

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)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. 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 and top-tier savings and loan 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.

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

December 31, 2015

Month / Day / Year

NA

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

I, **Ford Sasser**

Name of the Holding Company Director and Official

President & CEO

Title of the Holding Company Director and Official

Reporter's Name, Street, and Mailing Address

Rio Financial Services, Inc

Legal Title of Holding Company

P O Box 4169

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

McAllen

TN

78501

City

State

Zip Code

1655 N. 23rd Street, McAllen, Texas 78501

Physical Location (if different from mailing address)

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.

Person to whom questions about this report should be directed:

Catherine Gorsman

Vice President

Name

Title

956-878-1460

Area Code / Phone Number / Extension

956-878-1760

Area Code / FAX Number

c.grossman@riobk.com

E-mail Address

www.riobk.com

Address (URL) for the Holding Company's web page

Signature of Holding Company Director and Official

01/20/2016

Date of Signature

For holding companies *not* registered with the SEC—

Indicate status of Annual Report to Shareholders:

- 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.

3193033

Does the reporter request confidential treatment for any portion of this submission?

Yes Please identify the report items to which this request applies:

- In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
- The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

No

Report Item 2a: Organization Chart

RIO FINANCIAL SERVICES, INC

McAllen, Texas

Incorporated in State of Texas

100% owner of

RIO BANK

McALLEN, TEXAS

Incorporated in State of Texas

RIO FINANCIAL HOLDINGS, INC

McAllen, TEXAS

Incorporated in State of Texas

Directors of Rio Financial Services, Inc and Rio Bank

A Ford Sasser, III President & CEO

Cayetano Barrera Chairman of the Board A Ford Sasser, III

Cayetano Barrera Chairman of the Board

Stuart Sasser Director

Trebes Sasser Director

Baldomero Vela, Jr Director

Daniel Vela Director

Ed Zinsmeister Director

Catherine Grossman Advisory Director, V P /Treasurer

Craig Lewis Advisory Director

Brian Humphreys Advisory Director

Nela Vela Secretary

Directors of Rio Financial Holding

President & CEO/Secretary/Treasurer

No entity has a legal entity identifier

Results: A list of branches for your holding company: RIO FINANCIAL SERVICES, INC. (B1993033) of MCALLEN, TX. The data are as of 12/31/2015. Data reflects information that was received and processed through 04/05/2016.

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	Country	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	956750	RIO BANK	1655 NORTH 23RD STREET	MCALLEN	TX	78501-673	HIDALGO	UNITED STATES	32129		0	RIO BANK	956750
OK		Full Service	3542257	BROWNSVILLE BRANCH	3401 OLD HIGHWAY 77	BROWNSVILLE	TX	78520	CAMERON	UNITED STATES	447004		4	RIO BANK	956750
OK		Full Service	3982620	HIGHWAY 77 BRANCH	3401 OLD HIGHWAY 77	BROWNSVILLE	TX	78520-913	CAMERON	UNITED STATES	Not Required	Not Required		RIO BANK	956750
OK		Full Service	4520757	HARLINGEN BRANCH	601 SOUTH STUART PLACE ROAD	HARLINGEN	TX	78552	CAMERON	UNITED STATES	540377		7	RIO BANK	956750
OK		Full Service	3657133	JACKSON AVENUE BRANCH	720 EAST JACKSON AVENUE	MCALLEN	TX	78501-114	HIDALGO	UNITED STATES	470262		5	RIO BANK	956750
OK		Full Service	2991344	NORTH MCALLEN BRANCH	4120 NORTH MCCOLL ROAD	MCALLEN	TX	78504	HIDALGO	UNITED STATES	258371		1	RIO BANK	956750
OK		Full Service	3542266	PALMVIEW BANKING CENTER	401 NORTH BENTSEN PALM DRIVE	MISSION	TX	78572	HIDALGO	UNITED STATES	365230		3	RIO BANK	956750
OK		Full Service	3542275	SAN JUAN BRANCH	401 WEST STATE HIGHWAY 495	SAN JUAN	TX	78589	HIDALGO	UNITED STATES	363562		2	RIO BANK	956750
OK		Full Service	3962408	WESLACO BRANCH	1000 N WESTGATE DRIVE	WESLACO	TX	78596	HIDALGO	UNITED STATES	493973		6	RIO BANK	956750

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Report Item 3 (1): Shareholders

Current Shareholders with ownership, control or holding of 5% or more with power to vote as of December 31, 2015.

(1)(a) Name & Address (City, State, Country)	(1)(b) Country or Citizenship or Incorporation	(1)(c) Number and Percentage Each Class of Voting Securities
Cayetano & Yolanda Barrera Living Trust, Cayetano & Yolanda Barrera Trustees McAllen, Texas	USA	90,895 - 6.51% Common
C & Y Barrera LTD Cayetano and Yolanda Barrera, Trustees McAllen, Texas		27,276 - 1.95% Common
Yolanda Barrera wife of Cayetano Barrera McAllen, Texas		426 - 0.03% Common
A. Ford Sasser McAllen, Texas	USA	128,536 - 9.20% Common
Rio ESOP for the benefit Ford Sasser, III IRA		37,308 - 2.67% Common (voted by Ford Sasser)
Rio Bank ESOP Plan McAllen, Texas	USA	65,074 - 4.66% Common (voted by Ford Sasser)

Form FR Y-6
Rio Financial Services, Inc
Fiscal Year Ending December 31, 2015

AMENDED
AUG 26 2016

M. Stuart Sasser Corpus Christi, Texas	USA	69,960 -5.01% Common
Keleigh D. Hughes Sasser - wife of M. Stuart Sasser Heritage Trust		12,000 - 0.86% Common (wife)
Vela's Next Generation, LTD Daniel D Vela McAllen, Texas	USA	113,719 -8.14% Common 2,400 -0.17% Common

Form FR Y-6
Rio Financial Services, Inc.
Fiscal Year Ending December 31, 2015

Report Item 3 (2): Shareholders not listed in 3(1) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending December 31-2015.

NONE

Report Item 4: Insiders

Name & Address/Country Principal occupation Title/Position

- (a) the bank holding company
- (b) direct and indirect subsidiaries of the bank holding company
- (c) any other company, if 25 % or more of its outstanding voting securities or proportionate interest in a partnership are held.

Ford Sasser McAllen, Texas/USA	Banker	<ul style="list-style-type: none"> (a) President, CEO, Director Rio Financial Services, Inc. (b) President, CEO, Director Rio Bank (c) LEAF Investments, LLC, ownership 100% (c) Dos Jardines Ltd, ownership 50% (c) 23rd and Pecan Ltd, ownership 100% (c) Ringold Circle, Ltd, ownership 100% (c) Gusta Ltd, ownership 66.67% (c) Sasser Ranches, LLC, ownership 33.33% 	11.87%
Catherine Grossman McAllen, Texas/USA	Banker	<ul style="list-style-type: none"> (a) Advisory Director / Treasurer Rio Financial Services, Inc (b) Exec Vice President / CFO Rio Bank (c) None 	0.00%
Brian Humphreys, Jr McAllen, Texas/USA	Banker	<ul style="list-style-type: none"> (a) Advisory Director Rio Financial Services, Inc. (b) Exec Vice President/Chief Lending Officer Rio Bank (c) None 	0.00%

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 Rio Financial Services, Inc.
 Fiscal Year Ending December 31, 2015

Craig Lewis McAllen, Texas USA	Banker	(a) Advisory Director Rio Financial Services, Inc (b) Exec Vice President/Cashier Rio Bank (c) None	0.23%
Ed Zinsmesiter McAllen, Texas/USA	Banker	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c) None	1.33%
Cayetano Barrera McAllen, Texas/USA	Physician	(a) Director / Chairman of the Board Rio Financial Services, Inc (b) Director & Chairman of the Board Rio Bank	8.46% (1)
Yolanda Barrera McAllen, Texas/USA	Spouse	(a) Spouse to Director of Rio Financial Services, Inc	0.03%
Marcus Barrera McAllen, Texas/USA	Attorney	(a) Child to Director of Rio Financial Services, Inc	0.09%
Victoria Barrera Cappadona McAllen, Texas/USA	Child	(a) Child to Director of Rio Financial Services, Inc	0.09%

AMENDED
AUG 26 2016

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 Fiscal Year Ending December 31, 2015

C. Trebes Sasser San Antonio, Texas/USA	Real Estate	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c) Sasser Ranches, LLC, ownership 33.33%	3.81%
Caroline Sasser Dallas, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.13%
Elise Sasser Houston, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.13%
Ford Campbell Sasser San Antonio, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.13%
Charles Sasser, Jr San Antonio, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.13%
Stuart Sasser Corpus Christi, Texas/USA	Rancher	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c) Sasser Ranches, LLC, ownership 33.33%	5.01%
Keleigh Hughes Sasser, Heritage Trust Corpus Christi, Texas/USA	Spouse	(a) Spouse of Director of Rio Financial Services, Inc	0.86%
Kristen Leigh Sasser 2000 Trust Corpus Christi, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	1.31%
Michael Ford Sasser 2000 Trust Corpus Christi, Texas USA	Child	(a) Child of Director of Rio Financial Services, Inc	1.31%
Milton Sasser, Jr 2000 Trust Corpus Christi, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	1.31%

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 Fiscal Year Ending December 31, 2015

AMENDED
 AUG 26 2016

Baldomero Vela McAllen, Texas/USA	Pharmacist	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c) Owner Lee's Pharmacy	4.03%
Angela Vela McAllen, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.02%
Victoria Vela McAllen, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.02%
Baldomero Vela, III McAllen, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.03%
Daniel D. Vela Vela's Next Generation LTD, Daniel Vela Principal McAllen, Texas/USA	Pharmacist	(a) Director Rio Financial Services, Inc (b) Director Rio Bank (c) Owner Lee's Pharmacy	0.17% 8.18%
Daniel A Vela McAllen, Texas/USA		(a) Child of Director or Rio Financial Services, Inc	0.34%
Andres Vela McAllen, Texas/USA		(a) Child of Director of Rio Financial Services, Inc	0.34%
Daniel D. Vela, Custodian of Angelina Vela McAllen, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.34%
Daniel D. Vela, Custodian of Ileana Vela McAllen, Texas/USA	Child	(a) Child of Director of Rio Financial Services, Inc	0.34%

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 Rio Financial Services, Inc.
 Fiscal Year Ending December 31, 2015

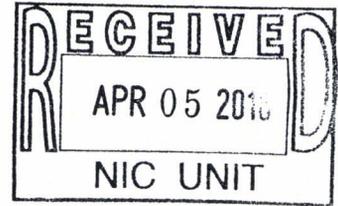


D & M Nelson LTD		(a) Principal shareholder Rio Financial Services, Inc	4.15%
Tiana Scruggs	Child	(a) Principal of D & M Nelson, LTD	2.68%
Linda Rowland	Child	(a) Principal of D & M Nelson, LTD	2.18%
McAllen, Texas/USA			
Marianela Vela	Banker	(a) Secretary to the Board Rio Financial Services, Inc	0%
McAllen, Texas/USA		(b) Secretary to the Board Rio Bank Vice President Rio Bank	
(1)Cayetano E Barrera & Yolanda G Barrera co trustees of the Cayetano E and Yolanda G Barrera Living Trust			6.51%
C & Y Barrera, LTD			1.95%



Your Kind of Bank.
Your Kind of Banker.

3193033



March 25, 2016

Federal Reserve Bank of Dallas
Banking Supervision Department
P O Box 655906
Dallas, Texas 75265-5906

To Whom It May Concern:

I am enclosing our annual report to our shareholders. This was not included when we filed the FRY-6 report for the period ending December 31, 2015.

If you have any questions, please contact me @956-878-1460. Thank you.

Respectfully,

A handwritten signature in blue ink that reads "Catherine Grossman". The signature is written in a cursive style.

Catherine Grossman
Vice President/Treasurer

**Rio Financial Services, Inc.
and Subsidiaries**

Annual Financial Report

December 31, 2015 and 2014

Rio Financial Services, Inc. and Subsidiaries

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Padgett Stratemann

Independent Auditor's Report

To the Board of Directors
and Stockholders
Rio Financial Services, Inc.
McAllen, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Rio Financial Services, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100
HOUSTON, TEXAS 77056
713 335 8630

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rio Financial Services, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Padgett, Statemann + Co., L.L.P.

San Antonio, Texas
March 16, 2016

Rio Financial Services, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2015 and 2014

(Dollars in Thousands, Except Share Data)

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 7,023	\$ 6,519
Interest-bearing deposits in banks	11,020	10,495
Securities available for sale	60,186	65,422
Restricted investment securities	411	1,094
Loans – net of allowance for loan losses of \$2,531 (\$2,490 in 2014)	174,931	160,614
Bank premises and equipment – net	13,756	11,684
Accrued interest receivable	1,370	1,293
Other real estate owned – net	452	817
Prepaid expenses and other assets	5,203	5,045
Total assets	\$ <u>274,352</u>	\$ <u>262,983</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 82,016	\$ 60,073
Interest-bearing	161,188	167,227
Total deposits	243,204	227,300
Federal Home Loan Bank advances	4,000	11,000
Long-term debt	1,750	2,000
Accrued interest payable and other liabilities	583	482
Total liabilities	249,537	240,782
Commitments and contingencies (notes 6, 9, 11, and 13)		
Stockholders' Equity		
Preferred stock – \$0.01 par value; 2,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock – \$0.01 par value; 10,000,000 shares authorized; 1,396,691 shares issued and 1,256,851 shares outstanding (1,366,211 shares issued and 1,249,746 shares outstanding in 2014)	14	14
Surplus	13,809	13,366
Retained earnings	13,778	11,099
Treasury stock – 139,840 shares at cost (116,465 shares in 2014)	(2,978)	(2,481)
Accumulated other comprehensive income	192	203
Total stockholders' equity	24,815	22,201
Total liabilities and stockholders' equity	\$ <u>274,352</u>	\$ <u>262,983</u>

Notes to the consolidated financial statements form an integral part of these statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014

(Dollars in Thousands, Except Share Data)

	<u>2015</u>	<u>2014</u>
Interest income:		
Loans – including fees	\$ 11,824	\$ 11,289
Securities available for sale	1,313	1,256
Interest-bearing deposits in banks	68	51
Total interest income	<u>13,205</u>	<u>12,596</u>
Interest expense:		
Deposits	1,116	1,123
Borrowings	45	17
Long-term debt	125	89
Total interest expense	<u>1,286</u>	<u>1,229</u>
Net interest income	11,919	11,367
Provision for loan losses	192	350
Net interest income after provision for loan losses	<u>11,727</u>	<u>11,017</u>
Noninterest income:		
Service charges and fees	1,407	1,355
Net gains (losses) on sales of assets and other real estate owned	22	(120)
Other income	1,644	1,206
Total noninterest income	<u>3,073</u>	<u>2,441</u>
Noninterest expense:		
Salaries and employee benefits	5,566	5,301
Occupancy and equipment expenses	2,357	2,214
Net write-down of other real estate owned	263	65
Other operating expenses	2,818	2,784
Total noninterest expense	<u>11,004</u>	<u>10,364</u>
Income before federal income taxes	3,796	3,094
Federal income tax expense	1,117	886
Net income	<u>\$ 2,679</u>	<u>\$ 2,208</u>
Earnings per share of common stock:		
Basic	<u>\$ 2.14</u>	<u>\$ 1.66</u>
Diluted	<u>\$ 2.11</u>	<u>\$ 1.63</u>

Notes to the consolidated financial statements form an integral part of these statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014

(Dollars in Thousands)

	<u>2015</u>	<u>2014</u>
Net income	\$ <u>2,679</u>	\$ <u>2,208</u>
Other items of comprehensive income (loss):		
Unrealized holding gain (loss) on securities available for sale	<u>(17)</u>	<u>732</u>
Total other items of comprehensive income (loss)	<u>(17)</u>	<u>732</u>
Comprehensive income before income tax expense (benefit)	<u>2,662</u>	<u>2,940</u>
Income tax expense (benefit) related to other items of comprehensive income (loss):		
Unrealized holding gain (loss) on securities available for sale	<u>6</u>	<u>(249)</u>
	<u>6</u>	<u>(249)</u>
Comprehensive income after income tax expense (benefit)	<u>\$ 2,668</u>	<u>\$ 2,691</u>

Notes to the consolidated financial statements form an integral part of these statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	\$ -	\$ 11	\$ 13,030	\$ 8,893	\$ (1,779)	\$ (280)	\$ 19,875
Common stock issued and sold	-	1	298	-	-	-	299
Stock-based compensation expense	-	-	38	-	-	-	38
Net income – year ended December 31, 2014	-	-	-	2,208	-	-	2,208
Change in other comprehensive income – net of tax	-	-	-	-	-	483	483
Stock split effected as stock dividend	-	2	-	(2)	-	-	-
Purchase of treasury stock	-	-	-	-	(702)	-	(702)
Balance at December 31, 2014	-	14	13,366	11,099	(2,481)	203	22,201
Common stock issued and sold	-	-	363	-	125	-	488
Stock-based compensation expense	-	-	80	-	-	-	80
Net income – year ended December 31, 2015	-	-	-	2,679	-	-	2,679
Change in other comprehensive income – net of tax	-	-	-	-	-	(11)	(11)
Purchase of treasury stock	-	-	-	-	(622)	-	(622)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ 13,809</u>	<u>\$ 13,778</u>	<u>\$ (2,978)</u>	<u>\$ 192</u>	<u>\$ 24,815</u>

Notes to the consolidated financial statements form an integral part of these statements.

Rio Financial Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

(Dollars in Thousands)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Net income	\$ 2,679	\$ 2,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	890	1,030
Provision for loan losses	192	350
Stock-based compensation expense	80	38
Deferred income tax expense (benefit)	(169)	26
Net amortization/accretion of investment security premiums and discounts	635	559
Net (gains) losses on sales of assets and other real estate owned	(22)	120
Net write-down of other real estate owned	263	65
Net change in:		
Accrued interest receivable and prepaid expenses and other assets	(235)	(1,845)
Accrued interest payable and other liabilities	159	1
	<u>4,472</u>	<u>2,552</u>
Cash Flows From Investing Activities		
Net change in loans	(14,457)	(10,888)
Net change in interest-bearing deposits	(525)	(5,145)
Proceeds from payments and maturities of restricted investment securities	684	127
Purchases of restricted investment securities	(1)	(457)
Proceeds from payments and maturities of investment securities	8,999	6,423
Purchases of investment securities	(4,415)	(23,060)
Capital expenditures	(2,973)	(402)
Proceeds from sales of depreciable assets	26	1,190
Proceeds from sales of other real estate owned	174	2,334
	<u>(12,488)</u>	<u>(29,878)</u>
Cash Flows From Financing Activities		
Net change in:		
Deposits	15,904	19,345
Federal Home Loan Bank advances	(7,000)	8,000
Payments on long-term debt	(250)	1,000
Proceeds from common stock issued	488	299
Purchase of treasury stock	(622)	(702)
	<u>8,520</u>	<u>27,942</u>
Net increase in cash and cash equivalents	504	616
Cash and cash equivalents at beginning of year	<u>6,519</u>	<u>5,903</u>
Cash and cash equivalents at end of year	<u>\$ 7,023</u>	<u>\$ 6,519</u>
Schedules of Other Cash Flow Information		
Interest paid	<u>\$ 1,205</u>	<u>\$ 1,244</u>
Income taxes paid	<u>\$ 1,150</u>	<u>\$ 820</u>
Schedules of Noncash Activities		
Other assets acquired by foreclosure on loans	<u>\$ 166</u>	<u>\$ 1,440</u>

Notes to the consolidated financial statements form an integral part of these statements.

Rio Financial Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Consolidation

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

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its main office and branches in the Rio Grande Valley cities of McAllen, Brownsville, Palmview, San Juan, Harlingen, and Weslaco, Texas. Its primary deposit products are money market accounts, and its primary lending products are real estate loans.

Use of Estimates

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

New and Recently Issued Accounting Standards

Accounting Standards Update (“ASU”) No. 2014-09, Revenue From Contracts With Customers – ASU No. 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will be effective for public business entities in 2018 and nonpublic business entities in 2019. The Company will be evaluating the potential impact, if any, of this new ASU on its consolidated financial statements.

ASU No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Liabilities – ASU No. 2016-01 is designed to improve the recognition and measurement of financial instruments through targeted changes to existing accounting standards. The new standard will require equity investments (except those that are accounted for under the equity method of accounting or result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It also will require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the consolidated balance sheet or the accompanying notes to the consolidated financial statements. It also eliminates the requirement to

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disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities. The provisions of ASU No. 2016-01 will be effective for public entities in 2018 and nonpublic entities in 2019; however, early adoption upon issuance of the update was allowed for the provision that exempts private companies from having to disclose fair value information about financial instruments measured at amortized cost. Accordingly, the Company has eliminated the disclosures of fair values of financial instruments measured at cost for the year ended December 31, 2015. The Company does not anticipate the adoption of the remaining provisions of this standard will have a material impact on its consolidated financial statements in future years.

ASU No. 2016-02, Leases – The guidance in ASU No. 2016-02 supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for fiscal years beginning after December 15, 2018 for public entities and 2019 for nonpublic entities. The Company is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Hidalgo County and surrounding areas. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. Real estate loans represented 66% and 62% of the total portfolio at December 31, 2015 and 2014, respectively.

Interest-Bearing Deposits in Banks

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

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2015 and 2014, the Company had no securities classified as trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method through the maturity or call date of the securities, whichever is earlier. Gains and losses on the 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

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than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery.

Restricted Investment Securities

Restricted investment securities include Federal Home Loan Bank (“FHLB”) stock and The Independent Bankers Bank stock, which are carried at cost on the consolidated balance sheets. These equity securities are “restricted” in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. 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.

Loans

The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans throughout the Rio Grande Valley. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral.

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

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

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

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

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

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

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

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

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

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and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses

The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with the 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 has an external loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

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

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on straight-line and accelerated methods over the estimated useful lives of the assets. The estimated useful lives range from 1 to 40 years.

Other Real Estate Owned – Foreclosed Assets

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

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Notes to the Consolidated Financial Statements

Transfers of Financial Assets

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

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and noncurrent based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company is subject to the Texas gross margin tax.

Earnings Per Common Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and are determined using the treasury stock method. The average number of common shares outstanding is 1,253,699 and 1,332,732 at December 31, 2015 and 2014, respectively. As the result of dilutive options, the average number of common shares outstanding used to calculate diluted earnings per common share is 1,268,963 and 1,356,315 at December 31, 2015 and 2014, respectively.

Stock Option Plan

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

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Off-Balance Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of unfunded commitments under lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, and federal funds sold.

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.

Subsequent Events

The Company has evaluated subsequent events through March 16, 2016, the date the consolidated financial statements were available to be issued.

Reclassification

Certain reclassifications have been made in the prior year's consolidated financial statements to confirm with the current year's presentation.

2. Fair Value Measurements

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

The ASC guidance establishes a fair value hierarchy for valuation 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.

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- 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.

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

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

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.

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Notes to the Consolidated Financial Statements

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, 2015 and 2014, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Total Fair Value Measurement at December 31, 2015	Level 1	Level 2	Level 3
Assets:				
State and municipal securities	\$ 19,770	\$ -	\$ 19,770	\$ -
Mortgage-backed securities	<u>40,416</u>	<u>-</u>	<u>40,416</u>	<u>-</u>
	<u>\$ 60,186</u>	<u>\$ -</u>	<u>\$ 60,186</u>	<u>\$ -</u>
	Total Fair Value Measurement at December 31, 2014	Level 1	Level 2	Level 3
Assets:				
State and municipal securities	\$ 19,938	\$ -	\$ 19,938	\$ -
Mortgage-backed securities	<u>45,484</u>	<u>-</u>	<u>45,484</u>	<u>-</u>
	<u>\$ 65,422</u>	<u>\$ -</u>	<u>\$ 65,422</u>	<u>\$ -</u>

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 on the following page.

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

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The following table summarizes assets with fair value changes during the years ended December 31, 2015 and 2014 that are measured at fair value by class on a nonrecurring basis, as follows (dollars in thousands):

	Total Fair Value Measurement at December 31, 2015	Level 1	Level 2	Level 3
Assets – foreclosed assets	\$ 452	\$ -	\$ 452	\$ -

	Total Fair Value Measurement at December 31, 2014	Level 1	Level 2	Level 3
Assets – foreclosed assets	\$ 715	\$ -	\$ 715	\$ -

3. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances of cash and due from banks on hand. At December 31, 2015, these reserve balances amounted to approximately \$2.2 million (approximately \$1.7 million in 2014).

4. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2015				
State and municipal securities	\$ 19,510	\$ 293	\$ 33	\$ 19,770
Mortgage-backed securities	<u>40,385</u>	<u>324</u>	<u>293</u>	<u>40,416</u>
	<u>\$ 59,895</u>	<u>\$ 617</u>	<u>\$ 326</u>	<u>\$ 60,186</u>
Securities Available for Sale at December 31, 2014				
State and municipal securities	\$ 19,865	\$ 210	\$ 137	\$ 19,938
Mortgage-backed securities	<u>45,248</u>	<u>471</u>	<u>235</u>	<u>45,484</u>
	<u>\$ 65,113</u>	<u>\$ 681</u>	<u>\$ 372</u>	<u>\$ 65,422</u>

There were no securities to be held to maturity at December 31, 2015 and 2014.

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Investment securities carried at approximately \$626 thousand and \$6.1 million at December 31, 2015 and 2014, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

The amortized cost and fair value of available-for-sale securities by contractual maturity at December 31, 2015 were as follows (dollars in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Securities available for sale:		
Within one year	\$ 301	\$ 302
After one year through five years	2,700	2,714
After five years through ten years	4,051	4,114
Over ten years	<u>12,458</u>	<u>12,640</u>
	19,510	19,770
Mortgage-backed securities	<u>40,385</u>	<u>40,416</u>
	<u>\$ 59,895</u>	<u>\$ 60,186</u>

There were no sales of securities available for sale during the years ended December 31, 2015 and 2014.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014 aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (dollars in thousands):

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
Securities Available for Sale at December 31, 2015						
State and municipal securities	\$ 2,921	\$ 9	\$ 2,890	\$ 24	\$ 5,811	\$ 33
Mortgage-backed securities	<u>15,667</u>	<u>92</u>	<u>7,134</u>	<u>201</u>	<u>22,801</u>	<u>293</u>
	<u>\$ 18,588</u>	<u>\$ 101</u>	<u>\$ 10,024</u>	<u>\$ 225</u>	<u>\$ 28,612</u>	<u>\$ 326</u>
Securities Available for Sale at December 31, 2014						
State and municipal securities	\$ 5,430	\$ 74	\$ 3,174	\$ 63	\$ 8,604	\$ 137
Mortgage-backed securities	<u>7,953</u>	<u>18</u>	<u>11,483</u>	<u>217</u>	<u>19,436</u>	<u>235</u>
	<u>\$ 13,383</u>	<u>\$ 92</u>	<u>\$ 14,657</u>	<u>\$ 280</u>	<u>\$ 28,040</u>	<u>\$ 372</u>

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Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery. Declines in the fair value of held-to-maturity and available-for-sale securities below their amortized cost basis that are deemed to be other than temporary are carried at fair value. Any portion of a decline in value associated with credit loss is recognized in earnings as realized losses. As of December 31, 2015 and 2014, the Company did not have any securities with other-than-temporary impairment.

The unrealized losses on investments in state and municipal securities and mortgage-backed securities were primarily driven by changes in interest rates. The contractual cash flows are guaranteed by a government agency or a government-sponsored agency. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not anticipated that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

5. Loans and Allowance for Loan Losses

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

	December 31,	
	2015	2014
Commercial	\$ 56,476	\$ 57,434
Real estate	117,080	101,444
Consumer and other	3,906	4,226
	<u>177,462</u>	<u>163,104</u>
Allowance for loan losses	2,531	2,490
	<u>\$ 174,931</u>	<u>\$ 160,614</u>

During the year ended December 31, 2015, the Company purchased loans from other nonrelated banks amounting to approximately \$730 thousand, and sold loans to nonrelated banks amounting to approximately \$3.4 million. During the year ended December 31, 2014, the Company purchased loans from other nonrelated banks amounting to approximately \$2.6 million, and sold loans to nonrelated banks amounting to approximately \$250 thousand.

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

- Pass – loans to borrowers with acceptable credit quality and risk.
- Other Assets Especially Mentioned (“OAEM”) – loans to borrowers whose credit quality may have deteriorated since origination and are at risk of further decline unless measures are taken to correct the situation.
- Substandard – loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.
- Doubtful – loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2015 and 2014, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	<u>Pass</u>	<u>OAEM</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total Loans</u>
December 31, 2015					
Commercial	\$ 53,890	\$ 2,106	\$ 480	\$ -	\$ 56,476
Real estate	114,933	141	2,006	-	117,080
Consumer and other	<u>3,902</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>3,906</u>
	<u>\$ 172,725</u>	<u>\$ 2,247</u>	<u>\$ 2,490</u>	<u>\$ -</u>	<u>\$ 177,462</u>
December 31, 2014					
Commercial	\$ 55,944	\$ 824	\$ 663	\$ 3	\$ 57,434
Real estate	96,778	1,093	3,573	-	101,444
Consumer and other	<u>4,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,226</u>
	<u>\$ 156,948</u>	<u>\$ 1,917</u>	<u>\$ 4,236</u>	<u>\$ 3</u>	<u>\$ 163,104</u>

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An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2015 and 2014 is as follows (dollars in thousands):

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2015						
Commercial	\$ 63	\$ 20	\$ 83	\$ 56,393	\$ 56,476	\$ 20
Real estate	905	13	918	116,162	117,080	13
Consumer and other	15	-	15	3,891	3,906	-
	<u>\$ 983</u>	<u>\$ 33</u>	<u>\$ 1,016</u>	<u>\$ 176,446</u>	<u>\$ 177,462</u>	<u>\$ 33</u>
December 31, 2014						
Commercial	\$ 122	\$ 34	\$ 156	\$ 57,278	\$ 57,434	\$ 34
Real estate	1,442	49	1,491	99,953	101,444	49
Consumer and other	45	2	47	4,179	4,226	2
	<u>\$ 1,609</u>	<u>\$ 85</u>	<u>\$ 1,694</u>	<u>\$ 161,410</u>	<u>\$ 163,104</u>	<u>\$ 85</u>

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2015 and 2014 is as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2015					
Commercial	\$ 129	\$ 87	\$ 216	\$ 7	\$ 164
Real estate	641	705	1,346	106	1,690
	<u>\$ 770</u>	<u>\$ 792</u>	<u>\$ 1,562</u>	<u>\$ 113</u>	<u>\$ 1,854</u>
December 31, 2014					
Commercial	\$ 14	\$ 98	\$ 112	\$ 48	\$ 273
Real estate	992	1,042	2,034	282	1,598
	<u>\$ 1,006</u>	<u>\$ 1,140</u>	<u>\$ 2,146</u>	<u>\$ 330</u>	<u>\$ 1,871</u>

During the years ended December 31, 2015 and 2014, the Company did not recognize any significant interest income on impaired and nonaccrual loans.

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Notes to the Consolidated Financial Statements

Included in impaired and nonaccrual loans above are loans totaling approximately \$1.4 million at December 31, 2015 and 2014 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. As of December 31, 2015 and 2014, no loans that had been modified within the previous year had defaulted.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2015 and 2014 were as follows (dollars in thousands):

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer and Other</u>	<u>Total</u>
Year Ended December 31, 2015				
Balance at beginning of year	\$ 1,560	\$ 883	\$ 47	\$ 2,490
Provision (recovery) for loan losses	(131)	256	67	192
Charge-offs	(90)	(64)	(71)	(225)
Recoveries	<u>68</u>	<u>-</u>	<u>6</u>	<u>74</u>
Net charge-offs	<u>(22)</u>	<u>(64)</u>	<u>(65)</u>	<u>(151)</u>
Balance at end of year	<u>\$ 1,407</u>	<u>\$ 1,075</u>	<u>\$ 49</u>	<u>\$ 2,531</u>
Allocation:				
Individually evaluated for impairment	\$ 106	\$ 7	\$ 4	\$ 117
Collectively evaluated for impairment	1,301	1,068	45	2,414
Year Ended December 31, 2014				
Balance at beginning of year	\$ 1,589	\$ 759	\$ 58	\$ 2,406
Provision for loan losses	200	132	18	350
Charge-offs	(354)	(8)	(43)	(405)
Recoveries	<u>125</u>	<u>-</u>	<u>14</u>	<u>139</u>
Net charge-offs	<u>(229)</u>	<u>(8)</u>	<u>(29)</u>	<u>(266)</u>
Balance at end of year	<u>\$ 1,560</u>	<u>\$ 883</u>	<u>\$ 47</u>	<u>\$ 2,490</u>
Allocation:				
Individually evaluated for impairment	\$ 282	\$ 48	\$ -	\$ 330
Collectively evaluated for impairment	1,278	835	47	2,160

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The Company's recorded investment in loans as of December 31, 2015 and 2014 related to each balance in the allowance for loans losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology were as follows:

	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer and Other</u>	<u>Total</u>
Year Ended December 31, 2015				
Loans individually evaluated for impairment	\$ 2,081	\$ 2,540	\$ -	\$ 4,621
Loans collectively evaluated for impairment	<u>54,395</u>	<u>114,540</u>	<u>3,906</u>	<u>172,841</u>
	<u>\$ 56,476</u>	<u>\$ 117,080</u>	<u>\$ 3,906</u>	<u>\$ 177,462</u>
Year Ended December 31, 2014				
Loans individually evaluated for impairment	\$ 1,403	\$ 4,462	\$ -	\$ 5,865
Loans collectively evaluated for impairment	<u>56,031</u>	<u>96,982</u>	<u>4,226</u>	<u>157,239</u>
	<u>\$ 57,434</u>	<u>\$ 101,444</u>	<u>\$ 4,226</u>	<u>\$ 163,104</u>

During the years ended December 31, 2015 and 2014, the Company did not implement any significant changes to its allowance for loan loss methodology.

6. Bank Premises and Equipment

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

	December 31,	
	<u>2015</u>	<u>2014</u>
Land	\$ 6,686	\$ 4,274
Buildings	9,880	9,966
Equipment and furniture	3,722	3,771
Automobile	89	72
Signs	177	184
Bank premises/equipment in progress	<u>142</u>	<u>126</u>
	20,696	18,393
Less accumulated depreciation	<u>6,940</u>	<u>6,709</u>
	<u>\$ 13,756</u>	<u>\$ 11,684</u>

Rio Financial Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

Depreciation expense for the years ended December 31, 2015 and 2014 totaled approximately \$890 thousand and \$1 million, respectively.

In June 2014, the Company entered into an agreement with a third party for the sale and leaseback of five commercial lots. The lease agreements expire from 2019 to 2021. The Company accounted for this transaction as a sale of assets and an operating lease, in accordance with the ASC. The Company recognized a loss on the sale of approximately \$124 thousand.

Rental expense is amortized using the straight-line method. Rental expense for the year ended December 31, 2015 was approximately \$132 thousand (approximately \$66 thousand in 2014). The future minimum rental commitments under these leases are as follows (dollars in thousands):

Year ending December 31,	
2016	\$ 132
2017	132
2018	132
2019	119
2020	66
Thereafter	<u>13</u>
	<u>\$ 594</u>

7. Deposits

The aggregate amount of certificates of deposit ("CDs"), in denominations of \$250 thousand or more, was approximately \$5.3 million at December 31, 2015.

At December 31, 2015, the scheduled maturities of CDs are as follows (dollars in thousands):

Year ending December 31,	
2016	\$ 21,828
2017	12,535
2018	6,380
2019	1,523
2020	<u>3,204</u>
	<u>\$ 45,470</u>

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Notes to the Consolidated Financial Statements

8. Federal Home Loan Bank Advances ("FHLB")

The Company has line of credit agreements with FHLB to borrow funds. The advances received from FHLB have fixed interest rates ranging from 0.54% to 1.20%. The agreements are secured by all first mortgage collateral (as defined), all FHLB capital stock, and all deposit accounts of the Bank held at FHLB. The balance of FHLB advances at December 31, 2015 and 2014 totaled approximately \$4 million and \$11 million, respectively.

The contractual maturities of advances from FHLB are as follows (dollars in thousands):

Year ending December 31,	
2016	\$ 3,000
2017	<u>1,000</u>
	<u>\$ 4,000</u>

9. Long-Term Debt

On May 1, 2014 and July 1, 2014, the Company executed subordinated promissory notes payable, Series A and B, respectively, that totaled approximately \$2.0 million at December 31, 2014. The notes bear a fixed interest rate of 6.25% per annum, which is payable monthly, commencing with the month ended June 1, 2014 and August 1, 2014 for Series A and B, respectively. Principal payments can be made at any time after June 1, 2014 and August 1, 2014, and are due in full on the final maturity dates of May 31, 2017 and July 1, 2019, respectively. No new notes were executed in 2015. The balance at December 31, 2015 is \$1.8 million.

10. Federal Income Taxes

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

	Years Ended December 31,	
	<u>2015</u>	<u>2014</u>
Current income tax expense	\$ 1,286	\$ 860
Deferred income tax expense (benefit)	<u>(169)</u>	<u>26</u>
	<u>\$ 1,117</u>	<u>\$ 886</u>

Rio Financial Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

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

	Years Ended December 31,	
	<u>2015</u>	<u>2014</u>
Computed at the expected statutory rate of 34%	\$ 1,291	\$ 1,052
Adjustment for tax-exempt interest	(127)	(124)
Other – net	<u>(47)</u>	<u>(42)</u>
	<u>\$ 1,117</u>	<u>\$ 886</u>

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

	December 31,	
	<u>2015</u>	<u>2014</u>
Deferred tax assets related to:		
Allowance for loan losses	\$ 731	\$ 700
Write-down of foreclosed assets	111	22
Deferred gain on sale of OREO	43	-
Other	<u>11</u>	<u>17</u>
Total deferred tax assets	<u>896</u>	<u>739</u>
Deferred tax liabilities related to:		
Depreciation	(738)	(743)
Securities available for sale	(99)	(105)
Deferred gain on sale of property	(359)	(359)
Other	<u>(3)</u>	<u>(9)</u>
Total deferred tax liabilities	<u>(1,199)</u>	<u>(1,216)</u>
Net deferred tax liabilities	<u>\$ (303)</u>	<u>\$ (477)</u>

The Company files a United States federal income tax return, as well as a state return in Texas. With few exceptions, the Company is no longer subject to United States federal or Texas state tax examinations by tax authorities for years before 2012.

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Notes to the Consolidated Financial Statements

11. Off-Balance Sheet Activities

Credit-Related Financial Instruments

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

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

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

	<u>Contractual Amount</u>	
	December 31,	
	<u>2015</u>	<u>2014</u>
Standby letters of credit	\$ 732	\$ 495
Unfunded commitments under lines of credit	14,982	13,788

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

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

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

Rio Financial Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

12. Related Party Transactions

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates. Annual activity as of and for the years ended December 31, 2015 and 2014 consisted of the following (dollars in thousands):

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 3,399	\$ 3,476
New loans	292	100
Repayments	<u>(920)</u>	<u>(177)</u>
Balance at end of year	<u>\$ 2,771</u>	<u>\$ 3,399</u>

Deposits from related parties held by the Company at December 31, 2015 and 2014 totaled approximately \$3.9 million and \$4.3 million, respectively.

13. Legal Contingencies

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

14. Employee Benefit Plans

At December 31, 2015 and 2014, the Company has a 401(k) plan and stock option plan.

401(k) Plan

The Company has a 401(k) plan designed to benefit substantially all its employees. The Company makes matching contributions to the plan equal to 100% of an employee's elected salary reduction, not to exceed the first 6% of compensation. The Company may also make discretionary contributions to the plan. Contributions of approximately \$173 and \$140 thousand were made to this plan during the years ended December 31, 2015 and 2014, respectively.

Stock Option Plan

The Company's stock option plan ("the Plan") provides for the issuance of options to acquire the Company's common stock to selected officers. The purchase price of each share of common stock, subject to the options, will be determined at the time an option is granted. Option terms range from five to ten years from the date of grant.

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

Rio Financial Services, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

The following valuation assumptions at December 31, 2015 were used for options granted:

Expected volatility	10.0%
Expected dividends	-
Expected term	7.5 years
Risk-free rate	2.7%

For options granted in 2014, the assumptions were the same other than the risk-free rate was 3.2%.

Under the Plan, a change in the Company's capital structure, including declaration of a stock dividend, may result in an adjustment to the number of shares subject to the Plan so as to maintain a proportionate number of shares without changing the aggregate option price. Effective January 22, 2015, the Company declared a stock split effected as a stock dividend. In accordance with the *Equity* topic of the ASC, activity and amounts pertaining to the Plan, as discussed below, show the effect of the stock split retroactive to January 1, 2013.

A summary of activity under the Plan as of December 31, 2015 and 2014 and changes during the years ended December 31, 2015 and 2014 is presented below:

	<u>Options</u>
Outstanding at December 31, 2013	113,760
Granted	60,000
Exercised	(20,880)
Forfeited	<u>(4,320)</u>
Outstanding at December 31, 2014	148,560
Granted	2,000
Exercised	(30,480)
Forfeited	<u>(2,280)</u>
Outstanding at December 31, 2015	<u>117,800</u>
Exercisable at December 31, 2015	<u>57,600</u>

Exercise prices as of December 31, 2015 ranged from \$11.67 to \$21.78. Exercise prices as of December 31, 2014 ranged from \$10.00 to \$16.67. The weighted-average exercise price is \$17.99 as of December 31, 2015 (\$16.75 as of December 31, 2014). The weighted-average remaining contractual life is 6.27 years as of December 31, 2015.

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For stock options granted after January 1, 2006, the Company records compensation cost based on the fair value of the instrument issued, amortized over the vesting period. For the year ended December 31, 2015, the Company recognized approximately \$80 thousand in compensation expense for stock options, which is included in salaries and employee benefits (approximately \$38 thousand in 2014). As of December 31, 2015, there was approximately \$25 thousand of total unrecognized compensation cost related to nonvested stock options granted under the Plan (approximately \$110 thousand in 2014).

15. Capital and Regulatory Matters

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

The Basel III capital rules became effective for the Bank on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Management believes, as of December 31, 2015 and 2014, that the Bank met all capital adequacy requirements to which it is subject. As of December 31, 2015, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

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The following table presents actual and required capital ratios as of December 31, 2015 for the Bank under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2015 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019 when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

(Dollars in Thousands)	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015								
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$25,506	14.4%	\$7,971	4.5%	\$12,366	7.0%	\$11,483	6.5%
Tier 1 Capital to Risk-Weighted Assets	\$25,506	14.4%	\$10,628	6.0%	\$15,016	8.5%	\$14,133	8.0%
Total Capital to Risk-Weighted Assets	\$28,016	15.8%	\$14,185	8.0%	\$18,549	10.5%	\$17,666	10.0%
Tier 1 Capital to Average Assets	\$28,506	9.4%	\$12,130	4.0%	\$10,856	4.0%	\$13,570	5.0%

The following table presents actual and required capital ratios as of December 31, 2014 for the Bank under regulatory capital rules then in effect.

(Dollars in Thousands)	Actual		Minimum Capital Requirement		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total Capital to Risk-Weighted Assets	\$25,457	14.3%	\$14,277	8.0%	\$17,847	10.0%
Tier 1 Capital to Risk-Weighted Assets	\$23,223	13.0%	\$7,139	4.0%	\$10,708	6.0%
Tier 1 Capital to Average Assets	\$23,223	9.0%	\$10,378	4.0%	\$12,973	5.0%