to extend the term for one additional term of five years.

During 2016, the Company sold five of its branch locations for cash to an investor group, which included current shareholders. The sales price was $8.5 million, which was an amount equal to current independent property appraisals of the locations sold. In 2018, the sales price of the two branch locations was reduced by $915 thousand, resulting in a revised sales price of $7.5 million. The Company then leased the locations back from the investor group under operating leases with market rental rates and terms. The transaction resulted in a gain on sale of $2.0 million, $475 thousand was recognized in income during the year ended December 31, 2019. The gain was fully realized in 2019.

(Dollars in Thousands)

14. EQUITY AWARDS

Stock Options and Stock Warrants – The Bank adopted a stock option plan (the Plan) under which options to purchase shares of the Bank's common stock may be granted to employees and directors at a price established at the date of grant. In 2014, as a result of the holding company formation, the Plan was adopted by the Company. The Company has reserved 180,000 shares of common stock for issuance under the Plan and, at December 31, 2020, options representing 38,200 remaining shares were available for future grant.

Cash received in exercise of share options during the years ended December 31, 2020 and 2019 was **$84 thousand** and $66 thousand, respectively.

The Bank issued warrants to acquire shares of Bank common stock to each organizer in October 2009. Each warrant entitles the holder to acquire one share of the common stock at a price of $10.00 per share which was considered by management to be equal to the fair market value of the stock. When the holding company was capitalized in 2014, the warrants were converted to entitle directors to purchase shares of Company common stock. These warrants vested upon issuance and must be exercised within 10 years from the date of grant. During the year ended December 31, 2019, 33,750 warrants were exercised, and cash received by the Company in exercise of warrants was $338 thousand. At December 31, 2019, all warrants had been exercised.

The table below sets forth pertinent information regarding Company stock options for the years ended December 31, 2020 and 2019:

	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	**105,816**	**$ 25.73**	94,466	$ 25.03
Granted	**14,500**	**29.25**	14,500	29.25
Exercised	**(4,000)**	**21.00**	(3,150)	20.88
Outstanding at end of the year	**116,316**	**26.33**	105,816	25.73
Exercisable at end of the year	**114,816**	**26.29**	104,316	25.68
Unvested at end of the year	**1,500**	**$ 29.25**	1,500	$ 29.25

(Dollars in Thousands)

14. EQUITY AWARDS (continued)

The following table summarizes information about stock options outstanding at December 31, 2020:

	Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Intrinsic Value Per Option	Weighted-Average Remaining Contractual Life	Number Outstanding	Weighted Average Exercise Price	Intrinsic Value Per Option
$ 21.00	**33,216**	**$ 8.25**	**3**	**33,216**	**$ 21.00**	**$ 8.25**
$ 28.04	**54,100**	**$ 1.21**	**7**	**54,100**	**$ 28.04**	**$ 1.21**
$ 29.25	**29,000**	**$ -**	**15**	**27,500**	**$ 29.25**	**$ -**
	116,316			**114,816**		

The total intrinsic value for all options outstanding at December 31, 2020 and 2019 was $339 thousand and $372 thousand, respectively, which is attributable to vested options.

A summary of changes in unvested options for the years ended December 31, 2020 and 2019 was as follows:

	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
Unvested outstanding at beginning of the year	**1,500**	**$ 4.01**	1,500	$ 1.08
Granted	**14,500**	**3.65**	14,500	4.01
Vested	**(14,500)**	**(4.01)**	(14,500)	(1.08)
Unvested outstanding at end of the year	**1,500**	**3.65**	1,500	4.01

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. For the options granted in 2020 and 2019, the following assumptions were used:

	2020	2019
Dividend yield	**3.31%**	3.31%
Expected volatility	**10.0%**	10.0%
Risk-free interest rate	**0.92%**	1.83%
Expected life in years	**9**	9

14. EQUITY AWARDS (continued)

For options granted, compensation costs are recognized in the consolidated statements of income based on their fair values on the date of the grant. For the years ended December 31, 2020 and 2019, compensation expense of **$14 thousand** and $19 thousand, respectively, was recorded.

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

15. EMPLOYEE BENEFIT PLAN

The Bank provides a 401(k) benefit plan (the “401(k) Plan”) for all eligible employees. The Bank may make discretionary contributions under the 401(k) Plan. Company contributions to the 401(k) Plan totaled **$210 thousand** and $159 thousand for the years ended December 31, 2020 and 2019, respectively.

16. REGULATORY MATTERS

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

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

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

16. REGULATORY MATTERS (continued)

Tier 1 capital includes Common Equity Tier 1 capital and additional Tier 1 capital as allowed by regulation. The Bank did not have any additional Tier 1 capital beyond Common Equity Tier 1 as of December 31, 2020. The capital includes Tier 1 capital and Tier 2 capital. Tier 2 capital for the Bank includes a permissible portion of the allowance for loan losses. The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, excluding goodwill (if any) and other intangible assets (if any), allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which excludes goodwill (if any) and other intangible assets (if any), among other things.

As of January 1, 2019, the BASEL II capital rules were fully phased in and require a capital conservation buffer of an additional 2.5% with respect to the ratio of each to risk-weighted assets, (i) Common Equity Tier 1 Capital, which raises the minimum ratio to 7.0%; (ii) Tier 1 Capital, which raises the minimum ratio to 8.5%; and (iii) Total Capital, which raises the minimum ratio to 10.5%. The minimum leverage ratio of Tier 1 Capital to average assets is 4.0%. The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. A financial institution with a conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments and stock repurchased, and certain discretionary bonus payments to executive officers.

The following table presents actual and required capital ratios as of December 31, 2020 and 2019 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2020 and 2019 based on the minimum requirements for capital adequacy purposes and the minimum requirements with the capital conservation buffer. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

16. REGULATORY MATTERS (continued)

The following is a summary of capital ratios for the Bank as of December 31, 2020 and 2019 (dollars in thousands):

	Actual		Minimum Reserve Basel III Phase-In Schedule		Minimum Required - Basel III Fully Phase-In		Minimum Required - Basel III Fully Phase-In	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
December 31, 2020								
Common Equity Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	**$ 62,993**	**12.82%**	**$ 22,111**	**4.50%**	**$ 34,396**	**7.00%**	**$ 31,939**	**6.50%**
Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	**$ 62,993**	**12.82%**	**$ 29,482**	**6.00%**	**$ 41,766**	**8.50%**	**$ 39,309**	**8.00%**
Total Capital Ratio (to Risk-Weighted Assets) Bank	**$ 68,938**	**14.03%**	**$ 39,309**	**8.00%**	**$ 51,593**	**10.50%**	**$ 49,136**	**10.00%**
Tier 1 Leverage Ratio (to Average Assets) Bank	**$ 62,993**	**8.97%**	**$ 28,091**	**4.00%**	**$ 28,091**	**4.00%**	**$ 35,113**	**5.00%**
December 31, 2019								
Common Equity Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	$ 60,656	13.78%	$ 19,808	4.500%	$ 30,812	7.00%	$ 28,611	6.50%
Tier 1 Capital Ratio (to Risk-Weighted Assets) Bank	$ 60,656	13.78%	$ 26,410	6.000%	$ 37,415	8.50%	$ 35,214	8.00%
Total Capital Ratio (to Risk-Weighted Assets) Bank	$ 63,376	14.85%	$ 35,219	8.000%	$ 46,225	10.50%	$ 44,024	10.00%
Tier 1 Leverage Ratio (to Average Assets) Bank	$ 60,656	11.06%	$ 21,937	4.00%	$ 21,937	4.00%	$ 27,421	5.00%

As of December 31, 2020, capital levels at the Bank exceed all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis. Based on the ratios presented above, capital levels as of December 31, 2020 at the Bank exceed the minimum levels necessary to be considered "well capitalized."

(Dollars in Thousands)

17. REVENUE FROM CONTRACTS WITH CUSTOMERS

The majority of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company's sources of Non-Interest Income for the years ended December 31, 2020 and 2019.

	2020	2019
Deposit service charges and fees	**$ 708**	$ 599
Interchange fees	**600**	553
Gain on sale of securities, net*	**186**	4
Gain on sale of premises and equipment, net	**1**	504
Gain on loans held-for-sale	**1,187**	387
Other income	**158**	50
Total non-interest income	**$ 2,840**	$ 2,097

* - Not within scope of ASC 606

Deposit Service Charges and Fees – The Company earns fees from its deposit customers for transaction-based, minimum balance fees, and overdraft services. Transaction-based fees, which include services such as, stop payment charges, bill pay, and charge back fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Minimum balance fees, which relate primarily to fees earned if a customer does not maintain a certain minimum balance in their savings and other demand account, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance at month end and recognized at the point in time.

Interchange Fees – The Company earns interchange fees from debit and credit card holder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The Company earns fees from the use of non-Bank ATMs by Bank customers and is recognized at the point in time the transaction occurred. Additionally, the Company earns fees from the use of the Company's ATMs by noncustomers and is also recognized at the point in time the transaction occurred.

Gain on Premises and Equipment, Net – From time to time, the Company sells certain fixed assets to third parties. The Company records a gain or loss from the sale of fixed assets when control of the property transfers to the buyer.

17. REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

Gain on Loans Held-For-Sale – The Company originates mortgages intended for sale in the secondary market. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related loan sold. The Company records a gain or loss from the sale of the loan when control of the loan transfers to the buyer.

Other – This category includes immaterial balances that are recognized as point in time transactions.

Included in Interest Income were **$1.6 million** and $1 million of loan origination fees for the years ended December 31, 2020 and 2019, respectively, which falls within the scope of ASC 606, however loan fees are immaterial to the overall consolidated financial statements and are recognized as revenue when received.

18. COVID-19

In 2020, the World Health Organization declared the spread of Coronavirus Diseases ("COVID-19") a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Overall, COVID-19 did not have a negative impact on the Company.

19. SUBSEQUENT EVENTS

In February 2021, the state of Texas was impacted by a major winter and ice storm. The Company was still able to serve our customers during this time. The Company was not adversely impacted during the storm.

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

20. RECENTLY ISSUED AUTHORITATIVE GUIDANCE

ASU 2016-02, "Leases (Topic 842)." In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary; lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2021. The guidance is not expected to have a significant impact on the Company's consolidated financial statements.

19. RECENTLY ISSUED AUTHORITATIVE GUIDANCE (continued)

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ('CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off balance sheet credit exposures not accounted for as insurance and net investments in leases recognized by a lessor. The amendments will be effective for fiscal years beginning after December 15, 2022 and is expected to have a significant impact on the Company's consolidated financial statements.

ASU 2019-12, Income Taxes (Topic 740). The FASB amended the standard to simplify the accounting for income taxes without compromising information provided to users of financial statements. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2021. This guidance is not expected to have a significant impact on the Company's consolidated financial statements.

ASU 2020-10, Codification Improvements. The FASB amendments improve consistency by amending the Codification to include all disclosure guidance in the appropriate disclosure sections and clarifies application of various provisions in the Codification by amending and adding new headings, cross referencing to other guidance, and refining or correcting terminology. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2021. This guidance is not expected to have a significant impact on the Company's consolidated financial statements.

SUPPLEMENATRY INFORMATION

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

(Dollars in Thousands, Except Share Data)

December 31, 2020

	R Corp	R Bank	Eliminations	Consolidated
ASSETS				
Cash and non-interest bearing deposits in other banks	$ 883	$ 4,046	$ (883)	**$ 4,046**
Interest bearing deposits in other banks	-	126,854	-	**126,854**
Total cash and cash equivalents	883	130,900	(883)	**130,900**
Securities available-for-sale, at estimated market value	-	49,806	-	**49,806**
Securities held-to-maturity, at cost	-	16,962	-	**16,962**
Loans, net	-	519,081	-	**519,081**
Loans held-for-sale	-	5,963	-	**5,963**
Accrued interest receivable	-	3,672	-	**3,672**
Premises and equipment, net	5	6,161	-	**6,166**
Restricted stock	-	1,656	-	**1,656**
Net deferred tax asset	50	199	-	**249**
Goodwill	-	4,667	-	**4,667**
Intangibles, net	-	278	-	**278**
Other assets	-	1,180	-	**1,180**
Investment in subsidiary - R Bank	68,449	-	(68,449)	-
Inter-company receivables	432	-	(432)	-
Total assets	$ 69,819	$ 740,525	$ (69,764)	**$ 740,580**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Non-interest bearing	$ -	158,690	$ (883)	**$ 157,807**
Interest bearing demand	-	324,212	-	**324,212**
Interest bearing time	-	187,763	-	**187,763**
Total deposits	-	670,665	(883)	**669,782**
Accrued interest payable	-	341	-	**341**
Borrowings	11,505	-	-	**11,505**
Other liabilities	277	638	-	**915**
Inter-company payables	-	432	(432)	**-**
Total liabilities	11,782	672,076	(1,315)	**682,543**
Shareholders' Equity				
Common stock	16,095	8,888	(8,888)	**16,095**
Capital surplus	36,249	46,649	(46,649)	**36,249**
Treasury stock	(399)	-	-	**(399)**
Retained earnings	5,524	12,344	(12,344)	**5,524**
Accumulated other comprehensive income	568	568	(568)	**568**
Total shareholders' equity	58,037	68,449	(68,449)	**58,037**
Total liabilities and shareholders' equity	$ 69,819	$ 740,525	$ (69,764)	**$ 740,580**

See Report of Independent Auditors.

R CORP FINANCIAL AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME

(Dollars in Thousands)

Year Ended December 31, 2020

	R Corp	R Bank	Eliminations	Consolidated
INTEREST INCOME				
Interest and fees on loans	$ -	$ 28,937	$ -	**$ 28,937**
Investment securities	-	1,215	-	**1,215**
Interest bearing deposits in other banks	-	221	-	**221**
Federal funds sold	-	-	-	**-**
Total interest income	-	30,373	-	**30,373**
INTEREST EXPENSE				
Deposits	-	4,998	-	**4,998**
Other borrowed funds	516	100	-	**616**
Total interest expense	516	5,098	-	**5,614**
NET INTEREST INCOME	(516)	25,275	-	**24,759**
PROVISION FOR LOAN LOSSES	-	1,270	-	**1,270**
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	(516)	24,005	-	**23,489**
NON-INTEREST INCOME				
Deposit service charges and fees	-	708	-	**708**
Interchange fees	-	600	-	**600**
Gain on sale of securities, net	-	186	-	**186**
Gain on sale of premises and equipment, net	-	1	-	**1**
Gain on loans held-for-sale	-	1,187	-	**1,187**
Other income	-	158	-	**158**
Net earnings of subsidiary - R Bank	4,759	-	(4,759)	**-**
Total non-interest income	4,759	2,840	(4,759)	**2,840**
NON-INTEREST EXPENSE				
Salaries and employee benefits	169	11,665	-	**11,834**
Professional services	29	1,439	-	**1,468**
Data processing	-	1,874	-	**1,874**
Occupancy and equipment	-	2,295	-	**2,295**
Depreciation and amortization	3	1,266	-	**1,269**
Regulatory and insurance expense	-	435	-	**435**
Advertising and marketing	-	578	-	**578**
Office and communications expense	-	331	-	**331**
Other expense	10	1,082	-	**1,092**
Total non-interest expense	211	20,965	-	**21,176**
INCOME BEFORE INCOME TAXES	4,032	5,880	(4,759)	**5,153**
INCOME TAXES - FEDERAL	(149)	1,121	-	**972**
NET INCOME	$ 4,181	$ 4,759	$ (4,759)	**$ 4,181**

See Report of Independent Auditors.

R CORP FINANCIAL AND SUBSIDIARY

2020 AUDIT REPORTING PACKAGE

FHK | Experience. That counts!

CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

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To the Board of Directors
R Corp Financial and Subsidiary

We have audited the consolidated financial statements of R Corp Financial and Subsidiary (the "Company") as of and for the year ended December 31, 2020, and have issued our report thereon dated March 25, 2021. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated October 23, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the consolidated financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the consolidated financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the consolidated financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the consolidated financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit of the consolidated financial statements includes obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the consolidated financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Qualitative Aspects of the Company's Significant Accounting Practices

<u>Significant Accounting Policies</u>

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Company is included in Note 1 to the consolidated financial statements. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Significant Accounting Estimates and Disclosures

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ markedly from those expected. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

The most sensitive accounting estimates affecting the consolidated financial statements are as follows:

Allowance for Loan Losses – The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The provision for loan losses is the amount, which, in the judgment of management, is necessary to establish the allowance for loan losses at a level that is adequate to absorb known and inherent risks in the loan portfolio. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions or reductions to the allowance based on their judgments of information available to them at the time of the examination. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Goodwill – Goodwill is recorded in business combinations under the purchase method of accounting when the purchase price is higher than the fair value of the net assets, including identifiable intangible assets. Goodwill is assessed for impairment annually, and more frequently in certain circumstances. Various valuation methodologies are applied to compare the estimated fair value to the carrying value. If the fair value is less than the carrying amount, a second test is required to measure the amount of impairment. The Company recognizes impairment losses as a charge to noninterest expense and an adjustment to the carrying value of the goodwill asset. Subsequent reversals of goodwill impairment are prohibited.

Fair Value of Financial Instruments – The accumulation of fair value information for investment securities, loans and deposits, and other financial instruments requires significant assumptions and considerable judgment. In cases where quoted market prices are not available, fair values have been estimated using the present value of future cash flows or other valuation techniques. The results of these techniques are highly sensitive to the assumptions used, such as those concerning appropriate discount rates and estimates of future cash flows. Accordingly, both the estimates recorded in the consolidated financial statements and those disclosed in the notes to the consolidated financial statements are not necessarily indicative of the amounts the Company could realize in a current settlement of the underlying financial instruments. We evaluated the key factors and assumptions used to develop the fair value information in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

<u>Regulatory Capital Requirements</u> – The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Adjustments

We proposed and management posted corrections to the consolidated financial statements of the Company for 2020. See **Appendix A.**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. The attached **Appendix B** summarizes uncorrected financial statement misstatements whose effects, as determined by management, are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Company's consolidated financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated March 25, 2021.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This report is intended solely for the information and use of the audit committee, board of directors, regulators, and management of R Corp Financial and Subsidiary and is not intended to be, and should not be, used by anyone other than these specified parties.

Fisher, Herbst + Kemble, P.C.

San Antonio, Texas
March 25, 2021

APPENDIX A

Summary of Audit Adjustments

The following is a summary of the journal entries recorded during the audit of the consolidated financial statements of R Corp Financial and Subsidiary as of December 31, 2020, and for the year then ended.

Client: **R Bank**
Engagement: **2020 Audit - 2020 R Bank Audit**
Period Ending: **12/31/2020**
Workpaper: **1004d - HC Adjusting Journal Entries Report - 2**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To post tax entry.				
17240	DEFERRED INCOME TAX		1,733.00	
25140	ACCRUED FED TAX - CURRENT YEAR			1,733.00
Total			**1,733.00**	**1,733.00**

APPENDIX B

Summary of Proposed but Unrecorded Journal Entries

The following is a summary of the effect of the proposed but unrecorded journal entries noted during the audit of the consolidated financial statements of R Corp Financial and Subsidiary as of December 31, 2020, and for the year then ended.

Client:	**R Bank**
Engagement:	**2020 Audit - 2020 R Bank Audit**
Period Ending:	**12/31/2020**
Workpaper:	**1004f - Bank Proposed Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries JE # 1		**A-5**		
To reverse prior year unrecorded liabilities.				
30160	RETAINED EARNINGS		25,573.00	
47140	MISC INCOME			25,573.00
Total			**25,573.00**	**25,573.00**

Per discussion with management, both management and FHK have determined amounts are immaterial in the aggregate and individually, pass further adjustment.

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2020 Internal Control Related Matters

To the Board of Directors and Management
R Corp Financial and Subsidiary

In planning and performing our audit of the consolidated financial statements of R Corp Financial and Subsidiary (the "Company") as of and for the year ended December 31, 2020, in accordance with U.S. generally accepted auditing standards, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. During the course of our audit, Fisher, Herbst & Kemble ("FHK") noted no material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

While not rising to the level of material weakness, we became aware of the following deficiencies in internal control or other matters that present opportunities for strengthening internal controls and/or operating efficiency:

- The Company issues stock options as a benefit to employees and Board members. The calculation of fair value utilizes a volatility factor of 10%. There is currently no support for that volatility factor. We recommend management evaluate and document the current volatility factor used by the Company.

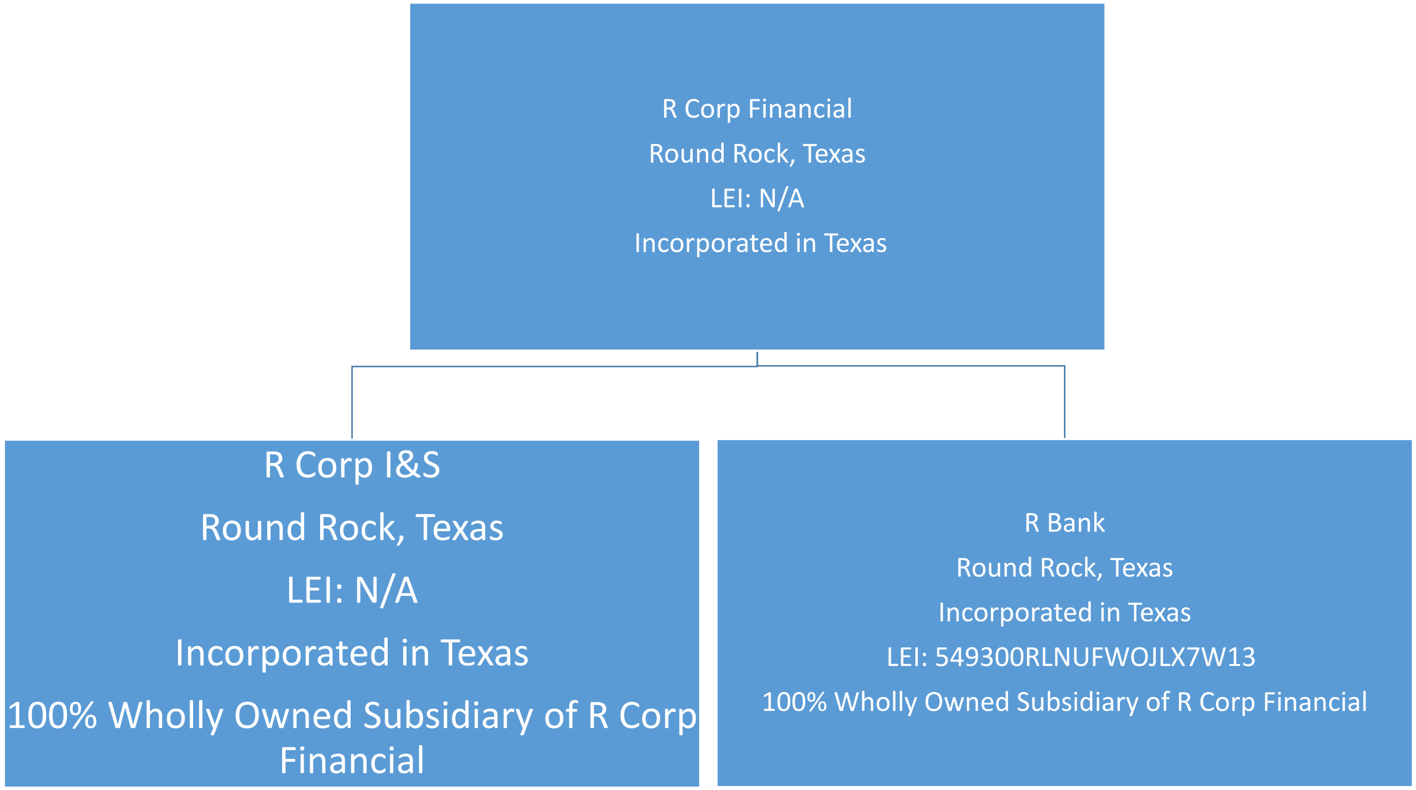
This report is intended solely for the information and use of the audit committee, board of directors, regulators, and management of R Corp Financial and Subsidiary and is not intended to be, and should not be, used by anyone other than these specified parties.

Fisher, Herbst + Kemble, P.C.

San Antonio, Texas
March 25, 2021

R Corp | R Bank
Subsidiaries

12.31.2020



Results: A list of branches for your depository institution: R BANK (ID_RSSD: 3821037).
This depository institution is held by R CORP FINANCIAL (4478027) of ROUND ROCK, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

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*	Comments
OK	3/17/2021	Full Service (Head Office)	3821037	R BANK	3600 EAST PALM VALLEY BOULEVARD	ROUND ROCK	TX	78665	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	3814477	HIGHWAY 29 BRANCH	360 E HIGHWAY 29	BERTRAM	TX	78605	BURNET	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	5509526	CEDAR PARK BANKING CENTER	190 EAST WHITESTONE BLVD	CEDAR PARK	TX	78613	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	4904517	EDNA BANKING CENTER	814 NORTH WELLS STREET	EDNA	TX	77957	JACKSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	5509517	FORT WORTH BANKING CENTER	3000 MONTGOMERY STREET SUITE 100	FORT WORTH	TX	76107	TARRANT	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	4412870	GEORGETOWN BRANCH	2415 WILLIAMS DRIVE	GEORGETOWN	TX	78628-3247	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	3467574	JARRELL BANKING CENTER	50 W FM 487	JARRELL	TX	76537	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	4495239	ROLLINGWOOD BRANCH	3103 BEE CAVE ROAD SUITE 110	ROLLINGWOOD	TX	78746	TRAVIS	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	4803423	ROUND ROCK BANKING CENTER	1900 ROUND ROCK AVENUE	ROUND ROCK	TX	78681	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	
OK	3/17/2021	Full Service	582766	SCHWERTNER BANKING CENTER	110 MAIN STREET	SCHWERTNER	TX	76573	WILLIAMSON	UNITED STATES	Not Required	Not Required	R BANK	3821037	

Form FR Y-6 | R Corp Financial Round Rock, Texas | Fiscal Year December 31 2020

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

Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020

Name & Address (1)(A)	Additonal Information	Country (1)(B)	Number of Shares	Number of Shares held	Warrants Available for	Stock Options Available for	Total Shares Owned	Total Available	Ownership	Name & Address (2)(a)	Country of Citizenship (2)(b)	Number & % of Ea. Class of Voting Security (2) (c)
Lynn Nolan Ryan| Georgetown Tx USA		USA	633,315	-	-	3,000	636,315	3,319,999	19.17%	N/A	N/A	N/A
Nolan Reese Ryan | Austin, Tx USA		USA	117,851	-	-	9,000	126,851	3,319,999	3.82%	N/A	N/A	N/A
Grace Lien Schlegel Trust	N Reese Ryan TTEE	USA	3,200	-	-	-	3,200	3,319,999	0.10%			
Nolan Montgomery Bivins Trust	N Reese Ryan TTEE	USA	14,988	-	-	-	14,988	3,319,999	0.45%			
Lela Teel Bivins Trust	N Reese Ryan TTEE	USA	14,987	-	-	-	14,987	3,319,999	0.45%			
Robert Reid Ryan | Houston, Tx USA		USA	118,995	-		6,000	124,995	3,319,999	3.76%	N/A	N/A	N/A
Andrew Bivins | Amarillo, Tx USA		USA	108,515	-		9,000	117,515	3,319,999	3.54%	N/A	N/A	N/A
Caroline Avery Ryan Trust	Wendi Bivins TTEE	USA	14,988	-	-	-	14,988	3,319,999	0.45%			
Ella Reese Ryan Trust	Wendi Bivins TTEE	USA	14,988	-	-	-	14,988	3,319,999	0.45%			
Jackson Ray Ryan Trust	Wendi Bivins TTEE	USA	14,988	-	-	-	14,988	3,319,999	0.45%			
Julia Elizabeth Ryan Trust	Wendi Bivins TTEE	USA	14,988	-	-	-	14,988	3,319,999	0.45%			
Victoria Lynn Ryan Trust	Wendi Bivins TTEE	USA	14,988	-	-	-	14,988	3,319,999	0.45%			
Total for Lynn Nolan Ryan Family			**1,086,791**		-	**27,000**	**1,113,791**		**33.55%**			
Don Sanders | Houston, Tx USA		**USA**	**90,000**	-	-	-	**90,000**	3,319,999	**2.71%**	N/A	N/A	N/A
Brad Sanders | Houston, Tx USA		USA	45,745	-	-	9,000	54,745	3,319,999	1.65%	N/A	N/A	N/A
Bret Sanders | Houston, Tx USA		USA	47,000	-	-	9,000	56,000	3,319,999	1.69%	N/A	N/A	N/A
Laura Sanders | San Francisco, CA USA		USA	45,545				45,545	3,319,999	1.37%			
Susan Sanders | Houston, Tx USA		USA	45,545	-	-		45,545	3,319,999	1.37%	N/A	N/A	N/A
Total for Sanders Family			**273,835**			**18,000**	**291,835**		**8.79%**			

Ownership percentages are based on the following as the denominator (3,319,999) when calculating ownership: 12/31/2020 shares outstanding of 3,205,123 and 12/31/2020 options outstanding of 114,816; for a total of 3,319,939 shares. This number assumes that all options have been exercised.

Form FR Y-6
R Corp Financial
Round Rock, Texas
Fiscal Year Ending December 31,2020

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

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with holding company	(3)(a) Title & Position with holding company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Nolan Reese Ryan Austin, TX, USA [1]	Business Manager | Large Corporation	Director, Chairman	Chairman, R Bank	Chairman & CEO of Nolan Ryan Brands	4.82% [1]	0.00%	Bivins Ryan Investment, LLC -33.0% | Shope & Ryan Management Inc - 33.0%
Steve Stapp** Round Rock, TX, USA	Banker	Director, President | CEO	President/CEO, R Bank	N/A	1.18%	0.00%	None
Lynn Nolan Ryan Georgetown, TX, USA	Retired professional baseball player	Director	None	Rancher, Cattle Business under the Nolan Ryan Ranch & Ryan Family Ranch Management LLC	19.17%	0.00%	FB Holdco, LLC 100.0000% LNR Enterprises Management LLC 50.0000% LNR Interests, Lp 100.0000% Nolan Ryan Ranch 100.0000% Round Rock Baseball, Inc 39.7000% RRE Holdings, Inc 29.2500% RRE Investors, Lp 29.2400% Ryan Family Ranch Management, LLC 50.0000% Ryan Family Ranch Investments, LP 49.5000% Ryan's Dry Creek Ranch 50.0000%
Robert Reid Ryan Houston, TX USA	Business Manager | Large Corporation	Director	None	CEO Round Rock Express	3.76%	0.00%	Bivins Ryan Investment, LLC -33.0% | Shope & Ryan Management Inc - 33.0%
Temple Aday** Round Rock, TX USA	Commercial contractor	Director	None	CEO, Aday and Associates - Construction	1.60%	0.00%	Aday & Associates - 100% | Lone Oak Barn 100% AMAA Investments - 100% | Aquatech Waterproofing -50%
Malvin Green** Georgetown, TX, USA	Retired banker	Director	None	N/A	0.63%	0.00%	None
Chris Ellis Austin, TX, USA	Commercial Real Estate Development	Director	None	Founding Principal - Endeavor Real Estate	2.03% (1)	0.00%	1346 Thorpe Lane Ltd 28.8756% 3904 Waters Edge Ltd 48.4200% 4200 Rivercrest LLC 50.0% , CE Cabo A202Ltd 100%, CE Cabo A206Ltd 100%, CEWY Ltd 100%, ERG AS Woodland Holdings Ltd 31.0182%, ERG Humpty Dumpty Holdings Ltd 45.25%, ERG PA Investors 28.57% , Fall Creek Ventures Ltd 50% Burnet Montview Partners LTd. 27.2470%, ERG AS BEe Cave Holdings Ltd 27.77%,
Andrew Bivins Amarillo, TX, USA	Rancher	Director	None	JA Cattle Company Ltd. - Managing Partner	3.54%	0.00%	Bivins Ryan Investment, LLC -33.0%
Jared Shope Fort Worth, TX, USA	Entreprenuer, Real Estate Development - Self Employed	Director	None	Partner, Lone Star Bean	2.22%	0.00%	2SP Partners, LLC 33.0000% Bluebonnet Management, LLC 33.0000% Foch St. Partners, LLC 33.0000% Purple Investments, LLC 25.0000% Shope & Ryan Management Inc 33.0000% TF Clothing LLC 50%, CE Oklahoma LLC 33%, Hulen CE LLC 33%, Abulene CE 33%, Three Cheese Guys, LLC 33%, Mopac Management LLC 33%, Mopac Plaza LLC 33%
Rob Bridges** Austin, TX, USA	Insurance Agent	Director	None	Partner, Wortham Insurance	0.53%	0.00%	CCR Investments - 33%
Brad Sanders Houston, TX, USA	Entreprenuer, Restaurantuer	Director	None	N/A	1.65%	0.00%	None
Bret Sanders Houston, TX, USA	Investment Banker	Director	None	Director of NASDAQ trading - Sanders Morris Harris	1.69%	0.00%	None
Richard Stuart II Weatherford, TX, USA	Entreprenuer, Restaurantuer	Director	None	N/A	3.23%	0.00%	Stuart Family Holdings, LLC 100.00%, 2SP Partners, LLC 33.0000% Bluebonnet Management, LLC 33.0000% Foch St. Partners, LLC 33.0000% RLS II Properties Management, Inc 100.0000% Weatherford Chicken Express, LLC 100.0000% Stuart Group Inc 50.0% Pollo Hermanos LLC, 100.00% CE Oklahoma LLC 33% Hulen CE LLC 33% Abilene CE LLC 33% Three Cheese Guys LLC 33% Mopac Management LLC 33% Mopac Plaza 33% RNS Properties INc 50%
Chris Bubela** Edna, TX, USA	Banker	Executive Officer, R Corp Financial	Chief Lending Officer, R Bank	N/A	0.39%	0.00%	None
Judy Kirkland La Grange, TX USA	Banker	Executive Officer, R Corp Financial	Audit Manager, R Bank	N/A	0.06%	0.00%	None
Mike Shaw Austin, TX, USA	Banker	Executive Officer, R Corp Financial	Chief Credit Officer, R Bank	N/A	0.20%	0.00%	None
Mark Kesselring** Round Rock, TX, USA	Banker	Officer, R Corp Financial	SVP, IT/Facilities R Bank	N/A	0.03%	0.00%	None
Shonnie Stapp** Round Rock, TX, USA	Banker	Officer, R Corp Financial	VP, Mortgage Lending R Bank	N/A	0.00%	0.00%	None

Marcus R Bone, Leander, TX, USA	Banker	Executive Officer, R Corp Financial	Chief Financial Officer, R Bank	N/A	0.00%	0.00%	None
William K Reagan II Austin, TX, USA	Sales	Advisory Director R Corp Financial	None	President Reagan Advertising	0.50%	0.00%	None
Josh Galatzan Austin, TX, USA	Banker	Advisory Director R Corp Financial	None	N/A	0.11%	0.00%	None
Scott Carr Austin, TX, USA	Commercial Real Estate Development	Advisory Director R Corp Financial	None	President Carr Development	0.55%	0.00%	None
Brian Fell Austin, TX, USA	Optometrist	Advisory Director R Corp Financial	None	N/A	0.16%	0.00%	None
Wendi Bivins Amarillo, Tx USA	Principal Security Holder	Principal Securities Holder	N/A	N/A	2.25%	0.00%	None
Steven Stinson Georgetown, Tx USA	Banker	Executive Officer, R Corp Financial	Chief Operations Officer, R Bank	N/A	0.01%	0.00%	None

Notes:
Ownership percentages are based on the following as the denominator (3,319,999) when calculating ownership: 12/31/2020 shares outstanding of 3,205,123 and 12/31/2020 options outstanding of 114,816; for a total of 3,319,939 shares. This number assumes that all options have been exercised. **Indicates that some (or all) of shares owned are jointly held with spouse (1) Percentage includes power to vote or influence vote