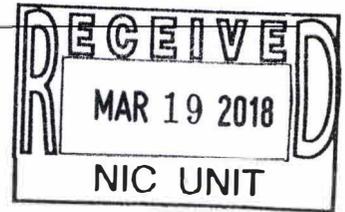


Board of Governors of the Federal Reserve System



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.

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

**December 31, 2017**

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

**Round Rock**

**TX**

**78665**

City

State

Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

**Marc Bone**

**Chief Financial Officer**

Name

Title

**512.485.0481**

Area Code / Phone Number / Extension

**512.244.5951**

Area Code / FAX Number

**mbone@rbanktexas.com**

E-mail Address

**none**

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

I, **Steve Stapp**

Name of the Holding Company Director and Official

**President | Chief Executive Officer | Director**

Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

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

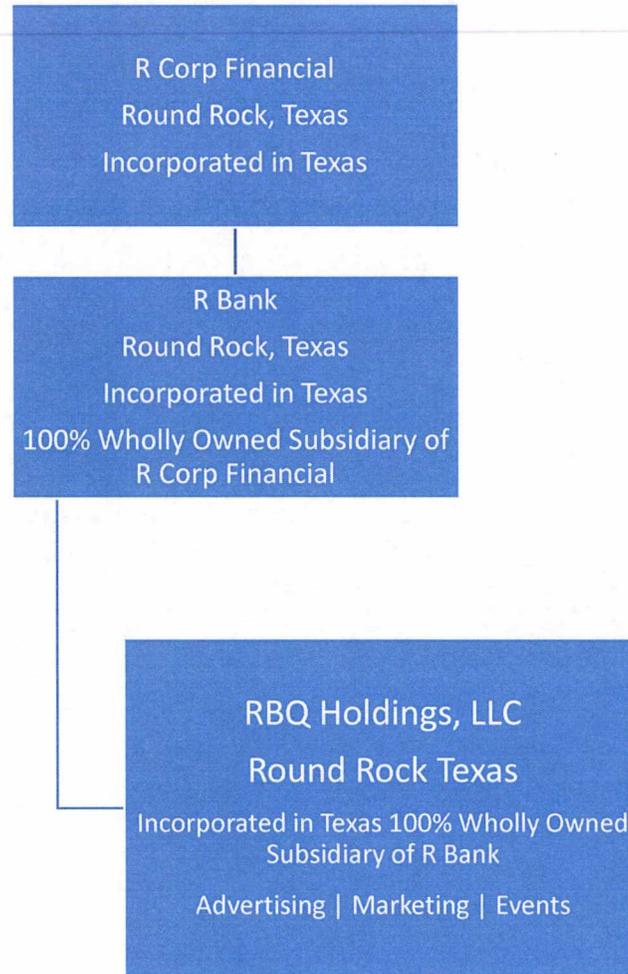
RSSD ID **4478027**  
 C.I. \_\_\_\_\_

Is confidential treatment requested for any portion of this report submission? =No =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."



Results: A list of branches for your holding company: R CORP FINANCIAL (4478027) of ROUND ROCK, TX.  
 The data are as of 12/31/2017. Data reflects information that was received and processed through 01/10/2017.

**Reconciliation and Verification Steps**

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

**Actions**

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

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

**Submission Procedure**

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

**Note:**

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

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

| Data Action | Effective Date | Branch Service Type        | Branch ID_RSSD* | Popular Name              | Street Address                  | City        | State | Zip Code   | County     | Country       | FDIC UNINUM* | Office Number* | Head Office | Head Office ID_RSSD* | Comments |
|-------------|----------------|----------------------------|-----------------|---------------------------|---------------------------------|-------------|-------|------------|------------|---------------|--------------|----------------|-------------|----------------------|----------|
| OK          |                | Full Service (Head Office) | 3821037         | R BANK                    | 3600 EAST PALM VALLEY BOULEVARD | ROUND ROCK  | TX    | 78665      | WILLIAMSON | UNITED STATES | 480906       | 0              | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 3814477         | HIGHWAY 29 BRANCH         | 360 E HIGHWAY 29                | BERTRAM     | TX    | 78605      | BURNET     | UNITED STATES | Not Required | Not Required   | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 4904517         | EDNA BANKING CENTER       | 814 NORTH WELLS STREET          | EDNA        | TX    | 77957      | JACKSON    | UNITED STATES | Not Required | Not Required   | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 4412870         | GEORGETOWN BRANCH         | 2415 WILLIAMS DRIVE             | GEORGETOWN  | TX    | 78628-3247 | WILLIAMSON | UNITED STATES | 531358       | 1              | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 3467574         | JARRELL BANKING CENTER    | 50 W FM 487                     | JARRELL     | TX    | 76537      | WILLIAMSON | UNITED STATES | Not Required | Not Required   | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 4495239         | ROLLINGWOOD BRANCH        | 3103 BEE CAVE ROAD SUITE 110    | ROLLINGWOOD | TX    | 78746      | TRAVIS     | UNITED STATES | Not Required | Not Required   | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 4803423         | ROUND ROCK BANKING CENTER | 1900 ROUND ROCK AVENUE          | ROUND ROCK  | TX    | 78681      | WILLIAMSON | UNITED STATES | Not Required | Not Required   | R BANK      | 3821037              |          |
| OK          |                | Full Service               | 582766          | SCHWERTNER BANKING CENTER | 110 MAIN STREET                 | SCHWERTNER  | TX    | 76573      | WILLIAMSON | UNITED STATES | Not Required | Not Required   | R BANK      | 3821037              |          |



Form FR Y-6  
**R Corp Financial**  
**Round Rock, Texas**  
**Fiscal Year Ending December 29, 2017**

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

| (1)  | (2)  | (3)(a)                                      | (3)(b)  | (3)(c)   | (4)(a)  | (4)(b)  | (4)(c)  |
|--|--|---|---|--|---|---|---|
| Names & Address<br>(City, State,<br>Country) | Principal<br>Occupation if<br>other than with<br>holding company | Title & Position<br>with holding<br>company | Title & Position<br>with Subsidiaries<br>(include names of<br>subsidiaries) | Title & Position<br>with Other<br>Businesses<br>(include names of<br>other businesses) | Percentage of<br>Voting Securities<br>in holding<br>company | Percentage of<br>Voting Securities<br>in Subsidiaries<br>(include names<br>of subsidiaries) | List names of other companies (includes partnerships) if 25% or more<br>of voting securities are held (List names of companies and percentage<br>of voting securities held)   |
| Nolan Reese Ryan<br>Austin, TX, USA          | Business Manager  <br>Large Corporation                          | Director,<br>Chairman                       | Chairman, R Bank  | CEO, Round Rock<br>Express Baseball<br>Club  | 4.59%(1)  | 0.00%   | Bivins Ryan Investment, LLC -33.0%   Shope & Ryan Management Inc -<br>33.0%   |
| Steve Stapp**<br>Round Rock, TX,<br>USA      | Banker   | Director,<br>President   CEO                | President/CEO, R<br>Bank  | N/A  | 1.33%   | 0.00%   | Black Hole Ltd LLC - 25%  |
| Lynn Nolan Ryan<br>Georgetown, TX,<br>USA    | Retired professional<br>baseball player                          | Director                                    | None  | Executive Advisor,<br>Houston Astros<br>Baseball                                       | 19.13%  | 0.00%   | FB Holdco, LLC 100.0000%<br>LNR Enterprises Management LLC 50.0000%<br>LNR Interests, Lp 100.0000%<br>LNR Management, LLC 100.0000%<br>Nolan Ryan Ranch 100.0000%<br>Round Rock Baseball, Inc 39.7000%<br>RRE Holdings, Inc 29.2500%<br>RRE Investors, Lp 29.2400%<br>Ryan Family Ranch Management, LLC 50.0000%<br>Ryan Family Ranch Investments, LP 49.5000%<br>Ryan's Dry Creek Ranch 50.0000% |
| Robert Reid Ryan<br>Houston, TX USA          | Business Manager  <br>Large Corporation                          | Director                                    | None  | President, Houston<br>Astros Baseball  | 3.65%   | 0.00%   | Bivins Ryan Investment, LLC -33.0%   Shope & Ryan Management Inc -<br>33.0%   |
| Temple Aday**<br>Round Rock, TX,<br>USA      | Commercial<br>contractor   | Director                                    | None  | CEO, Aday and<br>Associates -<br>Construction  | 1.79%   | 0.00%   | Aday & Associates - 100%<br>AMAA Investments - 100% Lone Oak Barn 100%<br>Black Hole LLC - 25%  |
| Malvin Green**<br>Georgetown, TX,<br>USA     | Retired banker   | Director                                    | None  | N/A  | 0.64%   | 0.00%   | None  |
| Chris Ellis<br>Austin, TX, USA               | Commercial Real<br>Estate Development                            | Director                                    | None  | Founding Principal -<br>Endeavor Real<br>Estate  | 2.19%   | 0.00%   | CE Cabo A202, LLC 100.0000%<br>CE Cabo A206, LLC 100.0000%<br>CEWY, LTD 100.0000% ERG CAVU, Ltd 100.0000% Harligen Legend, Ltd<br>39.9600%  |
| Andrew Bivins<br>Amarillo, TX, USA           | Rancher  | Director                                    | None  | JA Cattle Company<br>Ltd. - Managing<br>Partner  | 3.61%   | 0.00%   | Bivins Ryan Investment, LLC -33.0%  |
| Jared Shope<br>Fort Worth, TX,<br>USA        | Entrepreneur, Real<br>Estate Development<br>- Self Employed      | Director                                    | None  | Partner, Lone Star<br>Bean   | 2.97%   | 0.00%   | 2SP Partners, LLC 33.0000%<br>Area 109, LLC 50.0000%<br>Bluebonnet Management, LLC 33.0000%<br>CD Sports, LLC 50.0000%<br>Foch St. Partners, LLC 33.0000%<br>Herring Ranch 50.0000%<br>Purple Investments, LLC 25.0000%<br>Shope & Ryan Management Inc 33.0000%   |
| Rob Bridges**<br>Austin, TX, USA             | Insurance Agent  | Director                                    | None  | Partner, Wortham<br>Insurance  | 0.42%   | 0.00%   | CCR Investments - 33%   |
| Brad Sanders<br>Houston, TX, USA             | Entrepreneur,<br>Restaurantier                                   | Director                                    | None  | N/A  | 0.22%   | 0.00%   | None  |
| Bret Sanders<br>Houston, TX, USA             | Investment Banker  | Director                                    | None  | Director of<br>NASDAQ trading -  | 0.22%   | 0.00%   | None  |
| Richard Stuart II<br>Weatherford, TX,<br>USA | Entrepreneur,<br>Restaurantier                                   | Director                                    | None  | N/A  | 2.72%   | 0.00%   | 2SP Partners, LLC 33.0000%<br>Bluebonnet Management, LLC 33.0000%<br>Foch St. Partners, LLC 33.0000%<br>Herring Ranch 50.0000%<br>Pollo Hermanos, LLC 50.0000%<br>RLS II Operating Management, Inc 100.0000%<br>RLS II Properties Management, Inc 100.0000%<br>Weatherford Chicken Express, LLC 100.0000%<br>RNS Properties Inc (Private Investor) 50.0000%                                       |
| Chris Bubela**<br>Edna, TX, USA              | Banker   | Executive Officer,<br>R Corp Financial      | Chief Lending<br>Officer, R Bank  | N/A  | 0.60%   | 0.00%   | None  |
| Judy Kirkland<br>La Grange, TX USA           | Banker   | Executive Officer,<br>R Corp Financial      | Chief Operations<br>Officer, R Bank   | N/A  | 0.06%   | 0.00%   | None  |
| Mike Shaw<br>Austin, TX, USA                 | Banker   | Executive Officer,<br>R Corp Financial      | Chief Credit<br>Officer, R Bank   | N/A  | 0.18%   | 0.00%   | None  |
| Mark Kesselring**<br>Round Rock, TX,<br>USA  | Banker   | Officer,<br>R Corp Financial                | SVP, IT/Facilities<br>R Bank  | N/A  | 0.04%   | 0.00%   | None  |
| Shonnie Stapp**<br>Round Rock, TX,<br>USA    | Banker   | Officer,<br>R Corp Financial                | VP, Mortgage<br>Lending<br>R Bank   | N/A  | 0.00%   | 0.00%   | Black Hole Ltd LLC - 25% (Jointly Held with Spouse, Steve Stapp)  |
| Marcus R Bone,<br>Leander, TX, USA           | Banker   | Executive Officer,<br>R Corp Financial      | Chief Financial<br>Officer, R Bank  | N/A  | 0.00%   | 0.00%   | UX Allen Ranch, LLC 25% Allen Ranch Heirs, GP - 25%   |
| William K Reagan II<br>Austin, TX, USA       | Sales  | Advisory Director<br>R Corp Financial       | None  | President<br>Reagan Advertising  | 0.45%   | 0.00%   | None  |
| Josh Galatzan<br>Austin, TX, USA             | Banker   | Advisory Director<br>R Corp Financial       | None  | N/A  | 0.05%   | 0.00%   | None  |
| Scott Carr<br>Austin, TX, USA                | Commercial Real<br>Estate Development                            | Advisory Director<br>R Corp Financial       | None  | President<br>Carr Development  | 0.54%   | 0.00%   | None  |

|                                  |                              |                                       |      |     |       |       |      |
|----------------------------------|------------------------------|---------------------------------------|------|-----|-------|-------|------|
| Brian Fell<br>Austin, TX, USA    | Optometrist                  | Advisory Director<br>R Corp Financial | None | N/A | 0.09% | 0.00% | None |
| Wendi Bivins<br>Amarillo, Tx USA | Principal Security<br>Holder | N/A                                   | N/A  | N/A | 2.10% | 0.00% | None |

**Notes:**

Ownership percentages are based on the following as the denominator (2,790,637) when calculating ownership: 12/31/2017 shares outstanding of 2,520,837; 12/31/2017 warrants outstanding of 176,500; and 12/31/2017 options outstanding of 93,300; for a total of 2,790,637 shares. This number assumes that all warrants and options have been exercised.

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

# Warrant/Option Report

Company - R Corp Financial

Date - Wednesday, March 14, 2018

| Shareholder        | Class        | Status    | Type   | Number | Grant Date | Exercise Date | Expire Date | Share Price | Total Shares | Exercised Shares |
|--------------------|--------------|-----------|--------|--------|------------|---------------|-------------|-------------|--------------|------------------|
| Crossland, Deborah | Common Stock | ACTIVE    | OPTION | 0      | 6/24/2010  | 6/24/2011     | 6/24/2020   | 10.00       | 250.000      | 0.000            |
| Crossland, Deborah | Common Stock | ACTIVE    | OPTION | 0      | 6/24/2010  | 6/24/2012     | 6/24/2020   | 10.00       | 250.000      | 0.000            |
| Crossland, Deborah | Common Stock | ACTIVE    | OPTION | 0      | 6/24/2010  | 6/24/2013     | 6/24/2020   | 10.00       | 250.000      | 0.000            |
| Crossland, Deborah | Common Stock | ACTIVE    | OPTION | 0      | 6/24/2010  | 6/24/2014     | 6/24/2020   | 10.00       | 250.000      | 0.000            |
| Kesselring, Mark   | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2011     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kesselring, Mark   | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2012     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kesselring, Mark   | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2013     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kesselring, Mark   | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2014     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kirkland, Judy     | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2011     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kirkland, Judy     | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2012     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kirkland, Judy     | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2013     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Kirkland, Judy     | Common Stock | EXERCISED | OPTION | 0      | 6/24/2010  | 6/24/2014     | 6/24/2020   | 10.00       | 250.000      | 250.000          |
| Bubela, Chris      | Common Stock | ACTIVE    | OPTION | 0      | 6/22/2009  | 6/22/2013     | 6/22/2019   | 10.00       | 1,250.000    | 0.000            |
| Shaw, Michael E.   | Common Stock | EXERCISED | OPTION | 0      | 6/7/2011   | 6/7/2012      | 6/7/2021    | 10.00       | 1,250.000    | 1,250.000        |
| Shaw, Michael E.   | Common Stock | EXERCISED | OPTION | 0      | 6/7/2011   | 6/7/2013      | 6/7/2021    | 10.00       | 1,250.000    | 1,250.000        |
| Shaw, Michael E.   | Common Stock | EXERCISED | OPTION | 0      | 6/7/2011   | 6/7/2014      | 6/7/2021    | 10.00       | 1,250.000    | 1,250.000        |
| Galatzan, Josh     | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 300.000      | 0.000            |
| Galatzan, Josh     | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 12/1/2014     | 2/27/2024   | 21.00       | 300.000      | 0.000            |
| Bowman, Deborah K  | Common Stock | EXERCISED | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 300.000      | 300.000          |
| Sanders, Brad      | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000.000    | 0.000            |
| Carr, Scott        | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 300.000      | 0.000            |

| Shareholder              | Class        | Status    | Type   | Number | Grant Date | Exercise Date | Expire Date | Share Price | Total Shares | Exercised Shares |
|--------------------------|--------------|-----------|--------|--------|------------|---------------|-------------|-------------|--------------|------------------|
| Carr, Scott              | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 12/1/2014     | 2/27/2024   | 21.00       | 300,000      | 0,000            |
| Stuart, Richard          | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 300,000      | 0,000            |
| Stuart, Richard          | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 12/1/2014     | 2/27/2024   | 21.00       | 300,000      | 0,000            |
| Ellis, Chris             | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Green, Malvin            | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Reagan II, William Kevin | Common Stock | EXERCISED | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 300,000      | 300,000          |
| Reagan II, William Kevin | Common Stock | EXERCISED | OPTION | 0      | 2/27/2014  | 12/1/2014     | 2/27/2024   | 21.00       | 300,000      | 300,000          |
| Ryan, Lynn Nolan         | Common Stock | EXERCISED | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 2,000,000        |
| Sanders, Bret            | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Ryan, Robert Reid        | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Fell, Brian D            | Common Stock | EXERCISED | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 300,000      | 300,000          |
| Fell, Brian D            | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 12/1/2014     | 2/27/2024   | 21.00       | 300,000      | 34,000           |
| Shope, Jared             | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Bridges, Rob             | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Aday, Temple             | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Ryan, Nolan Reese        | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Stapp, Steve             | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| Bivins, Andrew           | Common Stock | ACTIVE    | OPTION | 0      | 2/27/2014  | 2/27/2014     | 2/27/2024   | 21.00       | 2,000,000    | 0,000            |
| McNair, Jiliana          | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2015     | 12/1/2024   | 21.00       | 300,000      | 50,000           |
| Reagan II, William Kevin | Common Stock | EXERCISED | OPTION | 0      | 12/1/2014  | 12/1/2015     | 12/1/2024   | 21.00       | 300,000      | 300,000          |
| Carr, Scott              | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2015     | 12/1/2024   | 21.00       | 300,000      | 0,000            |
| Galatzan, Josh           | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2015     | 12/1/2024   | 21.00       | 300,000      | 0,000            |
| Fell, Brian D            | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2015     | 12/1/2024   | 21.00       | 300,000      | 0,000            |
| Ellis, Chris             | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0,000            |

| Shareholder       | Class        | Status    | Type   | Number | Grant Date | Exercise Date | Expire Date | Share Price | Total Shares | Exercised Shares |
|-------------------|--------------|-----------|--------|--------|------------|---------------|-------------|-------------|--------------|------------------|
| Aday, Temple      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Sanders, Brad     | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Sanders, Bret     | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Ryan, Robert Reid | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Ryan, Lynn Nolan  | Common Stock | EXERCISED | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 1,000,000        |
| Bivins, Andrew    | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Ryan, Nolan Reese | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Shope, Jared      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Stuart, Richard   | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Bridges, Rob      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Stapp, Steve      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Green, Malvin     | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2014  | 12/1/2014     | 12/1/2024   | 21.00       | 1,000,000    | 0.000            |
| Ryan, Lynn Nolan  | Common Stock | EXERCISED | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 1,000,000        |
| Ryan, Nolan Reese | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Stapp, Steve      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Ryan, Robert Reid | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Aday, Temple      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Green, Malvin     | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Bridges, Rob      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Ellis, Chris      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Shope, Jared      | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Sanders, Bret     | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Sanders, Brad     | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| Bivins, Andrew    | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |

| Shareholder              | Class        | Status    | Type   | Number | Grant Date | Exercise Date | Expire Date | Share Price | Total Shares | Exercised Shares |
|--------------------------|--------------|-----------|--------|--------|------------|---------------|-------------|-------------|--------------|------------------|
| Stuart, Richard          | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2015     | 12/1/2025   | 28.04       | 1,000,000    | 0.000            |
| McNair, Iliana           | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2016     | 12/1/2025   | 28.04       | 300,000      | 0.000            |
| Fell, Brian D            | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2016     | 12/1/2025   | 28.04       | 300,000      | 0.000            |
| Galatzan, Josh           | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2016     | 12/1/2025   | 28.04       | 300,000      | 0.000            |
| Reagan II, William Kevin | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2016     | 12/1/2025   | 28.04       | 300,000      | 0.000            |
| Carr, Scott              | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2015  | 12/1/2016     | 12/1/2025   | 28.04       | 300,000      | 0.000            |
| Carr, Scott              | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2017     | 12/1/2026   | 28.04       | 300,000      | 0.000            |
| Fell, Brian D            | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2017     | 12/1/2026   | 28.04       | 300,000      | 0.000            |
| Galatzan, Josh           | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2017     | 12/1/2026   | 28.04       | 300,000      | 0.000            |
| McNair, Iliana           | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2017     | 12/1/2026   | 28.04       | 300,000      | 0.000            |
| Reagan II, William Kevin | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2017     | 12/1/2026   | 28.04       | 300,000      | 0.000            |
| Aday, Temple             | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Bivins, Andrew           | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Bridges, Rob             | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Ellis, Chris             | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Green, Malvin            | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Ryan, Lynn Nolan         | Common Stock | EXERCISED | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 1,000,000        |
| Ryan, Nolan Reese        | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Ryan, Robert Reid        | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Sanders, Brad            | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Sanders, Bret            | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Shope, Jared             | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Stapp, Steve             | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |
| Stuart, Richard          | Common Stock | ACTIVE    | OPTION | 0      | 12/1/2016  | 12/1/2016     | 12/1/2026   | 28.04       | 1,000,000    | 0.000            |

| Shareholder                       | Class        | Status      | Type    | Number | Grant Date | Exercise Date | Expire Date | Share Price | Total Shares | Exercised Shares |
|-----------------------------------|--------------|-------------|---------|--------|------------|---------------|-------------|-------------|--------------|------------------|
| Ryan, Lynn Nolan                  | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Ryan, Nolan Reese                 | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Ryan, Robert Reid                 | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Aday, Temple                      | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Stapp, Steve                      | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Green, Malvin                     | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Bridges, Rob                      | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Ellis, Chris                      | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Shope, Jared                      | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Sanders, Brad                     | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Sanders, Bret                     | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Bivins, Andrew                    | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| Stuart, Richard                   | Common Stock | ACTIVE      | OPTION  | 0      | 12/1/2017  | 12/1/2017     | 12/1/2027   | 28.04       | 1,000,000    | 0.000            |
| McNair, Jliana                    | Common Stock | UNEXERCISED | OPTION  | 0      | 12/1/2017  | 12/1/2018     | 12/1/2027   | 28.04       | 300,000      | 0.000            |
| Fell, Brian D                     | Common Stock | UNEXERCISED | OPTION  | 0      | 12/1/2017  | 12/1/2018     | 12/1/2027   | 28.04       | 300,000      | 0.000            |
| Galatzan, Josh                    | Common Stock | UNEXERCISED | OPTION  | 0      | 12/1/2017  | 12/1/2018     | 12/1/2027   | 28.04       | 300,000      | 0.000            |
| Reagan II, William Kevin          | Common Stock | UNEXERCISED | OPTION  | 0      | 12/1/2017  | 12/1/2018     | 12/1/2027   | 28.04       | 300,000      | 0.000            |
| Carr, Scott                       | Common Stock | UNEXERCISED | OPTION  | 0      | 12/1/2017  | 12/1/2018     | 12/1/2027   | 28.04       | 300,000      | 0.000            |
| <b>Type - OPTION</b>              |              |             |         |        |            |               |             |             |              |                  |
| <b>Warrant/Option Count - 111</b> |              |             |         |        |            |               |             |             |              |                  |
| <b>Total Shares - 93,300,000</b>  |              |             |         |        |            |               |             |             |              |                  |
| <b>Available Shares - 0.00</b>    |              |             |         |        |            |               |             |             |              |                  |
| Ryan, Nolan Reese                 | Common Stock | EXERCISED   | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000,000   | 15,000,000       |
| Sanders 2003 Children's Trusts    | Common Stock | EXERCISED   | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 35,000,000   | 35,000,000       |
| Ryan, Lynn Nolan                  | Common Stock | EXERCISED   | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 25,000,000   | 25,000,000       |

| Shareholder       | Class        | Status    | Type    | Number | Grant Date | Exercise Date | Expire Date | Share Price | Total Shares | Exercised Shares |
|-------------------|--------------|-----------|---------|--------|------------|---------------|-------------|-------------|--------------|------------------|
| Ryan, Robert Reid | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000.000   | 0.000            |
| Bridges, Rob      | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 1,500.000    | 0.000            |
| Sanders, Don A.   | Common Stock | EXERCISED | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000.000   | 15,000.000       |
| Shope, Jared      | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000.000   | 0.000            |
| Bivins, Andrew    | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000.000   | 0.000            |
| Ellis, Chris      | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000.000   | 0.000            |
| Stapp, Steve      | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 7,500.000    | 6,500.000        |
| Green, Malvin     | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 2,500.000    | 1,250.000        |
| Aday, Temple      | Common Stock | ACTIVE    | WARRANT | 0      | 10/1/2009  | 10/1/2009     | 10/1/2019   | 10.00       | 15,000.000   | 0.000            |

**Type - WARRANT**

**Warrant/Option Count - 12**

**Total Shares - 176,500.000**

**Available Shares - 0.00**

**Report Totals:**

**Warrant/Option Count - 123**

**Total Shares - 269,800.000**

**Available Shares - 0.00**

## Shareholder Name/Address Listing

Company - R Corp Financial

Date - Wednesday, March 14, 2018

| Name/ID                        | Name/Address   | IRS Name/Address   | Shares      | % Ownership |
|--------------------------------|--|--|-------------|-------------|
| Ryan, Lynn Nolan               | Lynn Nolan Ryan<br>210 Cimarron Hills Trail West<br>Georgetown, TX 78628                                 | Lynn Nolan Ryan<br>210 Cimarron Hills Trail West<br>Georgetown, TX 78628               | 532,886.000 | 21.14       |
| Sanders 2003 Children's Trusts | Don A Sanders Children's Trst Dtd 2003<br>Attn: Don Weir<br>600 Travis St. Ste 5800<br>Houston, TX 77002 | Sanders 2003 Children's Trusts<br>600 Travis St. Ste 5800<br>Houston, TX 77002         | 172,179.000 | 6.83        |
| Ryan, Nolan Reese              | Nolan Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                                      | Nolan Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                    | 95,814.000  | 3.80        |
| Ryan, Robert Reid              | Robert Reid Ryan<br>509 Gingham Dr.<br>Houston, TX 77024   | Robert Reid Ryan<br>509 Gingham Dr.<br>Houston, TX 77024                               | 80,812.000  | 3.21        |
| Bivins, Andrew                 | Andrew Bivins<br>PO Box 15305<br>Amarillo, TX 79105  | Andrew Bivins<br>PO Box 15305<br>Amarillo, TX 79105                                    | 79,708.000  | 3.16        |
| Stuart, Richard                | Richard Stuart II<br>PO Box 1690<br>Weatherford, TX 76086  | Richard Stuart II<br>PO Box 1690<br>Weatherford, TX 76086                              | 71,352.000  | 2.83        |
| Sanders, Don A.                | Don A. Sanders<br>600 Travis St, Suite 5800<br>Houston, TX 77002   | Don A. Sanders<br>600 Travis St, Suite 5800<br>Houston, TX 77002                       | 70,216.000  | 2.79        |
| Douglas, Brad                  | Brad Douglas<br>227 E Louisiana St<br>McKinney, TX 75069   | Brad Douglas<br>227 E Louisiana St<br>McKinney, TX 75069                               | 66,713.000  | 2.65        |
| Shope, Jared                   | Jared Shope<br>6633 Cahoba Dr<br>Fort Worth, TX 76135  | Jared Shope<br>6633 Cahoba Dr<br>Fort Worth, TX 76135                                  | 46,700.000  | 1.85        |
| Esse, Ivan Lyn & Robin E       | Ivan Lyn Esse and<br>Robin E Esse<br>PO Box 176<br>Whitsett, TX 78075                                    | Ivan Lyn Esse and<br>Robin E Esse<br>PO Box 176<br>Whitsett, TX 78075                  | 44,410.000  | 1.76        |
| Ellis, Chris                   | Chris Ellis<br>c/o Endeavor Real Estate Group<br>500 W 5th St #700<br>Austin, TX 78701                   | Chris Ellis<br>c/o Endeavor Real Estate Group<br>500 W 5th St #700<br>Austin, TX 78701 | 40,000.000  | 1.59        |
| Harvey Jr., David E.           | David E. Harvey Jr.<br>6512 Vanderbilt St<br>Houston, TX 77005   | David E. Harvey Jr.<br>6512 Vanderbilt St<br>Houston, TX 77005                         | 37,500.000  | 1.49        |

| <b>Name/ID</b>          | <b>Name/Address</b>   | <b>IRS Name/Address</b>  | <b>Shares</b> | <b>% Ownership</b> |
|-------------------------|---|--|---------------|--------------------|
| Cleary, Joseph A        | Joseph A Cleary, Jr.<br>1 SW Oak Dr<br>Houston, TX 77056                                    | Joseph A Cleary, Jr.<br>1 SW Oak Dr<br>Houston, TX 77056                               | 37,500.000    | 1.49               |
| Five ACS DBP Trust      | Five ACS DBP Trust<br>Attn: Currie Smith<br>3602 S Washington<br>Amarillo, TX 79110         | Five ACS DBP Trust<br>Attn: Currie Smith<br>3602 S Washington<br>Amarillo, TX 79110    | 35,225.000    | 1.40               |
| Korman, Russell         | Russell Korman<br>5011 Burnet Road<br>Austin, TX 78756                                      | Russell Korman<br>5011 Burnet Road<br>Austin, TX 78756                                 | 33,357.000    | 1.32               |
| Wilson, John T. & Carol | John T. Wilson &<br>Carol Wilson<br>Box 123<br>Gail, TX 79738                               | John T. Wilson &<br>Carol Wilson<br>Box 123<br>Gail, TX 79738                          | 30,113.000    | 1.19               |
| Miller, Carl & Deanna   | Carl Miller &<br>Deanna Miller<br>2103 Casa Linda Cove<br>Round Rock, TX 78681              | Carl Miller &<br>Deanna Miller<br>2103 Casa Linda Cove<br>Round Rock, TX 78681         | 30,000.000    | 1.19               |
| Seliger, Lane           | Lane Seliger<br>3917 Centenary Ave<br>Dallas, TX 75225-5428                                 | Lane Seliger<br>3917 Centenary Ave<br>Dallas, TX 75225-5428                            | 28,919.000    | 1.15               |
| Aday, Temple and Shelli | Temple Aday and<br>Shelli Aday<br>1810 CR 122 N<br>Round Rock, TX 78665                     | Temple Aday and<br>Shelli Aday<br>1810 CR 122 N<br>Round Rock, TX 78665                | 29,045.000    | 1.15               |
| Stapp, Steve & Shonnie  | Steve Stapp &<br>Shonnie Stapp<br>5 Oak View<br>Round Rock, TX 78664                        | Steve Stapp<br>5 Oak View<br>Round Rock, TX 78664                                      | 28,100.000    | 1.11               |
| Davis, Ben & Kila       | Ben Davis, Jr and<br>Kila Davis<br>108 Lone Star Way<br>Godley, TX 76044                    | Ben Davis, Jr and<br>Kila Davis<br>108 Lone Star Way<br>Godley, TX 76044               | 26,419.000    | 1.05               |
| Larkin, EC & Margie     | Emerson Clay Larkin, Jr. &<br>Margie Larkin<br>307 Hill Country Ln<br>San Antonio, TX 78232 | Emerson Clay Larkin &<br>Margie Larkin<br>307 Hill Country Ln<br>San Antonio, TX 78232 | 25,125.000    | 1.00               |
| Devaney, Pete & Nancy   | Pete Devaney and<br>Nancy Devaney<br>3409 S Hwy 171<br>Cleburne, TX 76031                   | Pete Devaney and<br>Nancy Devaney<br>3409 S Hwy 171<br>Cleburne, TX 76031              | 25,000.000    | 0.99               |
| Carr, Kenneth D         | Kenneth D Carr<br>PO Box 2445<br>Fredericksburg, TX 78624                                   | Kenneth D Carr<br>PO Box 2445<br>Fredericksburg, TX 78624                              | 25,018.000    | 0.99               |
| Schwertner Jr, James E  | James E. Schwertner Jr<br>PO Box 1<br>Schwertner, TX 76573                                  | James E. Schwertner Jr<br>PO Box 1<br>Schwertner, TX 76573                             | 17,832.000    | 0.71               |

| Name/ID                                 | Name/Address  | IRS Name/Address  | Shares     | % Ownership |
|---|---|---|------------|-------------|
| Coughlin, Perry W & Deborah L           | Perry W Coughlin and Deborah L Coughlin<br>113 River Valley Drive<br>Georgetown, TX 78626   | Perry W Coughlin and Deborah L Coughlin<br>709 Cliffside Cove<br>Round Rock, TX 78665 | 17,613.000 | 0.70        |
| Bivins, Tom                             | Tom Bivins<br>PO Box 708<br>Amarillo, TX 79105  | Tom Bivins<br>PO Box 708<br>Amarillo, TX 79105  | 17,375.000 | 0.69        |
| Bivins, Mark                            | Mark Bivins<br>PO Box 708<br>Amarillo, TX 79105   | Mark Bivins<br>PO Box 708<br>Amarillo, TX 79105                                       | 17,375.000 | 0.69        |
| Gornito                                 | Gornito & Associates Inc Retirement Plan<br>3710 Acorn Wood Way<br>Houston, TX 77059  | Gornito & Associates Inc Retirement Plan<br>3710 Acorn Wood Way<br>Houston, TX 77059  | 17,143.000 | 0.68        |
| Devaney, Patrick Devaney 1980 Trust     | Patrick Devaney 1980 Trust<br>3409 S Hwy 171<br>Cleburne, TX 76031  | Patrick Devaney 1980 Trust<br>3409 S Hwy 171<br>Cleburne, TX 76031                    | 16,777.000 | 0.67        |
| Devaney, Matthew Devaney 1980 Trust     | Matthew Devaney 1980 Trust<br>3409 S Hwy 171<br>Cleburne, TX 76031  | Matthew Devaney 1980 Trust<br>3409 S Hwy 171<br>Cleburne, TX 76031                    | 16,777.000 | 0.67        |
| Devaney, Christopher Devaney 1980 Trust | Christopher Devaney 1980 Trust<br>3409 S Hwy 171<br>Cleburne, TX 76031  | Christopher Devaney 1980 Trust<br>3409 S Hwy 171<br>Cleburne, TX 76031                | 16,778.000 | 0.67        |
| Wallace, Ronnie & Linda                 | Ronnie Wallace & Linda Wallace<br>2909 Rivergrove Court<br>Fort Worth, TX 76116   | Ronnie Wallace & Linda Wallace<br>2909 Rivergrove Court<br>Fort Worth, TX 76116       | 16,679.000 | 0.66        |
| Brooks, Douglas                         | Douglas Brooks<br>PO Box 101628<br>Fort Worth, TX 76185   | Douglas Brooks<br>PO Box 101628<br>Fort Worth, TX 76185                               | 15,613.000 | 0.62        |
| Shope, Jared (SEP)                      | SEP FBO Jared Shope<br>Pershing LLC as Custodian<br>Pershing LLC - Alternative Investments<br>1 Pershing Plaza<br>Jersey City, NJ 07399 | Jared Shope SEP<br>6633 Cahoba Dr.<br>Ft. Worth, TX 76135                             | 15,300.000 | 0.61        |
| Winkler, Derek & Lynette                | Derek Winkler & Lynette Winkler<br>929 Deforest Rd.<br>Coppell, TX 75019  | Derek Winkler & Lynette Winkler<br>929 Deforest Rd.<br>Coppell, TX 75019              | 14,285.000 | 0.57        |
| Haas, H. Charles & Susan P.             | H. Charles Haas & Susan P. Haas<br>1913 Clearwater Drive<br>Round Rock, TX 78681  | H. Charles Haas & Susan P. Haas<br>1913 Clearwater Drive<br>Round Rock, TX 78681      | 13,334.000 | 0.53        |
| Smith, Craig & Lisa                     | Craig Smith & Lisa Smith<br>2019 W. Orangewood Ave.<br>Orange, CA 92868   | Craig Smith & Lisa Smith<br>2019 W. Orangewood Ave.<br>Orange, CA 92868               | 13,224.000 | 0.52        |

| <b>Name/ID</b>                           | <b>Name/Address</b>  | <b>IRS Name/Address</b>  | <b>Shares</b> | <b>% Ownership</b> |
|--|--|--|---------------|--------------------|
| Hammer, Mark                             | Mark Hammer<br>5305 Shady River<br>Houston, TX 77056   | Mark Hammer<br>5305 Shady River<br>Houston, TX 77056   | 13,000,000    | 0.52               |
| Ellis, Ed                                | Ed Ellis<br>PO Box 130<br>Round Top, TX 78954  | Ed Ellis<br>PO Box 130<br>Round Top, TX 78954  | 13,224,000    | 0.52               |
| Carr, Scott                              | Scott A Carr<br>5121 Bee Cave Rd Ste 207<br>Austin, TX 78746   | Scott Carr<br>5121 Bee Cave Rd Ste 207<br>Austin, TX 78746   | 13,224,000    | 0.52               |
| Tomlinson, LaDainian & LaTorsha          | LaDainian Tomlinson &<br>LaTorsha Tomlinson<br>19 Wyck Hill Ln<br>Westlake, TX 76262-8501                              | LaDainian Tomlinson &<br>LaTorsha Tomlinson<br>19 Wyck Hill Ln<br>Westlake, TX 76262-8501                              | 12,613,000    | 0.50               |
| Ryan, Victoria Lynn 2002 Trust           | Victoria Lynn Ryan 2002 Trust<br>Attn: Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                 | Victoria Lynn Ryan 2002 Trust<br>Attn: Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                 | 11,804,000    | 0.47               |
| Ryan, Nolan Montgomery Bivins 2009 Trust | Nolan Montgomery Bivins 2009 Trust<br>Attn: Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665              | Nolan Montgomery Bivins 2009 Trust<br>Attn: Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665              | 11,804,000    | 0.47               |
| Ryan, Lela Teel Bivins 2011 Trust        | Lela Teel Bivins 2011 Trust<br>Attn: Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                     | Lela Teel Bivins 2011 Trust<br>Attn: Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                     | 11,803,000    | 0.47               |
| Ryan, Julia Elizabeth 2003 Trust         | Julia Elizabeth Ryan 2003 Trust<br>Attn: Reese Ryan or Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665 | Julia Elizabeth Ryan 2003 Trust<br>Attn: Reese Ryan or Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665 | 11,804,000    | 0.47               |
| Ryan, Jackson Ray 2001 Trust             | Jackson Ray Ryan 2001 Trust<br>Attn: Reese Ryan or Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665     | Jackson Ray Ryan 2001 Trust<br>Attn: Reese Ryan or Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665     | 11,804,000    | 0.47               |
| Ryan, Ella Reese Ryan Trust              | Ella Reese Ryan Trust<br>Attn: Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                         | Ella Reese Ryan Trust<br>Attn: Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                         | 11,804,000    | 0.47               |
| Ryan, Caroline Avery Ryan 2001 Trust     | Caroline Avery Ryan 2001 Trust<br>Attn: Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                | Caroline Avery Ryan 2001 Trust<br>Attn: Wendy Bivins<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665                | 11,804,000    | 0.47               |
| Reagan II, William Kevin                 | William Kevin Reagan II<br>7301 Burlleson Rd<br>Austin, TX 78744   | William Kevin Reagan II<br>7301 Burlleson Rd<br>Austin, TX 78744   | 11,919,000    | 0.47               |

| Name/ID               | Name/Address  | IRS Name/Address  | Shares     | % Ownership |
|-----------------------|---|---|------------|-------------|
| Knight, Scot & Tara   | Scot Knight & Tara Knight<br>2313 Berwick Dr<br>Round Rock, TX 78681        | Scot Knight<br>Tara Knight<br>2313 Berwick Dr<br>Round Rock, TX 78681       | 11,306.000 | 0.45        |
|                       | Bubela, Chris & Michelle  | Chris Bubela and Michelle Bubela<br>3064 County Rd 401<br>Edna, TX 77957    |            |             |
| Green, Malvin & Donna | Malvin Green & Donna Green<br>20 Sarazen Loop North<br>Georgetown, TX 78628 | Malvin Green & Donna Green<br>20 Sarazen Loop North<br>Georgetown, TX 78628 | 10,534.000 | 0.42        |
|                       | Lockett, David & Marsha   | David Lockett & Marsha Lockett<br>7601 Newhall Ln<br>Austin, TX 78746       |            |             |
| Schonwetter, Mark     | Mark Schonwetter<br>5 Tombley Dr<br>Livingston, NJ 07039                    | Mark Schonwetter<br>5 Tombley Dr<br>Livingston, NJ 07039                    | 10,000.000 | 0.40        |
|                       | Moore, Greg & Paola   | Greg Moore & Paola Moore<br>3201 Rain Dance Cove<br>Austin, TX 78746        |            |             |
| Miller, Gregg         | Gregg Miller<br>2218 Settlers Park Lp<br>Round Rock, TX 78665               | Gregg Miller<br>2218 Settlers Park Lp<br>Round Rock, TX 78665               | 10,000.000 | 0.40        |
|                       | Maloney, Con & Betty  | Con Maloney & Betty Maloney<br>333 Roses Bluff Dr<br>Madison, MS 39110      |            |             |
| Goldman, Adam         | Adam Goldman<br>1901 Hill Oaks Ct<br>Austin, TX 78703                       | Adam Goldman<br>1901 Hill Oaks Ct<br>Austin, TX 78703                       | 10,000.000 | 0.40        |
|                       | Frazier, Kenneth H.   | Kenneth H. Frazier, Jr<br>5700 Travis Green Lane<br>Austin, TX 78735        |            |             |
| Fendrick, Dave        | Dave Fendrick<br>207 Serenada Dr<br>Georgetown, TX 78628                    | Dave Fendrick<br>207 Serenada Dr<br>Georgetown, TX 78628                    | 10,000.000 | 0.40        |
|                       | Moore, Jackie & JoAnn   | Jackie Moore & JoAnn Moore<br>2721 Laurel Valley<br>Arlington, TX 76006     |            |             |
| Glace Jr, Charles J   | Charles J Glace, Jr<br>PO Box 1057<br>Round Rock, TX 78680                  | Charles J Glace, Jr<br>PO Box 1057<br>Round Rock, TX 78680                  | 9,750.000  | 0.39        |

| <b>Name / ID</b>                 | <b>Name / Address</b>   | <b>IRS Name / Address</b>   | <b>Shares</b> | <b>% Ownership</b> |
|----------------------------------|---|---|---------------|--------------------|
| Fell, Douglas K & Christina A    | Douglas K Fell and<br>Christina A Fell<br>118 Tyrol Pl<br>San Antonio, TX 78209       | Douglas K Fell and<br>Christina A Fell<br>118 Tyrol Pl<br>San Antonio, TX 78209       | 9,257,000     | 0.37               |
| Scheible, Karl                   | Karl Scheible<br>210 Lavaca St Apt 2301<br>Austin, TX 78701                           | Karl Scheible<br>210 Lavaca St Apt 2301<br>Austin, TX 78701                           | 8,339,000     | 0.33               |
| Robins, Tim & Vicky              | Tim Robins &<br>Vicky Robins<br>2304 Woodway<br>Round Rock, TX 78681                  | Tim Robins &<br>Vicky Robins<br>2304 Woodway<br>Round Rock, TX 78681                  | 8,339,000     | 0.33               |
| Poulson, Kyle                    | Kyle Poulson<br>4132 Idlewild Dr.<br>Fort Worth, TX 76107                             | Kyle Poulson<br>4132 Idlewild Dr.<br>Fort Worth, TX 76107                             | 8,339,000     | 0.33               |
| Korman, Monica                   | Monica Korman<br>5821 Mount Bonnell Rd<br>Austin, TX 78731-3650                       | Monica Korman<br>5821 Mount Bonnell Rd<br>Austin, TX 78731-3650                       | 8,339,000     | 0.33               |
| Dees, Stephen E                  | Stephen E Dees<br>PO Box 442<br>Schulenburg, TX 78956                                 | Stephen E Dees<br>PO Box 442<br>Schulenburg, TX 78956                                 | 8,339,000     | 0.33               |
| Shope, Sean                      | Sean Shope<br>2908 Panhandle Dr<br>Grapevine, TX 76051                                | Sean Shope<br>2908 Panhandle Dr<br>Grapevine, TX 76051                                | 7,251,000     | 0.29               |
| Zeigler, Jeffrey A               | Jeffrey A Zeigler<br>4102 Churchill Downs Dr<br>Austin, TX 78746                      | Jeffrey A Zeigler<br>4102 Churchill Downs Dr<br>Austin, TX 78746                      | 6,666,000     | 0.26               |
| Miller, Jay & Joy                | Jay Miller &<br>Joy Miller<br>11 Honor Cove<br>Sugar Land, TX 77498                   | Jay Miller &<br>Joy Miller<br>11 Honor Cove<br>Sugar Land, TX 77498                   | 6,667,000     | 0.26               |
| Boyles, David                    | David Boyles and<br>Jill Boyles<br>1308 S Hill<br>Alvin, TX 77511                     | David Boyles<br>1308 S Hill<br>Alvin, TX 77511  | 6,612,000     | 0.26               |
| Reilly, Atlee M                  | Atlee M Reilly<br>184 Bay Road<br>Bowdoinham, ME 04008                                | Atlee M Reilly<br>184 Bay Road<br>Bowdoinham, ME 04008                                | 6,224,000     | 0.25               |
| Walters, Steven & Trinity Mereau | Steven Walters &<br>Trinity Mereau<br>2600 Lake Austin Blvd #8107<br>Austin, TX 78703 | Steven Walters &<br>Trinity Mereau<br>2600 Lake Austin Blvd #8107<br>Austin, TX 78703 | 5,730,000     | 0.23               |
| Mills, James H                   | James H Mills<br>1900 CR 103<br>Georgetown, TX 78626                                  | James H Mills<br>1900 CR 103<br>Georgetown, TX 78626                                  | 5,534,000     | 0.22               |
| Glance, Rebecca                  | Rebecca Glance<br>1018 HORNE DR.<br>CEDAR PARK, TX 78613                              | Rebecca Glance<br>1018 HORNE DR.<br>CEDAR PARK, TX 78613                              | 5,250,000     | 0.21               |

| Name/ID                                | Name/Address  | IRS Name/Address  | Shares    | % Ownership |
|--|---|---|-----------|-------------|
| Wittenburg, Hans R                     | Hans R Wittenburg<br>PO Box 1005<br>Edna, TX 77597  | Hans R Wittenburg<br>PO Box 1005<br>Edna, TX 77597  | 5,000.000 | 0.20        |
| Wells, James P                         | James P Wells<br>731 Cobblestone Drive<br>Shreveport, LA 71106  | James P Wells<br>731 Cobblestone Drive<br>Shreveport, LA 71106  | 5,000.000 | 0.20        |
| Shaw, Michael E.                       | Michael E. Shaw<br>4404 Travis Country Cir Apt L2<br>Austin, TX 78735-6652                                | Michael E. Shaw<br>4404 Travis Country Cir Apt L2<br>Austin, TX 78735-6652                                | 5,000.000 | 0.20        |
| Reilly, Austin T                       | Austin T Reilly<br>500 Main Street #600<br>Ft. Worth, TX 76102  | Austin T Reilly<br>500 Main Street #600<br>Ft. Worth, TX 76102  | 4,934.000 | 0.20        |
| R&D Family Ventures, LLC               | R&D Family Ventures, LLC<br>c/o Roy Jack Beard, Jr.<br>1902 Shadow Brook Cir.<br>Round Rock, TX 78681     | R&D Family Ventures, LLC<br>c/o Roy Jack Beard, Jr.<br>1902 Shadow Brook Cir.<br>Round Rock, TX 78681     | 5,000.000 | 0.20        |
| Pincoffs, Peter                        | E. Peter Pincoffs<br>221 W Sixth Street, Suite 1400<br>Austin, TX 78701                                   | E. Peter Pincoffs<br>221 W Sixth Street, Suite 1400<br>Austin, TX 78701                                   | 5,000.000 | 0.20        |
| Owens, Robert Logan & Stephanie Nelson | Robert Logan Owens &<br>Stephanie Nelson Owens<br>2204 Plumbrook Dr.<br>Austin, TX 78746                  | Robert Logan Owens &<br>Stephanie Nelson Owens<br>2204 Plumbrook Dr.<br>Austin, TX 78746                  | 5,000.000 | 0.20        |
| Losey, Doug & Victoria                 | Doug Losey &<br>Victoria Losey<br>1133 Eagle Point Drive<br>Georgetown, TX 78628                          | Doug Losey<br>Victoria Losey<br>109 Fairfield Court<br>Georgetown, TX 78633                               | 5,000.000 | 0.20        |
| Jackson, Larry                         | Larry Jackson<br>1296 CR 428<br>Rockdale, TX 76567  | Larry Jackson<br>1296 CR 428<br>Rockdale, TX 76567  | 5,000.000 | 0.20        |
| Golden, Gregory B                      | Gregory B Golden<br>2212 Bluff Circle<br>Salado, TX 76571   | Gregory B Golden<br>2212 Bluff Circle<br>Salado, TX 76571   | 5,000.000 | 0.20        |
| ACR/FIVE ACES, LTD                     | ACR/FIVE ACES, LTD<br>Attn: Axton Reilly<br>1017 S HWY 5<br>ALEDO, TX 76008                               | ACR/FIVE ACES, LTD<br>Attn: Axton Reilly<br>1017 S HWY 5<br>ALEDO, TX 76008                               | 5,004.000 | 0.20        |
| RKW Development Partnership, LTD       | RKW Development Partnership, LTD<br>c/o Ray A Wilkerson<br>8015 Shoal Creek Blvd #207<br>Austin, TX 78757 | RKW Development Partnership, LTD<br>c/o Ray A Wilkerson<br>8015 Shoal Creek Blvd #207<br>Austin, TX 78757 | 4,762.000 | 0.19        |
| Bubela, Chris                          | Chris Bubela<br>3064 County Rd 401<br>Edna, TX 77957  | Chris Bubela<br>3064 County Rd 401<br>Edna, TX 77957  | 4,750.000 | 0.19        |
| Smith, Dale (SEP IRA)                  | Dale Smith, SEP IRA<br>PO Box 15305<br>Amarillo, TX 79105   | Dale Smith, SEP IRA<br>PO Box 15305<br>Amarillo, TX 79105   | 4,451.000 | 0.18        |

| <b>Name/ID</b>                                  | <b>Name/Address</b>  | <b>IRS Name/Address</b>  | <b>Shares</b> | <b>% Ownership</b> |
|---|--|--|---------------|--------------------|
| Stein, David & Dena                             | David Stein &<br>Dena Stein<br>10048 Waldgrove Pl<br>San Diego, CA 92131   | David Stein &<br>Dena Stein<br>10048 Waldgrove Pl<br>San Diego, CA 92131                     | 4,169,000     | 0.17               |
| Maloney, Rhoda N Revocable Trust                | Rhoda N Maloney Revocable Trust<br>228 St. Andrews Drive<br>Jackson, MS 39211  | Rhoda N Maloney Revocable Trust<br>228 St. Andrews Drive<br>Jackson, MS 39211                | 4,169,000     | 0.17               |
| Maloney, Edward Charles Maloney Revocable Trust | Edward Charles Maloney Revocable Trust<br>228 St. Andrews Drive<br>Jackson, MS 39211   | Edward Charles Maloney Revocable Trust<br>228 St. Andrews Drive<br>Jackson, MS 39211         | 4,170,000     | 0.17               |
| Clawson, Sherry                                 | Sherry Clawson<br>1481 Old Settlers Blvd #1402<br>Round Rock, TX 78664   | Sherry Clawson<br>1481 Old Settlers Blvd #1402<br>Round Rock, TX 78664                       | 4,407,000     | 0.17               |
| Cashner, Andrew                                 | Andrew Cashner<br>14065 Amber Lane<br>Montgomery, TX 77316   | Andrew Cashner<br>14065 Amber Lane<br>Montgomery, TX 77316                                   | 4,169,000     | 0.17               |
| Reilly, Asher                                   | Asher Reilly<br>2219 Camelback Dr<br>San Antonio, TX 78209   | Asher Reilly<br>2219 Camelback Dr<br>San Antonio, TX 78209                                   | 3,967,000     | 0.16               |
| Martin, Matt                                    | Matt Martin<br>2023 Rue De St Tropez<br>Austin, TX 78746   | Matt Martin<br>2023 Rue De St Tropez<br>Austin, TX 78746                                     | 4,000,000     | 0.16               |
| Ellis, Suzanne Morrow Ellis Trust               | Suzanne Morrow Ellis Trust<br>Attn: Suzanne Ellis, Ttee<br>PO Box 130<br>Round Top, TX 78954   | Suzanne Morrow Ellis Trust<br>Attn: Suzanne Ellis, Ttee<br>PO Box 130<br>Round Top, TX 78954 | 4,049,000     | 0.16               |
| Davis, Riley                                    | Riley Davis<br>13800 FM 2331<br>Godley, TX 76044   | Riley Davis<br>13800 FM 2331<br>Godley, TX 76044   | 4,000,000     | 0.16               |
| Bone, James Hollis (IRA)                        | IRA FBO James Hollis Bone<br>Pershing LLC As Custodian<br>Pershing LLC, Alternative Investments<br>1 Pershing Plaza<br>Jersey City, NJ 07399 | James Hollis Bone IRA<br>2601 Henley Drive<br>Round Rock, TX 78681                           | 4,000,000     | 0.16               |
| Beam & Sons Inc.                                | Beam & Sons Inc.<br>c/o Grady M. Beam, President<br>6103 Shannon Rd.<br>Mesquite, TX 75181   | Beam & Sons Inc.<br>6103 Shannon Rd.<br>Mesquite, TX 75181                                   | 4,000,000     | 0.16               |
| 1010 AA HOLDINGS LP                             | 1010 AA Holdings LP<br>Attn: Anson Reilly<br>1017 S. FM Rd 5<br>Aledo, TX 76008  | 1010 AA Holdings LP<br>Attn: Anson Reilly<br>1017 S. FM Rd 5<br>Aledo, TX 76008              | 3,967,000     | 0.16               |
| Schrom, Ken                                     | Ken Schrom<br>1002 Black Diamond<br>Portland, TX 78374   | Ken Schrom<br>1002 Black Diamond<br>Portland, TX 78374                                       | 3,903,000     | 0.15               |

| Name/ID                              | Name/Address  | IRS Name/Address  | Shares    | % Ownership |
|--------------------------------------|---|---|-----------|-------------|
| Smith, Currie (MPP)                  | Currie Smith, Money Purchase Plan<br>3602 W. Washington<br>Amarillo, TX 79110                         | Currie Smith, Money Purchase Plan<br>3602 W. Washington<br>Amarillo, TX 79110                         | 3,523.000 | 0.14        |
| Connell, Jeanie E                    | Jeanie E Connell<br>3057 Locke Ln<br>Houston, TX 77019  | Jeanie E Connell<br>3057 Locke Ln<br>Houston, TX 77019  | 3,500.000 | 0.14        |
| Chronis, John                        | John Chronis<br>6902 Pascal Court<br>Austin, TX 78746   | John Chronis<br>6902 Pascal Court<br>Austin, TX 78746   | 3,500.000 | 0.14        |
| Wells, Margaret K                    | Margaret K Wells<br>14668 Wayside Court<br>Addison, TX 75001  | Margaret K Wells<br>14668 Wayside Court<br>Addison, TX 75001  | 3,333.000 | 0.13        |
| Wallace, Brad                        | Brad Wallace<br>5213 Bryce Ave.<br>Fort Worth, TX 76107   | Brad Wallace<br>5213 Bryce Ave.<br>Fort Worth, TX 76107   | 3,336.000 | 0.13        |
| Rogge, Kevin                         | Kevin Rogge<br>5260 Partridge Ln NW<br>Washington, DC 20016-5338                                      | Kevin Rogge<br>5260 Partridge Ln NW<br>Washington, DC 20016-5338                                      | 3,306.000 | 0.13        |
| Penn, F. Walter                      | F. Walter Penn<br>2200 Matthews Drive<br>Austin, TX 78703   | F. Walter Penn<br>2200 Matthews Drive<br>Austin, TX 78703   | 3,306.000 | 0.13        |
| Griggs, Cecil & Sharon               | Cecil Griggs &<br>Sharon Griggs<br>3709 Lakeview Dr<br>Grapevine, TX 76051                            | Cecil Griggs &<br>Sharon Griggs<br>3709 Lakeview Dr<br>Grapevine, TX 76051                            | 3,334.000 | 0.13        |
| Fogle, Elisa                         | Elisa Fogle<br>732 Blue Agave<br>Georgetown, TX 78626   | Elisa Fogle<br>732 Blue Agave<br>Georgetown, TX 78626   | 3,344.000 | 0.13        |
| Esse, Ivan                           | Ivan Lyn Esse<br>PO Box 176<br>Whitsett, TX 78075   | Ivan Lyn Esse<br>PO Box 176<br>Whitsett, TX 78075   | 3,334.000 | 0.13        |
| Ryan, Grace Lien Schlegel 2009 Trust | Grace Lien Schlegel 2009 Trust<br>Attn: Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665 | Grace Lien Schlegel 2009 Trust<br>Attn: Reese Ryan<br>3400 E Palm Valley Blvd<br>Round Rock, TX 78665 | 2,900.000 | 0.12        |
| Page, William & Marly                | William H Page Jr &<br>Marly M Page<br>102 Swiftcurrent Trl<br>Austin, TX 78746                       | William H Page Jr &<br>Marly M Page<br>102 Swiftcurrent Trl<br>Austin, TX 78746                       | 3,150.000 | 0.12        |
| Danks, John                          | John Danks<br>702 Oaklands Dr<br>Round Rock, TX 78681   | John Danks<br>702 Oaklands Dr<br>Round Rock, TX 78681   | 3,000.000 | 0.12        |
| Bridges, Rob                         | Rob Bridges<br>2701 Verdebank Cir<br>Austin, TX 78703   | Rob Bridges<br>2701 Verdebank Cir<br>Austin, TX 78703   | 3,000.000 | 0.12        |

| <b>Name/ID</b>              | <b>Name/Address</b>   | <b>IRS Name/Address</b>   | <b>Shares</b> | <b>% Ownership</b> |
|-----------------------------|---|---|---------------|--------------------|
| Bowman, Lindsay             | Lindsay Bowman and Deborah Bowman<br>3112 Dawn Mesa Ct.<br>Round Rock, TX 78665 | Lindsay Bowman and Deborah Bowman<br>3112 Dawn Mesa Ct.<br>Round Rock, TX 78665 | 2,945,000     | 0.12               |
| Barron, Gloria              | Gloria Barron<br>105 Bree's Way<br>Aledo, TX 76008                              | Gloria Barron<br>105 Bree's Way<br>Aledo, TX 76008                              | 3,000,000     | 0.12               |
| Greenleaf, Clinton T        | Clinton T. Greenleaf, III<br>1309 Verdant Way<br>Austin, TX 78746               | Clinton T. Greenleaf, III<br>1309 Verdant Way<br>Austin, TX 78746               | 2,500,000     | 0.10               |
| Armour, Ray                 | Ray Armour and Patricia Armour<br>500 Innwood Drive<br>Georgetown, TX 78628     | Ray Armour and Patricia Armour<br>500 Innwood Drive<br>Georgetown, TX 78628     | 2,500,000     | 0.10               |
| Adams, Jamie                | Jamie Adams<br>1000 Ballpark Way #306<br>Arlington, TX 76011                    | Jamie Adams<br>1000 Ballpark Way #306<br>Arlington, TX 76011                    | 2,523,000     | 0.10               |
| Mebane, David & Kelly       | David W Mebane and Kelly E Mebane<br>3210 Riva Ridge Rd<br>Austin, TX 78746     | David W Mebane and Kelly E Mebane<br>3210 Riva Ridge Rd<br>Austin, TX 78746     | 2,381,000     | 0.09               |
| McNeel, Judi                | Judi McNeel<br>509 Coyote Rd.<br>Southlake, TX 76092                            | Judi McNeel<br>509 Coyote Rd.<br>Southlake, TX 76092                            | 2,381,000     | 0.09               |
| Wood, Brenda Sue & Bruce    | Brenda Sue Wood & Bruce Wood<br>135 Walnut Tree Loop<br>Georgetown, TX 78633    | Brenda Sue Wood & Bruce Wood<br>135 Walnut Tree Loop<br>Georgetown, TX 78633    | 2,000,000     | 0.08               |
| Stapp, Steve                | Steve Stapp<br>5 Oak View<br>Round Rock, TX 78664                               | Steve Stapp<br>5 Oak View<br>Round Rock, TX 78664                               | 2,000,000     | 0.08               |
| Land, Derek A & Stephanie S | Derek A Land & Stephanie S Land<br>3804 Desert Flower<br>Austin, TX 78746       | Derek A Land & Stephanie S Land<br>3804 Desert Flower<br>Austin, TX 78746       | 2,000,000     | 0.08               |
| Griggs, Sharon Lee          | Sharon Lee Griggs<br>3709 Lakeview<br>Grapevine, TX 76051                       | Sharon Lee Griggs<br>3709 Lakeview<br>Grapevine, TX 76051                       | 2,000,000     | 0.08               |
| Blackbird, M. David         | M. David Blackbird<br>4208 Park Hollow Ct<br>Austin, TX 78746                   | M. David Blackbird<br>4208 Park Hollow Ct<br>Austin, TX 78746                   | 2,000,000     | 0.08               |
| Barron, Greg                | Greg Barron<br>305 Island Drive<br>Unit D<br>Horsehoe Bay, TX 78657             | Greg Barron<br>305 Island Drive<br>Horsehoe Bay, TX 78657                       | 2,000,000     | 0.08               |

| Name/ID                            | Name/Address  | IRS Name/Address  | Shares    | % Ownership |
|------------------------------------|---|---|-----------|-------------|
| Gottsch, Jerry                     | Jerry J Gottsch<br>2909 Terrain Ln<br>Austin, TX 78731  | Jerry J Gottsch<br>2909 Terrain Ln<br>Austin, TX 78731                                    | 1,700.000 | 0.07        |
| Wood, Michael & Liza Marie Aguilar | Michael Wood &<br>Liza Marie Aguilar Wood<br>5406 Pressler Dr<br>Corpus Christi, TX 78413   | Michael Wood &<br>Liza Marie Aguilar Wood<br>5406 Pressler Dr<br>Corpus Christi, TX 78413 | 1,500.000 | 0.06        |
| Nuse, Harry Adam                   | Harry Adam Nuse<br>53 Talbott Dr.<br>Bowling Green, KY 42103  | Harry Adam Nuse<br>53 Talbott Dr.<br>Bowling Green, KY 42103                              | 1,500.000 | 0.06        |
| Kirkland, Judy                     | Judy Kirkland<br>3409 Forest Hills East Rd<br>LaGrange, TX 78945  | Judy Kirkland<br>3409 Forest Hills East Rd<br>LaGrange, TX 78945                          | 1,600.000 | 0.06        |
| Smith, Caroline Dulle (Trust)      | Caroline Dulle Smith 2005 Trust<br>Attn: Caroline Dulle Smith, Ttee<br>3009 S. Ong Street<br>Amarillo, TX 79109                                 | Caroline Dulle Smith 2005 Trust<br>3009 S. Ong Street<br>Amarillo, TX 79109               | 1,191.000 | 0.05        |
| Loomis, Jeff                       | Jeffrey N Loomis<br>& Barbara E Loomis<br>1610 Bruton Springs Rd<br>Austin, TX 78733  | Jeffrey N Loomis<br>1610 Bruton Springs Rd<br>Austin, TX 78733                            | 1,190.000 | 0.05        |
| Jackson, Larry & Priscilla         | Larry Jackson and<br>Priscilla Jackson<br>1296 CR 428<br>Rockdale, TX 76567   | Larry Jackson and<br>Priscilla Jackson<br>1296 CR 428<br>Rockdale, TX 76567               | 1,333.000 | 0.05        |
| Hurt, William R                    | William R Hurt<br>2417 Maconda Ln<br>Houston, TX 77027  | William R Hurt<br>2417 Maconda Ln<br>Houston, TX 77027                                    | 1,261.000 | 0.05        |
| Hayworth, Mary Ann                 | Mary Ann Hayworth<br>2023 South View Cir<br>Ft Collins, CO 80524  | Mary Ann Hayworth<br>2023 South View Cir<br>Ft Collins, CO 80524                          | 1,322.000 | 0.05        |
| Harris, T. Alan                    | T. Alan Harris<br>PO Box 160310<br>Austin, TX 78735   | T. Alan Harris<br>PO Box 160310<br>Austin, TX 78735                                       | 1,190.000 | 0.05        |
| Fell, Brian D                      | Brian D Fell<br>17008 Pagosa Springs Ct<br>Austin, TX 78717   | Brian D Fell<br>17008 Pagosa Springs Ct<br>Austin, TX 78717                               | 1,215.000 | 0.05        |
| Bridges, Rob & Elise               | Rob Bridges and<br>Elise Bridges<br>2701 Verdebank Cir.<br>Austin, TX 78703   | Rob Bridges and<br>Elise Bridges<br>2701 Verdebank Cir.<br>Austin, TX 78703               | 1,333.000 | 0.05        |
| Warren, Landy L (IRA)              | IRA FBO Landy Lefeaux Warren<br>Pershing LLC As Custodian<br>Pershing LLC, Alternative Investments<br>1 Pershing Plaza<br>Jersey City, NJ 07399 | Landy L Wairren<br>803 Penny Lane<br>Round Rock, TX 78681                                 | 1,000.000 | 0.04        |

| Name / ID                      | Name / Address  | IRS Name / Address  | Shares    | % Ownership |
|--------------------------------|---|---|-----------|-------------|
| Kesselring, Mark               | Mark Kesselring<br>or Sara Kesselring<br>703 Oak Park Dr.<br>Round Rock, TX 78681   | Mark Kesselring<br>703 Oak Park Dr.<br>Round Rock, TX 78681                         | 1,000,000 | 0.04        |
| Gravelle, Ryan K               | Ryan K. Gravelle<br>3202 Three Rivers Drive<br>Austin, TX 78746                     | Ryan K. Gravelle<br>3202 Three Rivers Drive<br>Austin, TX 78746                     | 1,000,000 | 0.04        |
| Clawson, Michael J & Cynthia S | Michael J Clawson and<br>Cynthia S Clawson<br>3201 CR 536A<br>Alvin, TX 77511       | Michael J Clawson and<br>Cynthia S Clawson<br>3201 CR 536A<br>Alvin, TX 77511       | 1,000,000 | 0.04        |
| Clawson, Matt                  | Matt Clawson<br>505 North Valley Dr<br>Manhattan Beach, CA 90266                    | Matt Clawson<br>505 North Valley Dr<br>Manhattan Beach, CA 90266                    | 1,000,000 | 0.04        |
| Clawson, Geoffrey B            | Geoffrey B Clawson<br>505 North Valley Dr<br>Manhattan Beach, CA 90266              | Geoffrey B Clawson<br>505 North Valley Dr<br>Manhattan Beach, CA 90266              | 1,000,000 | 0.04        |
| Baker, P. James                | P. James Baker<br>7305 Tidal Trace<br>Arlington, TX 76016                           | P. James Baker<br>7305 Tidal Trace<br>Arlington, TX 76016                           | 1,000,000 | 0.04        |
| Tyndall, Lisa E                | Lisa E Tyndall<br>169 Comanche Pt.<br>Lago Vista, TX 78645                          | Lisa E Tyndall<br>169 Comanche Pt.<br>Lago Vista, TX 78645                          | 425,000   | 0.02        |
| Nuse, Adam & Sarah             | Harry Adam Nuse and<br>Sarah Nuse<br>53 Talbott Dr.<br>Bowling Green, KY 42103      | Harry Adam Nuse and<br>Sarah Nuse<br>53 Talbott Dr.<br>Bowling Green, KY 42103      | 392,000   | 0.02        |
| Moore, Patricia Conrad         | Patricia Conrad Moore<br>1800 Foxfire Cove<br>Round Rock, TX 78681                  | Patricia Conrad Moore<br>1800 Foxfire Cove<br>Round Rock, TX 78681                  | 330,000   | 0.01        |
| Kirkland, Judy & Ricky         | Judy Kirkland<br>and Ricky Kirkland<br>3409 Forest Hill East<br>La Grange, TX 78945 | Judy Kirkland<br>and Ricky Kirkland<br>3409 Forest Hill East<br>La Grange, TX 78945 | 193,000   | 0.01        |
| McNair, Iliana                 | Iliana McNair<br>9406 Clearrock Dr.<br>Austin, TX 78750                             | Iliana McNair<br>9406 Clearrock Dr.<br>Austin, TX 78750                             | 50,000    | 0.00        |

**Report Totals:**

**Shareholder Count - 155**

**# of Shares - 2,520,837.000**

**% of Ownership - 100.11**

**R CORP FINANCIAL AND SUBSIDIARY**

**AUDITED CONSOLIDATED  
FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**



**CERTIFIED PUBLIC ACCOUNTANTS**

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## **REPORT OF INDEPENDENT AUDITORS**

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

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

### **Management’s Responsibility for the Consolidated Financial Statements**

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

### **Auditor’s Responsibility**

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

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

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

## **Opinion**

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

## **Other Matters**

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

## **Report of Supplementary Information**

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

*Fisher, Herbert & Kemble, P.C.*

San Antonio, Texas  
May 14, 2018

## R CORP FINANCIAL AND SUBSIDIARY

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

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

See notes to the consolidated financial statements.

**R CORP FINANCIAL AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**  
**(Dollars in Thousands)**

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

See notes to the consolidated financial statements.

**R CORP FINANCIAL AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Dollars in Thousands)**

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

See notes to the consolidated financial statements.

**R CORP FINANCIAL AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**(Dollars in Thousands)**

Years Ended December 31, 2017 and 2016

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

See notes to the consolidated financial statements.

## R CORP FINANCIAL AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF CASH FLOWS (Dollars in Thousands)

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

See notes to the consolidated financial statements.

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

---

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

|                        | <u>2017</u>     | <u>2016</u>     |
|------------------------|-----------------|-----------------|
| TIB                    | \$ 178          | \$ 178          |
| Federal Home Loan Bank | <u>1,101</u>    | <u>1,087</u>    |
| Total restricted stock | <u>\$ 1,279</u> | <u>\$ 1,265</u> |

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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

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

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

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

#### 3. FAIR VALUE DISCLOSURES

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 3. FAIR VALUE DISCLOSURES (continued)

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

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

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

|                               | <u>Level 1</u><br><u>Inputs</u> | <u>Level 2</u><br><u>Inputs</u> | <u>Level 3</u><br><u>Inputs</u> | <u>Total Fair</u><br><u>Value</u> |
|-------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------------------|
| <b>December 31, 2017</b>      |                                 |                                 |                                 |                                   |
| Securities available-for-sale | \$ -                            | \$ 78,607                       | \$ -                            | \$ 78,607                         |
| December 31, 2016             |                                 |                                 |                                 |                                   |
| Securities available-for-sale | \$ -                            | \$ 75,434                       | \$ -                            | \$ 75,434                         |

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 3. FAIR VALUE DISCLOSURES (continued)

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

|                          | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Total Fair<br>Value |
|--------------------------|-------------------|-------------------|-------------------|---------------------|
| <b>December 31, 2017</b> |                   |                   |                   |                     |
| Impaired loans           | \$ -              | \$ -              | \$ 788            | \$ 788              |
| December 31, 2016        |                   |                   |                   |                     |
| Impaired loans           | \$ -              | \$ -              | \$ 1,478          | \$ 1,478            |

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

|  | <u>2017</u>   | <u>2016</u>     |
|--|---------------|-----------------|
| Carrying value of impaired loans         | \$ 818        | \$ 1,551        |
| Specific valuation allowance allocations | <u>(30)</u>   | <u>(73)</u>     |
| Fair value of impaired loans             | <u>\$ 788</u> | <u>\$ 1,478</u> |

#### Non-Financial Assets and Non-Financial Liabilities

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 3. FAIR VALUE DISCLOSURES (continued)

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

|                          | <u>Level 1</u><br><u>Inputs</u> | <u>Level 2</u><br><u>Inputs</u> | <u>Level 3</u><br><u>Inputs</u> | <u>Total Fair</u><br><u>Value</u> |
|--------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------------------|
| <b>December 31, 2017</b> |                                 |                                 |                                 |                                   |
| Other real estate        | \$ -                            | \$ -                            | \$ 243                          | \$ 243                            |
| December 31, 2016        |                                 |                                 |                                 |                                   |
| Other real estate        | \$ -                            | \$ -                            | \$ -                            | \$ -                              |

#### Fair Value of Financial Instruments

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Thousands)

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3. FAIR VALUE DISCLOSURES (continued)

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 3. FAIR VALUE DISCLOSURES (continued)

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 4. SECURITIES

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 4. SECURITIES (continued)

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 4. SECURITIES (continued)

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 4. SECURITIES (continued)

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

#### 5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 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.

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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.

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

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

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

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

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

*Substandard* – Assets in this category have unsatisfactory credit quality with well-defined weaknesses or weaknesses that jeopardize the liquidation of the debt. Generally, assets in this category are inadequately protected by the current sound worth and paying capacity of the obligor 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.

**R CORP FINANCIAL AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Thousands)**

December 31, 2017 and 2016

**5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)**

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

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

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

*Credit Risk Profile by  
Internally Assigned Guide*

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)

##### *Credit Risk Profile Based on Payment Activity*

|                          | Real Estate       | Commercial<br>and Industrial | Agriculture     | Consumer        | Other         | Total             |
|--------------------------|-------------------|------------------------------|-----------------|-----------------|---------------|-------------------|
| <b>December 31, 2017</b> |                   |                              |                 |                 |               |                   |
| Performing               | \$ 183,355        | \$ 147,024                   | \$ 8,262        | \$ 5,205        | \$ 15         | \$ 343,861        |
| Nonperforming            | <u>83</u>         | <u>334</u>                   | <u>-</u>        | <u>8</u>        | <u>-</u>      | <u>425</u>        |
| Total                    | <u>\$ 183,438</u> | <u>\$ 147,358</u>            | <u>\$ 8,262</u> | <u>\$ 5,213</u> | <u>\$ 15</u>  | <u>\$ 344,286</u> |
| December 31, 2016        |                   |                              |                 |                 |               |                   |
| Performing               | \$ 153,367        | \$ 126,964                   | \$ 8,782        | \$ 5,993        | \$ 275        | \$ 295,381        |
| Nonperforming            | <u>228</u>        | <u>59</u>                    | <u>-</u>        | <u>9</u>        | <u>-</u>      | <u>296</u>        |
| Total                    | <u>\$ 153,595</u> | <u>\$ 127,023</u>            | <u>\$ 8,782</u> | <u>\$ 6,002</u> | <u>\$ 275</u> | <u>\$ 295,677</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, 2017 and 2016, is as follows (dollars in thousands):

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

**R CORP FINANCIAL AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Thousands)**

December 31, 2017 and 2016

**5. LOANS AND ALLOWANCE FOR LOAN LOSSES (continued)**

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

|   | 2017   |  |   | 2016   |  |   |
|---|--------|--|---|--------|--|---|
|   | Number | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Troubled Debt Restructuring                               |        |  |   |        |  |   |
| Real estate   | 1      | \$ 37  | \$ 37   | -      | \$ -   | \$ -  |
| Commercial and industrial                                 | -      | -  | -   | -      | -  | -   |
| Agriculture   | -      | -  | -   | -      | -  | -   |
| Consumer and other  | -      | -  | -   | -      | -  | -   |
|   |        |  |   |        |  |   |
|   |        | Recorded Investment                              |   |        | Recorded Investment                              |   |
| Troubled Debt Restructurings that Subsequently Defaulted: |        |  |   |        |  |   |
| Real estate   |        | 4  | \$ 213  | None   |  | N/A   |
| Commercial and industrial                                 |        | -  | -   | -      |  | -   |
| Agriculture   |        | -  | -   | -      |  | -   |
| Consumer and other  |        | -  | -   | -      |  | -   |

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

**6. OTHER REAL ESTATE OWNED**

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 6. OTHER REAL ESTATE OWNED (continued)

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

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

#### 7. PREMISES AND EQUIPMENT

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

|  | <u>2017</u>     | <u>2016</u>     |
|--|-----------------|-----------------|
| Leasehold improvements                         | \$ 960          | \$ 813          |
| Furniture, fixtures and equipment              | 4,885           | 4,599           |
| Construction in process                        | <u>1,390</u>    | <u>88</u>       |
|  | 7,235           | 5,500           |
| Less accumulated depreciation and amortization | <u>(3,334)</u>  | <u>(2,757)</u>  |
| Premises and equipment, net                    | <u>\$ 3,901</u> | <u>\$ 2,743</u> |
|  | <u>2017</u>     | <u>2016</u>     |
| Depreciation expense                           | \$ 612          | \$ 773          |

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

**R CORP FINANCIAL AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in Thousands)**

December 31, 2017 and 2016

**8. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

|                          | Gross<br>Intangible<br>Assets | Accumulated<br>Amortization | Net<br>Intangible<br>Assets |
|--------------------------|-------------------------------|-----------------------------|-----------------------------|
| <b>December 31, 2017</b> |                               |                             |                             |
| Goodwill                 | \$ 4,667                      | \$ -                        | \$ 4,667                    |
| Core deposit intangibles | <u>1,669</u>                  | <u>(709)</u>                | <u>960</u>                  |
|                          | <u>\$ 6,336</u>               | <u>\$ (709)</u>             | <u>\$ 5,627</u>             |
| <br>December 31, 2016    |                               |                             |                             |
| Goodwill                 | \$ 4,667                      | \$ -                        | \$ 4,667                    |
| Core deposit intangibles | <u>1,669</u>                  | <u>(481)</u>                | <u>1,188</u>                |
|                          | <u>\$ 6,336</u>               | <u>\$ (481)</u>             | <u>\$ 5,855</u>             |

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

|                          |               |
|--------------------------|---------------|
| Years Ending December 31 |               |
| 2018                     | \$ 228        |
| 2019                     | 228           |
| 2020                     | 228           |
| 2021                     | 228           |
| 2022                     | <u>48</u>     |
| Total                    | <u>\$ 960</u> |

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 8. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

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

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

#### 9. DEPOSITS

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

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

|       |                   |
|-------|-------------------|
| 2018  | \$ 70,451         |
| 2019  | 48,748            |
| 2020  | 4,638             |
| 2021  | 46                |
| Total | <u>\$ 123,883</u> |

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 10. BORROWINGS

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

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

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

#### 11. INCOME TAXES

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

|                            | <u>2017</u>     | <u>2016</u>    |
|----------------------------|-----------------|----------------|
| Current income tax         | \$ 680          | \$ 1,456       |
| Deferred income tax        | <u>421</u>      | <u>(1,282)</u> |
| Federal income tax expense | <u>\$ 1,101</u> | <u>\$ 174</u>  |

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 11. INCOME TAXES (continued)

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 11. INCOME TAXES (continued)

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

#### 12. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

|                              | Contract Amount  |                  |
|------------------------------|------------------|------------------|
|                              | 2017             | 2016             |
| Commitments to extend credit | \$ 66,248        | \$ 62,470        |
| Standby letters of credit    | 2,228            | 1,061            |
| Total                        | <u>\$ 68,476</u> | <u>\$ 63,531</u> |

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

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

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

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

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

|                          |                 |
|--------------------------|-----------------|
| Year ending December 31, |                 |
| 2018                     | \$ 1,251        |
| 2019                     | 1,139           |
| 2020                     | 572             |
| 2021                     | 570             |
| 2022                     | 510             |
| Thereafter               | <u>4,250</u>    |
|                          | <u>\$ 8,292</u> |

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

|                          |    |            |
|--------------------------|----|------------|
| Year ending December 31, |    |            |
| 2018                     | \$ | 81         |
| 2019                     |    | <u>60</u>  |
|                          | \$ | <u>141</u> |

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

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

#### 13. RELATED PARTY TRANSACTIONS

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 13. RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

#### 14. EQUITY AWARDS

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 14. EQUITY AWARDS (continued)

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 14. EQUITY AWARDS (continued)

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

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

|   | 2017  |   | 2016  |   |
|---|---|---|---|---|
|   | Number of<br>Shares of<br>Underlying<br>Options | Weighted-<br>Average<br>Exercise Prices | Number of<br>Shares of<br>Underlying<br>Options | Weighted-<br>Average<br>Exercise Prices |
| Unvested outstanding at beginning of the year | 14,500  | \$ 2.41                                 | 1,500   | \$ 2.41                                 |
| Granted                                       | 14,500  | 0.95                                    | 14,500  | 0.86                                    |
| Vested  | <u>(14,500)</u>                                 | <u>(2.41)</u>                           | <u>(1,500)</u>                                  | <u>2.41</u>                             |
| Unvested outstanding at end of the year       | <u>14,500</u>                                   | <u>0.95</u>                             | <u>14,500</u>                                   | <u>0.86</u>                             |

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

|                         | <u>2017</u> | <u>2016</u> |
|-------------------------|-------------|-------------|
| Dividend yield          | 4.58%       | 4.56%       |
| Expected volatility     | 10.0%       | 10.0%       |
| Risk-free interest rate | 2.45%       | 2.45%       |
| Expected life in years  | 9           | 9           |

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

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#### 15. EMPLOYEE BENEFIT PLAN

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

#### 16. REGULATORY MATTERS

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

---

#### 16. REGULATORY MATTERS (continued)

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

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

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

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

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

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

## R CORP FINANCIAL AND SUBSIDIARY

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands)

December 31, 2017 and 2016

#### 16. REGULATORY MATTERS (continued)

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

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

## **SUPPLEMENTARY INFORMATION**

## R CORP FINANCIAL AND SUBSIDIARY

### CONSOLIDATING BALANCE SHEET

(Dollars in Thousands, Except Share Data)

December 31, 2017

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

See Report of Independent Auditors.

## R CORP FINANCIAL AND SUBSIDIARY

### CONSOLIDATING STATEMENT OF INCOME

(Dollars in Thousands)

Year Ended December 31, 2017

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

See Report of Independent Auditors.

**R CORP FINANCIAL AND SUBSIDIARY**  
**2017 AUDIT REPORTING PACKAGE**



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**CERTIFIED PUBLIC ACCOUNTANTS**

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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, 2017, and have issued our report thereon dated May 14, 2018. 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 November 13, 2017, 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**

#### Significant Accounting Policies

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. No new significant accounting policies were adopted and the application of existing policies was not changed during 2017. 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.

**Regulatory Capital Requirements** – 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 2017. 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 May 14, 2018.

### **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, Herbert & Kemble, P.C.*

San Antonio, Texas  
May 14, 2018

## **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, 2017, and for the year then ended.

Client: **R Bank**  
 Engagement: **Audit - 2017 R Bank Audit**  
 Period Ending: **12/31/2017**  
 Workpaper: **1004c - Bank Adjusting Journal Entries Report**

| <b>Account</b>                          | <b>Description</b>          | <b>W/P Ref</b> | <b>Debit</b>            | <b>Credit</b>           |
|---|-----------------------------|----------------|-------------------------|-------------------------|
| <b>Adjusting Journal Entries JE # 3</b> |                             | <b>K-1.0</b>   |                         |                         |
| To post income tax entry.               |                             |                |                         |                         |
| 17240                                   | DEFERRED INCOME TAX         |                | 28,166.00               |                         |
| 25140                                   | ACCRUED FED TAX - CURRENT Y |                | 41,861.00               |                         |
| 58010                                   | PROVISION FOR CURR FED INC  |                |                         | 70,027.00               |
| <b>Total</b>                            |                             |                | <b><u>70,027.00</u></b> | <b><u>70,027.00</u></b> |

Client: **R Bank**  
Engagement: **Audit - 2017 R Bank Audit**  
Period Ending: **12/31/2017**  
Workpaper: **1004d - HC Adjusting Journal Entries Report - 2**

| <b>Account</b>                          | <b>Description</b>             | <b>W/P Ref</b> | <b>Debit</b>             | <b>Credit</b>            |
|---|--------------------------------|----------------|--------------------------|--------------------------|
| <b>Adjusting Journal Entries JE # 1</b> |                                | <b>K-1.0</b>   |                          |                          |
| To post tax entry.                      |                                |                |                          |                          |
| 14100                                   | INVESTMENT IN SUB - R BANK     |                | 70,027.00                |                          |
| 25140                                   | ACCRUED FED TAX - CURRENT YEAR |                | 41,861.00                |                          |
| 11100                                   | DUE FROM R BANK                |                |                          | 41,861.00                |
| 41130                                   | EQUITY IN UNDIST SUB - R BANK  |                |                          | 70,027.00                |
| <b>Total</b>                            |                                |                | <b><u>111,888.00</u></b> | <b><u>111,888.00</u></b> |

## **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, 2017, and for the year then ended.

Client: **R Bank**  
 Engagement: **Audit - 2017 R Bank Audit**  
 Period Ending: **12/31/2017**  
 Workpaper: **1004e - HC Proposed Journal Entries Report**

| <u>Account</u>  | <u>Description</u>             | <u>W/P Ref</u> | <u>Debit</u>     | <u>Credit</u>    |
|---|--------------------------------|----------------|------------------|------------------|
| <b>Proposed Journal Entries JE # 2</b>                        |                                | <b>F-2</b>     |                  |                  |
| To post income tax entry related to fixed asset depreciation. |                                |                |                  |                  |
| 58010   | PROVISION FOR CURR FED INC TAX |                | 18,474.00        |                  |
| 17100   | DEFERRED INCOME TAX            |                |                  | 18,474.00        |
|   |                                |                | <u>18,474.00</u> | <u>18,474.00</u> |

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

Client: **R Bank**  
 Engagement: **Audit - 2017 R Bank Audit**  
 Period Ending: **12/31/2017**  
 Workpaper: **1004f - Bank Proposed Journal Entries Report**

| <b>Account</b>   | <b>Description</b>           | <b>W/P Ref</b> | <b>Debit</b>     | <b>Credit</b>    |
|--|------------------------------|----------------|------------------|------------------|
| <b>Proposed Journal Entries JE # 2</b>   |                              | <b>F-2</b>     |                  |                  |
| To remove property that is not in service but being depreciated from the general ledger. |                              |                |                  |                  |
| 18240  | ACCUM DEPR SOFTWARE          |                | 45,642.00        |                  |
| 59010  | GAIN <LOSS> ON SALE OF ASSET |                | 42,092.00        |                  |
| 18230  | COMPUTER SOFTWARE            |                |                  | 87,734.00        |
|  |                              |                | <u>87,734.00</u> | <u>87,734.00</u> |

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

## 2017 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, 2017, 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 cash balances for tellers and banking center as of December 31, 2017 are exceeding the limits set by the Company.
- The Jarrell banking center teller/vault reconciliations was not dated for the five dates selected, therefore, we are unable to determine the timeliness of the preparation and/or review.

- The following matters were identified in relation to the ATM/EFT ADJMENT SUSPENSE account (GL#12120):
  - The reconciliation could be improved by presenting the items which are still outstanding that agree to the general ledger at month-end and separately present cleared transactions.
  - Four month-end reconciliations (February, March, May and June 2017) were not prepared or reviewed until November 2017.
  - September 30, 2017 reconciliation had not been completed as of interim field-work date (December 19, 2017).
- The Company was not reconciling the cash in transit account as of December 31, 2017. Subsequent to fieldwork, the Company began a quarterly reconciliation as of March 31, 2018. The balance is the same at March 31, 2018 as it was at December 31, 2017 and has one reconciling item from September 22, 2017. The reconciling item is for mutilated currency and has not cleared as of this report date.

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, Herbat & Kemble, P.C.*

San Antonio, Texas  
May 14, 2018