

CROSS BORDER RESOURCES, INC.  
 Form 3  
 March 13, 2012

**FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

OMB APPROVAL

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**INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,  
 Section 17(a) of the Public Utility Holding Company Act of 1935 or Section  
 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *			2. Date of Event Requiring Statement	3. Issuer Name <b>and</b> Ticker or Trading Symbol	
Â RED MOUNTAIN RESOURCES, INC.			(Month/Day/Year)	CROSS BORDER RESOURCES, INC. [XBOR]	
(Last)	(First)	(Middle)	05/23/2011		
2515 MCKINNEY AVENUE,Â SUITE 900			4. Relationship of Reporting Person(s) to Issuer		
(Street)			(Check all applicable)		
DALLAS,Â TXÂ 75201			<input type="checkbox"/> Director <input checked="" type="checkbox"/> 10% Owner <input type="checkbox"/> Officer <input type="checkbox"/> Other (give title below)    (specify below)		
(City)	(State)	(Zip)	5. If Amendment, Date Original Filed(Month/Day/Year)		
			6. Individual or Joint/Group Filing(Check Applicable Line)		
			<input checked="" type="checkbox"/> Form filed by One Reporting Person		
			<input type="checkbox"/> Form filed by More than One Reporting Person		

**Table I - Non-Derivative Securities Beneficially Owned**

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	2,136,164 <sup>(1)</sup>	I	Held by Black Rock Capital, Inc., the Reporting Person's wholly owned subsidiary

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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**Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security	2. Date Exercisable and Expiration Date	3. Title and Amount of Securities Underlying	4. Conversion	5. Ownership	6. Nature of Indirect Beneficial
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(Instr. 4)	(Month/Day/Year)		Derivative Security (Instr. 4)		or Exercise Price of Derivative Security	Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 5)	Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of Shares			
Warrant (right to buy)	11/26/2011	05/26/2016	Common Stock	2,136,164 <sup>(1)</sup>	\$ 2.25	I	Held by Black Rock Capital, Inc., the Reporting Person's wholly owned subsidiary

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RED MOUNTAIN RESOURCES, INC. 2515 MCKINNEY AVENUE SUITE 900 DALLAS, TX 75201	^	^ X	^	^

## Signatures

/s/ Alan W. Barksdale, CEO  
Date: 03/13/2012

\*\*Signature of Reporting Person

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Included within units of the Issuer, with each unit consisting of one share of common stock and one warrant to purchase one share of common stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. tr>

Allowance/Nonperforming Loans

185.87

%

157.40

%

135.40

%

104.60

%

62.48

%

<sup>(1)</sup> Nonaccrual TDRs totaling \$2.3 million, \$1.7 million, and \$2.7 million are included in nonaccrual/NPL totals for

December 31, 2017, December 31, 2016 and December 31, 2015, respectively.

**Table 8**  
**NONPERFORMING ASSET ACTIVITY**

<i>(Dollars in Thousands)</i>	<b>2017</b>	<b>2016</b>
NPA Beginning Balance:	\$ 19,171	\$ 29,595
Change in Nonaccrual Loans:		
Beginning Balance	8,533	10,305
Additions	14,122	13,065
Charge-Offs	(2,912)	(2,783)
Transferred to OREO	(1,402)	(3,718)
Paid Off/Payments	(4,440)	(3,153)
Restored to Accrual	(6,742)	(5,183)
Ending Balance	7,159	8,533
Change in OREO:		
Beginning Balance	10,638	19,290
Additions <sup>(1)</sup>	2,384	4,016
Valuation Write-downs	(1,318)	(2,363)
Sales	(7,496)	(10,305)
Other	(267)	-
Ending Balance	3,941	10,638
<b>NPA Net Change</b>	<b>(8,071)</b>	<b>(10,424)</b>
NPA Ending Balance	\$ 11,100	\$ 19,171

<sup>(1)</sup> The difference in OREO additions and nonaccrual loans transferred to OREO represents loans migrating to OREO status that were not in a nonaccrual status in prior period.

*Nonaccrual Loans.* Nonaccrual loans totaled \$7.2 million at December 31, 2017, a decrease of \$1.4 million from December 31, 2016. Gross additions to nonaccrual status during 2017 totaled \$14.1 million compared to \$13.1 million in 2016. The commercial real estate and residential real estate categories realized the largest declines.

Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due or management deems the collectability of the principal and interest to be doubtful. Once a loan is placed in nonaccrual status, all previously accrued and uncollected interest is reversed against interest income. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured. If interest on our loans classified as nonaccrual during 2017 had been recognized on a fully accruing basis, we would have recorded an additional \$0.5 million of interest income for the year ended December 31, 2017.

*Other Real Estate Owned.* OREO represents property acquired as the result of borrower defaults on loans or by receiving a deed in lieu of foreclosure. OREO is recorded at the lower of cost or estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are either revalued internally or by a third party appraiser as required by applicable regulations. Subsequent declines in value are reflected as other noninterest expense. Carrying costs related to maintaining the OREO properties are expensed as incurred and are also reflected as other noninterest expense.

OREO totaled \$3.9 million at December 31, 2017 versus \$10.6 million at December 31, 2016. During 2017, we added properties totaling \$2.4 million, sold properties totaling \$7.5 million, recorded valuation adjustments totaling \$1.3 million, and miscellaneous adjustments totaling \$0.3 million. For 2016, we added properties totaling \$4.0 million and partially or completely liquidated properties totaling \$10.3 million. Revaluation adjustments for OREO properties during 2016 totaled \$2.4 million and were charged to noninterest expense when realized.

The composition of our OREO portfolio as of December 31 is provided in the table below.

<i>(Dollars in Thousands)</i>	<b>2017</b>		<b>2016</b>	
Lots/Land	\$	2,435	\$	7,052
Residential 1-4		187		1,035
Commercial Building		450		1,551
Other		869		1,000
Total OREO	\$	3,941	\$	10,638

*Troubled Debt Restructurings.* TDRs are loans on which, due to the deterioration in the borrower's financial condition, the original terms have been modified and deemed a concession to the borrower. From time to time we will modify a loan as a workout alternative. Most of these instances involve an extension of the loan term, an interest rate

reduction, or a principal moratorium. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan.

Loans classified as TDRs at December 31, 2017 totaled \$34.5 million compared to \$40.0 million at December 31, 2016. Accruing TDRs made up approximately \$32.2 million, or 93%, of our TDR portfolio at December 31, 2017 of which \$0.9 million was over 30 days past due. The weighted average rate for the loans within the accruing TDR portfolio was 5.2%. During 2017, we modified 9 loan contracts totaling approximately \$0.6 million. Our TDR default rate (default balance as a percentage of average TDRs) in 2016 and 2017 was 4% and 7%, respectively.

The composition of our TDR portfolio as of December 31 is provided in the table below.

<i>(Dollars in Thousands)</i>	2017		2016	
	Accruing	Nonaccruing <sup>(1)</sup>	Accruing	Nonaccruing <sup>(1)</sup>
Commercial, Financial and Agricultural	\$ 822	\$ -	\$ 772	\$ 40
Real Estate – Construction	64	-	-	-
Real Estate – Commercial Mortgage	17,058	1,636	20,673	1,259
Real Estate – Residential	11,666	503	13,969	444
Real Estate – Home Equity	2,441	186	2,647	-
Consumer	113	-	172	-
Total TDRs	\$ 32,164	\$ 2,325	\$ 38,233	\$ 1,743

<sup>(1)</sup> Nonaccruing TDRs are included in nonaccrual/NPL totals and NPA/NPL ratio calculations.

Activity within our TDR portfolio is provided in the table below.

<i>(Dollars in Thousands)</i>	2017	2016
TDR Beginning Balance:	\$ 39,976	\$ 38,321
Additions	643	5,808
Charge-Offs	(529)	(64)
Paid Off/Payments	(5,476)	(2,735)
Removal Due to Change in TDR Status	-	(710)
Transferred to OREO	(125)	(644)
TDR Ending Balance	\$ 34,489	\$ 39,976

*Past Due Loans.* A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due. Past due loans at December 31, 2017 totaled \$4.6 million compared to \$6.4 million at December 31, 2016.

*Potential Problem Loans.* Potential problem loans are defined as those loans which are now current but where management has doubt as to the borrower's ability to comply with present loan repayment terms. At December 31, 2017, we had \$1.9 million in loans of this type which are not included in either of the nonaccrual, TDR or 90 day past due loan categories compared to \$2.0 million at December 31, 2016. Management monitors these loans closely and reviews their performance on a regular basis.

*Loan Concentrations.* Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities which cause them to be similarly impacted by economic or other conditions and such amount exceeds 10% of total loans. Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of the markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the loan portfolio has historically been secured with real estate, approximately 70% at December 31, 2017 and 69% at December 31, 2016. The primary types of real estate collateral are commercial properties and 1-4 family residential properties. At

December 31, 2017, commercial real estate and residential real estate mortgage loans (including home equity loans) accounted for 32.3% and 32.9%, respectively, of the total loan portfolio.

The following table summarizes our real estate loan portfolio as segregated by the type of property. Property type concentrations are stated as a percentage of December 31<sup>st</sup> total real estate loans.

	2017		2016	
	Investor Real Estate	Owner Occupied Real Estate	Investor Real Estate	Owner Occupied Real Estate
Vacant Land, Construction, and Land Development	11.2%	-	10.7%	-
Improved Property	23.6	65.2%	22.2	67.1%
Total Real Estate Loans	34.8%	65.2%	32.9%	67.1%

A major portion of our real estate loan portfolio is centered in the owner occupied category which carries a lower risk of non-collection than certain segments of the investor category. Approximately 68% of the land/construction category was secured by residential real estate at December 31, 2017.



## **Allowance for Loan Losses**

Management believes it maintains the allowance for loan losses at a level sufficient to provide for probable credit losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from the borrowers' inability or unwillingness to repay, and from other risks inherent in the lending process including collateral risk, operations risk, concentration risk, and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the allowance. The allowance for loan losses is established through a provision charged to expense. Loans are charged-off against the allowance when losses are probable and reasonably quantifiable. The allowance for loan losses is based on management's judgment of overall credit quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on revisions to our assessment of the loan portfolio's overall credit quality and other risk factors both internal and external to us.

Management evaluates the adequacy of the allowance for loan losses on a quarterly basis. The allowance consists of two components. The first component consists of amounts reserved for impaired loans. A loan is deemed impaired when, based on current information and events, it is probable that the bank will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans are monitored for potential impairment through our ongoing loan review procedures and portfolio analysis. Classified loans and past due loans over a specific dollar amount, and all troubled debt restructurings are individually evaluated for impairment.

The approach for assigning reserves for the impaired loans is determined by the dollar amount of the loan and loan type. Impairment measurement for loans over a specific dollar are assigned on an individual loan basis with the amount reserved dependent on whether repayment of the loan is dependent on the liquidation of collateral or from some other source of repayment. If repayment is dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the fair value of the collateral after estimated sales expenses. If repayment is not dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the estimated cash flows discounted using the loan's effective interest rate. The discounted value of the cash flows is based on the anticipated timing of the receipt of cash payments from the borrower. The reserve allocations for individually measured impaired loans are sensitive to the extent market conditions or the actual timing of cash receipts change. Impairment reserves for smaller-balance loans under a specific dollar amount are assigned on a pooled basis utilizing loss factors for impaired loans of a similar nature.

The second component is a general reserve on all loans other than those identified as impaired. General reserves are assigned to various homogenous loan pools, including commercial, commercial real estate, construction, residential 1-4 family, home equity, and consumer. General reserves are assigned based on historical loan loss ratios determined by loan pool and internal risk ratings that are adjusted for various internal and external risk factors unique to each loan pool.

Table 9 analyzes the activity in the allowance over the past five years.

Explanation of Responses:

For 2017, our net loan charge-offs totaled \$2.3 million, or 0.14%, of average loans, compared to \$1.3 million, or 0.09%, for 2016, and \$5.2 million, or 0.35%, for 2015. The increase in 2017 was attributable to a lower level of loan recoveries. The decrease in 2016 was attributable to both a lower level of gross loan charge-offs and a higher level of loan recoveries as we were very successful during 2016 in our collection efforts for judgments obtained during the last economic recession. At December 31, 2017, the allowance for loan losses of \$13.3 million was 0.80% of outstanding loans (net of overdrafts) and provided coverage of 186% of nonperforming loans compared to 0.86% and 157%, respectively, at December 31, 2016, and 0.93% and 135%, respectively, at December 31, 2015.

Table 10 provides an allocation of the allowance for loan losses to specific loan types for each of the past five years.

The slight decrease in the allowance for loan losses from December 31, 2016 to December 31, 2017 was primarily attributable to a decline in general reserves which reflected favorable problem loan migration and improving risk factors within the loan portfolio. The reduction in the allowance for loan losses from December 31, 2015 to December 31, 2016 was primarily attributable to a decline in impaired loan reserves and reflected slower inflow and successful resolutions, as well as lower loss content. Since 2015, growth in the loan portfolio and related general reserves partially offset the aforementioned reductions due to favorable problem loan migration. It is management's opinion that the allowance at December 31, 2017 is adequate to absorb probable losses inherent in the loan portfolio.

**Table 9**  
**ANALYSIS OF ALLOWANCE FOR LOAN LOSSES**

<i>(Dollars in Thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Balance at Beginning of Year	\$ 13,431	\$ 13,953	\$ 17,539	\$ 23,095	\$ 29,167
Charge-Offs:					
Commercial, Financial and Agricultural	1,357	861	1,029	871	748
Real Estate – Construction	-	-	-	28	1,070
Real Estate – Commercial	685	349	1,250	3,788	3,651
Real Estate – Residential	411	899	1,852	2,160	3,835
Real Estate – Home Equity	190	450	1,403	1,379	1,159
Consumer	2,193	2,127	1,901	1,820	1,751
Total Charge-Offs	4,836	4,686	7,435	10,046	12,214
Recoveries:					
Commercial, Financial and Agricultural	313	337	239	214	209
Real Estate – Construction	50	-	-	9	1
Real Estate – Commercial	174	408	183	468	363
Real Estate – Residential	616	1,231	705	752	838
Real Estate – Home Equity	219	409	136	141	294
Consumer	1,125	960	992	1,001	965
Total Recoveries	2,497	3,345	2,255	2,585	2,670
Net Charge-Offs	2,339	1,341	5,180	7,461	9,544
Provision for Loan Losses	2,215	819	1,594	1,905	3,472
Balance at End of Year	\$ 13,307	\$ 13,431	\$ 13,953	\$ 17,539	\$ 23,095
Ratio of Net Charge-Offs to Average Loans					
Outstanding	0.14%	0.09%	0.35%	0.53%	0.66%
Allowance for Loan Losses as a Percent of					
Loans at End of Year	0.80%	0.86%	0.93%	1.22%	1.65%
Allowance for Loan Losses as a Multiple of					
Net Charge-Offs	5.69x	10.02x	2.69x	2.35x	2.42x



**Table 10**  
**ALLOCATION OF ALLOWANCE FOR LOAN**  
**LOSSES**

	2017		2016		2015		2014		2013	
	Percent of Loans in Each Category To		Percent of Loans in Each Category To		Percent of Loans in Each Category To		Percent of Loans in Each Category To		Percent of Loans in Each Category To	
(Dollars in Thousands)	Allow-ance Amount	Total Loans	Allow-ance Amount	Total Loans	Allow-ance Amount	Total Loans	Allow-ance Amount	Total Loans	Allow-ance Amount	Total Loans
Commercial, Financial										
and										
Agricultural	\$ 1,191	13.2%	\$ 1,198	13.8%	\$ 905	12.0%	\$ 784	9.5%	\$ 699	9.0%
Real Estate:										
Construction	122	4.7	168	3.7	101	3.1	843	3.0	1,580	2.6
Commercial	4,346	32.3	4,315	32.1	4,498	33.2	5,287	35.4	7,710	38.1
Residential	3,206	19.1	3,445	18.6	4,409	20.0	6,520	21.1	9,073	22.6
Home Equity	2,506	13.8	2,297	15.0	2,473	15.6	2,882	15.9	3,051	16.3
Consumer	1,936	16.9	2,008	16.8	1,567	16.1	1,223	15.1	982	11.4
Not Allocated	-	-	-	-	-	-	-	-	-	-
Total	\$ 13,307	100.0%	\$ 13,431	100.0%	\$ 13,953	100.0%	\$ 17,539	100.0%	\$ 23,095	100.0%

### Investment Securities

In 2017, our average investment portfolio increased \$16.3 million, or 2.4%, from 2016 and increased \$65.3 million, or 10.7%, from 2015 to 2016. As a percentage of average earning assets, the investment portfolio represented 27.7% in 2017, compared to 27.8% in 2016. In both 2016 and 2017, we strategically grew the portfolio to better deploy our liquidity. In 2018, we will continue to closely monitor liquidity levels and pledging requirements to assess the need to purchase additional investments, as well as look for new investment products that are prudent relative to our risk profile and overall investment strategy. A relatively short duration investment portfolio offers the flexibility to provide additional liquidity from maturing bonds, if necessary.

In 2017, average taxable investments increased \$9.5 million, or 1.6%, while tax-exempt investments increased \$6.8 million, or 7.5%. Both taxable and non-taxable investments increased as part of our overall investment strategy in 2017. High quality, short-term taxable and non-taxable bonds offered attractive yields during the year, resulting in favorable repricing in the investment portfolio. At December 31, 2017, municipal securities (taxable and non-taxable) comprised 13.1% of the portfolio. Management will continue to purchase municipal issues as they become available and when it considers the yield to be attractive given the lower federal tax rate related to the recent Tax Act.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. Two types of classifications are approved for investment securities which are Available-for-Sale (“AFS”) and Held-for-Maturity (“HTM”). In 2016 and 2017, securities were purchased under both the AFS and HTM designations. At December 31, 2017, \$480.9 million, or 68.9% of the investment portfolio was classified as AFS, with the remaining \$216.7 million, or 31.1%, classified as HTM. At December 31, 2016, the AFS and HTM portfolio comprised 74.7% and 25.3%, respectively. Table 11 provides the composition of our investment securities portfolio.

**Table 11****INVESTMENT SECURITIES COMPOSITION**

<i>(Dollars in Thousands)</i>	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>Carrying Amount</b>	<b>Percent</b>	<b>Carrying Amount</b>	<b>Percent</b>	<b>Carrying Amount</b>	<b>Percent</b>
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 235,341	33.7%	\$ 286,278	40.9%	\$ 250,346	39.2%
U.S. Government Agency	144,644	20.7	131,640	18.8	101,824	15.9
States and Political Subdivisions	91,157	13.1	94,839	13.5	88,362	13.8
Mortgage-Backed Securities	1,185	0.2	1,430	0.2	1,901	0.3
Equity Securities	8,584	1.2	8,547	1.2	8,595	1.3
<b>Total</b>	<b>480,911</b>	<b>68.9</b>	<b>522,734</b>	<b>74.7</b>	<b>451,028</b>	<b>70.6</b>
<b>Held to Maturity</b>						
U.S. Government Treasury	98,256	14.1	119,131	17.0	134,554	21.1
U.S. Government Agency	-	-	-	-	10,043	1.6
States and Political Subdivisions	6,996	1.0	8,175	1.2	15,693	2.5
Mortgage-Backed Securities	111,427	16.0	50,059	7.2	27,602	4.3
<b>Total</b>	<b>216,679</b>	<b>31.1</b>	<b>177,365</b>	<b>25.3</b>	<b>187,892</b>	<b>29.4</b>
<b>Total Investment Securities</b>	<b>\$ 697,590</b>	<b>100%</b>	<b>\$ 700,099</b>	<b>100%</b>	<b>\$ 638,920</b>	<b>100%</b>

At acquisition, the classification of the security will be determined based on how the purchase will affect our asset/liability strategy and future business plans and opportunities. Such decisions will be weighed against multiple factors, including regulatory capital requirements, volatility in earnings or other comprehensive income, and liquidity needs. Securities in the AFS portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income (loss) component of shareowners' equity. Securities that are HTM are those acquired or owned with the intent of holding them to maturity (final payment date). HTM investments are measured at amortized cost. It is neither management's current intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio.

At December 31, 2017, there were 532 positions (combined AFS and HTM) with unrealized losses totaling \$4.6 million. Ginnie Mae mortgage-backed securities, U.S. Treasuries, and SBA securities carry the full faith and credit guarantee of the U.S. Government, and are 0% risk-weighted assets. SBA securities float monthly or quarterly with the prime rate and are uncapped. None of these positions with unrealized losses are considered impaired, and all are expected to mature at par. The table below provides a break-down of our unrealized losses by security type.

<i>(Dollars in Thousands)</i>	<b>12 months or</b>									
	<b>Less Than 12 months</b>			<b>Longer</b>			<b>Total</b>			
	<b>Count</b>	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Count</b>	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Count</b>	<b>Market Value</b>	<b>Unrealized Losses</b>	
GNMA	70	\$ 56,032	469	46	\$ 30,216	743	116	\$ 86,248	1,212	
UST	47	233,304	1,261	20	94,839	1,344	67	328,143	2,605	
SBA	40	33,324	108	3	1,335	2	43	34,659	110	
FHLB and FFCB	7	12,413	42	16	24,422	255	23	36,835	297	
States and Political Subdivisions	268	89,954	361	15	5,549	58	283	95,503	419	
<b>Total</b>	<b>432</b>	<b>\$ 425,027</b>	<b>2,241</b>	<b>100</b>	<b>\$ 156,361</b>	<b>2,402</b>	<b>532</b>	<b>\$ 581,388</b>	<b>4,643</b>	

The average maturity of the total portfolio at December 31, 2017 was 1.96 years compared to 1.85 years at December 31, 2016. Balances of SBA and GNMA securities increased compared to the prior year, and were partially offset by declines in U.S. Treasuries and municipal bonds. The average life of the investment portfolio increased slightly as GNMA purchases had longer average lives than the existing portfolio. We continue to look for prudent investments in relatively short-duration, high quality bonds, in addition to CRA eligible securities within our footprint and policy guidelines. See Table 12 for a break-down of maturities by investment type.



The weighted average taxable equivalent yield of the investment portfolio at December 31, 2017 was 1.68% versus 1.22% in 2016. This favorable yield reflects the reinvestment of proceeds at higher market rates during 2017. Our bond portfolio contained no investments in obligations, other than U.S. Governments, of any state, municipality, political subdivision or any other issuer that exceed 10% of our shareowners' equity at December 31, 2017.

Table 12 and Note 2 in the Notes to Consolidated Financial Statements present a detailed analysis of our investment securities as to type, maturity and yield at December 31.

**Table 12**  
**MATURITY DISTRIBUTION OF**  
**INVESTMENT SECURITIES**

(Dollars in Thousands) Available for Sale	Within 1 year		1 - 5 years		5 - 10 years		After 10 years		Total	
	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>	Amount	WAY <sup>(3)</sup>
U.S. Government Treasury	\$ 41,168	1.12%	\$ 194,173	1.38%	\$ -	-%	\$ -	-%	\$ 235,341	1.33%
U.S. Government Agency States and Political Subdivisions	20,261	1.49	124,383	2.30	-	-	-	-	144,644	2.19
Mortgage-Backed Securities <sup>(1)</sup>	48,865	1.48	42,292	1.82	-	-	-	-	91,157	1.64
Other Securities <sup>(2)</sup>	58	2.67	545	4.81	582	5.05	-	-	1,185	4.82
Total	-	-	-	-	-	-	8,584	5.32	8,584	5.32
<b>Total</b>	<b>\$ 110,352</b>	<b>1.34%</b>	<b>\$ 361,393</b>	<b>1.76%</b>	<b>\$ 582</b>	<b>5.05%</b>	<b>\$ 8,584</b>	<b>5.32%</b>	<b>\$ 480,911</b>	<b>1.72%</b>
<b>Held to Maturity</b>										
U.S. Government Treasury	\$ 63,115	1.12%	\$ 35,141	1.47%	\$ -	-%	\$ -	-%	\$ 98,256	1.25%
States and Political Subdivisions	266	1.92	6,730	1.92	-	-	-	-	6,996	1.92
Mortgage-Backed Securities <sup>(1)</sup>	382	1.17	108,670	1.83	2,375	2.48	-	-	111,427	1.84
Total	\$ 63,763	1.13%	\$ 150,541	1.75%	\$ 2,375	2.48%	\$ -	-%	\$ 216,679	1.57%
<b>Total Investment Securities</b>	<b>\$ 174,115</b>	<b>1.26%</b>	<b>\$ 511,934</b>	<b>1.75%</b>	<b>\$ 2,957</b>	<b>2.99%</b>	<b>\$ 8,584</b>	<b>5.32%</b>	<b>\$ 697,590</b>	<b>1.68%</b>

<sup>(1)</sup> Based on  
weighted-average  
life.

<sup>(2)</sup> Federal Home Loan Bank Stock, Federal Reserve Bank Stock and FNBB, Inc. Stock are included in this category for weighted average yield, but do not have stated maturities.

<sup>(3)</sup> Weighted average yield calculated based on current amortized cost balances – not presented on a tax equivalent basis.

## Deposits and Funds Purchased

Average total deposits for 2017 were \$2.372 billion, an increase of \$89.1 million, or 3.9%, over 2016. Average deposits increased \$119.3 million, or 5.5%, from 2015 to 2016. Both year-over-year increases occurred in all deposit types except certificates of deposit. Money market accounts also declined slightly from 2015 to 2016.

The seasonal inflow of public funds started in the fourth quarter of 2017 and is expected to continue into the first quarter of 2018. Deposit levels remain strong as we continue to see growth in our non-maturity deposits. Our mix of deposits continues to improve slightly as higher cost certificates of deposit are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts.

We continue to closely monitor several metrics such as the sensitivity of our deposit rates, the Bank's overall liquidity position, and competitor rates when pricing deposits. This strategy is consistent with previous rate cycles, and allows us to manage the mix of our deposits rather than compete on rate. We believe this enables us to maintain a low cost of funds – 16 basis points for the year 2017 and 13 basis points for the year 2016.

Table 2 provides an analysis of our average deposits, by category, and average rates paid thereon for each of the last three years. Table 13 reflects the shift in our deposit mix over the last year and Table 14 provides a maturity distribution of time deposits in denominations of \$100,000 and over at December 31, 2017.

Average short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase, FHLB advances (maturing in less than one year), and other borrowings, decreased \$26.8 million, or 73.0% in 2017. The lower balance was primarily attributable to decreases in repurchase agreements by one client into a different product type, partially offset by an increase in other borrowed funds. See Note 8 in the Notes to Consolidated Financial Statements for further information on short-term borrowings.

We continue to focus on the value of our deposit franchise, which produces a strong base of core deposits with minimal reliance on wholesale funding.

### Table 13

#### SOURCES OF DEPOSIT GROWTH

<i>(Average Balances - Dollars in Thousands)</i>	<b>2016 to 2017 Change</b>	<b>Percentage of Total Change</b>	<b>Components of Total Deposits</b>		
			<b>2017</b>	<b>2016</b>	<b>2015</b>
Noninterest Bearing Deposits	\$ 46,788	52.5%	35.1%	34.4%	33.1%
NOW Accounts	26,097	29.3	34.0	34.2	34.5
Money Market Accounts	2,039	2.3	10.9	11.2	11.9
Savings	31,602	35.5	13.6	12.8	11.8
Time Deposits	(17,440)	(19.6)	6.4	7.4	8.7
Total Deposits	\$ 89,086	100.0%	100.0%	100.0%	100.0%

**Table 14**  
**MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT \$100,000 AND OVER**

<i>(Dollars in Thousands)</i>	<b>2017</b>	
	<b>Time Certificates of Deposit</b>	<b>Percent</b>
Three months or less	\$ 11,130	28.4%
Over three through six months	9,271	23.7
Over six through twelve months	15,187	38.7
Over twelve months	3,621	9.2
Total	\$ 39,209	100.0%

## Market Risk and Interest Rate Sensitivity

*Overview.* Market risk arises from changes in interest rates, exchange rates, commodity prices, and equity prices. We have risk management policies designed to monitor and limit exposure to market risk and we do not participate in activities that give rise to significant market risk involving exchange rates, commodity prices, or equity prices. In asset and liability management activities, our policies are designed to minimize structural interest rate risk.

*Interest Rate Risk Management.* Our net income is largely dependent on net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and shareowners' equity.

We have established what we believe to be a comprehensive interest rate risk management policy, which is administered by management's Asset Liability Management Committee ("ALCO"). The policy establishes limits of risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity ("EVE") at risk) resulting from a hypothetical change in interest rates for maturities from one day to 30 years. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by us. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

The balance sheet is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. We prepare a current base case and several alternative interest rate simulations (-100,+100, +200, +300, and +400 basis points (bp)), at least once per quarter, and report the analysis to ALCO, our Market Risk Oversight Committee ("MROC"), our Enterprise Risk Oversight Committee ("EROC") and the Board of Directors. We augment our interest rate shock analysis with alternative interest rate scenarios on a quarterly basis that may include ramps, parallel shifts, and a flattening or steepening of the yield curve (non-parallel shift). In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

It is management's goal to structure the balance sheet so that net interest earnings at risk over 12-month and 24-month periods and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels. Management attempts to achieve this goal by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched, by managing the mix of our core deposits, and by adjusting our rates to market conditions on a continuing basis. During 2017, instantaneous rate shocks of down 100 bp were outside of desired parameters due to limited repricing of deposits relative to the decline in rates.

*Analysis.* Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, and do not necessarily indicate the long-term prospects or economic value of the institution.

**ESTIMATED CHANGES IN NET INTEREST INCOME<sup>(1)</sup>**

<b>Percentage Change (12-month shock)</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-15.0%	-12.5%	-10.0%	-7.5%	-7.5%
December 31, 2017	13.4%	9.9%	6.4%	3.1%	-8.5%
December 31, 2016	10.7%	7.5%	4.4%	2.1%	-9.0%

<b>Percentage Change (24-month shock)</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-17.5%	-15.0%	-12.5%	-10.0%	-10.0%
December 31, 2017	39.9%	30.4%	20.9%	11.8%	-12.0%
December 31, 2016	41.3%	30.5%	19.9%	10.5%	-14.3%

The Net Interest Income (“NII”) at Risk position improved for the period ending December 31, 2017 compared to December 31, 2016 for the 12-month shock for all rate scenarios. The model indicates that in the short-term, all rising rate environments will positively impact the net interest margin of the Company, while a declining rate environment of 100bp will have a negative impact on the net interest margin. In addition, this analysis incorporates an instantaneous, parallel shock and assumes we move with market rates and do not lag our deposit rates.

All shock scenarios of net interest income at risk are within our prescribed policy limits with the exception of an instantaneous rate shock of -100bp over both a 12-month and 24-month period, which were -8.5% and -12.0% compared to limits of -7.50% and -10.0%, respectively. These metrics were out of compliance at year-end due to limited repricing of deposits relative to a decline in market rates. However, as rates have increased the variance by which we are out-of-compliance has narrowed.

The measures of equity value at risk indicate our ongoing economic value by considering the effects of changes in interest rates on all of our cash flows by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which in theory approximates the fair value of our net assets.

**ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY<sup>(1)</sup>**

<b>Changes in Interest Rates</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%
December 31, 2017	31.1%	24.7%	17.5%	9.7%	-21.0%
December 31, 2016	23.5%	18.6%	13.1%	7.3%	-19.7%

Explanation of Responses:

At December 31, 2017, the economic value of equity was more favorable in all rate scenarios except the down 100 bp scenario when compared to December 31, 2016. The down 100 bp rate scenario remains out of compliance as exposure to falling rates is more extreme due to the low level of current deposit costs and limited capacity to reduce those costs relative to the reduction in discount rates used to value them. To bring this metric into compliance with our policy limits in the down 100 bp scenario would require the bank to extend its asset duration which we do not believe is prudent given the current historically low interest rate environment.

As the interest rate environment and the dynamics of the economy continue to change, additional simulations will be analyzed to address not only the changing rate environment, but also the changing balance sheet mix, measured over multiple years, to help assess the risk to the Company.

*(1) Down 200, 300, and 400 bp rate scenarios have been excluded due to the current historically low interest rate environment.*



## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to fund loan commitments, purchase securities, accommodate deposit withdrawals or repay other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies that are formulated and monitored by our ALCO and senior management, and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2017 and 2016, our principal source of funding has been our clients' deposits, supplemented by our short-term and long-term borrowings, primarily from our trust-preferred securities, securities sold under repurchase agreements, federal funds purchased and FHLB borrowings. We believe that the cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital and funding requirements.

At December 31, 2017, we had the ability to generate approximately \$1.286 billion in additional liquidity through all of our available resources beyond our overnight funds sold position. In addition to the primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. Management recognizes the importance of maintaining liquidity and has developed a Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases certain credit facilities may no longer be available. A liquidity stress test is completed quarterly based on events that could potentially occur at the Bank and the results reported to ALCO, MROC, EROC and the Board of Directors. We believe the liquidity available to us is sufficient to meet our ongoing needs.

We view our investment portfolio as a liquidity source and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, and municipal governments. The weighted-average life of the portfolio is 1.96 years and at December 31, 2017 had a net unrealized pre-tax loss of \$2.1 million in the available-for sale portfolio.

Our average net overnight funds sold position (defined as funds sold plus interest-bearing deposits with other banks less funds purchased) was \$190.0 million during 2017 compared to an average net overnight funds sold position of \$212.8 million in 2016. The decrease in this position compared to the prior year reflected higher growth in both the investment and loan portfolios, partially offset by an increase in average deposits.

Capital expenditures are expected to approximate \$7.0 million over the next 12 months, which consist primarily of technology purchases for banking offices, business applications, and information technology security needs as well as furniture and fixtures and banking office remodels. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our ongoing obligations.

## **Borrowings**

At December 31, 2017, total advances from the FHLB consisted of \$11.5 million in outstanding debt consisting of 13 notes. In 2017, the Bank made FHLB advance payments totaling \$6.7 million, which included seven advances that matured or were paid off. No new FHLB advances were obtained in 2017. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005. See Note 8 in the Notes to Consolidated Financial Statements for additional information on these borrowings. The interest payment for the CCBG Capital Trust I borrowing is due quarterly and adjusts quarterly to a variable rate of three-month LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The interest payment for the CCBG Capital Trust II borrowing is due quarterly and will adjust annually to a variable rate of three-month LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds from these borrowings were used to partially fund acquisitions.

On April 12, 2016, we retired \$10 million in face value of trust preferred securities that were auctioned as part of a liquidation of a pooled collateralized debt obligation fund. The trust preferred securities were originally issued through CCBG Capital Trust I. Our winning bid equated to approximately 75% of the \$10 million par value, with the 25% discount resulting in a pre-tax gain of approximately \$2.5 million. We utilized internal resources and a \$3.75 million draw on a short-term borrowing facility to fund the repurchase.

**Table 15****CONTRACTUAL CASH OBLIGATIONS**

Table 15 sets forth certain information about contractual cash obligations at December 31, 2017.

<i>(Dollars in Thousands)</i>	<b>Payments Due By Period</b>				<b>Total</b>
	<b>&lt; 1 Yr</b>	<b>&gt; 1 – 3 Yrs</b>	<b>&gt; 3 – 5 Yrs</b>	<b>&gt; 5 Yrs</b>	
Federal Home Loan Bank Advances	\$ 1,557	\$ 5,838	\$ 3,509	\$ 572	\$ 11,476
Note Payable	296	592	592	1,219	2,669
Subordinated Notes Payable	-	-	-	52,887	52,887
Operating Lease Obligations	478	843	801	1,580	3,702
Time Deposit Maturities	121,821	17,165	4,135	1	143,122
Total Contractual Cash Obligations	\$ 124,152	\$ 24,438	\$ 9,037	\$ 56,259	\$ 213,886

**Capital**

Shareowners' equity was \$284.2 million at December 31, 2017, compared to \$275.2 million at December 31, 2016. During 2017, shareowners' equity was positively impacted by net income of \$10.9 million, stock compensation accretion of \$1.5 million, net adjustments totaling \$1.0 million related to transactions under our stock compensation plans, and \$0.7 million decrease in the accumulated other comprehensive loss for our pension plan. Shareowners' equity was reduced by common stock dividends of \$4.1 million (\$0.24 per share) and a net increase of \$1.0 million in the unrealized loss on investment securities. Per ASU 2018-02, \$5.6 million was reclassified from accumulated other comprehensive income to retained earnings to correct certain tax effects stranded in accumulated other comprehensive income due to tax reform enacted in December, 2017.

Shareowners' equity as of December 31, for each of the last three years is presented below:

<i>(Dollars in Thousands)</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Common Stock	\$ 170	\$ 168	\$ 172
Additional Paid-in Capital	36,674	34,188	38,256
Retained Earnings	279,410	267,037	258,181
Subtotal	316,254	301,393	296,609
Accumulated Other Comprehensive Loss, Net of Tax	(32,044)	(26,225)	(22,257)

Explanation of Responses:

Total Shareowners' Equity	\$	284,210	\$	275,168	\$	274,352
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We continue to maintain a strong capital position. The ratio of shareowners' equity to total assets at December 31, 2017 was 9.80%, 9.67%, and 9.81%, in 2017, 2016, and 2015, respectively. Management believes our strong capital base offers protection during an economic downturn and provides sufficient capacity to meet our strategic objectives.

We are subject to risk-based capital guidelines that measure capital relative to risk-weighted assets and off-balance sheet financial instruments. Capital guidelines issued by the Federal Reserve require bank holding companies to have a minimum total risk-based capital ratio of 8.00% and Tier 1 capital ratio of 6.00%. At December 31, 2017, we exceeded these capital guidelines with a total risk-based capital ratio of 17.10% and a Tier 1 capital ratio of 16.33%, compared to 16.28% and 15.51%, respectively, at December 31, 2016. As allowed by Federal Reserve capital guidelines, the trust preferred securities issued by CCBG Capital Trust I and CCBG Capital Trust II are included as Tier 1 Capital in our capital calculations previously noted. See Note 9 in the Notes to Consolidated Financial Statements for additional information on our two trust preferred security offerings. See Note 14 in the Notes to Consolidated Financial Statements for additional information as to our capital adequacy.

The federal banking regulators issued new capital rules establishing a new comprehensive capital framework for U.S. banking organizations which became effective January 1, 2015 (subject to a phase-in period) (the "Basel III Capital Rules"). Refer to the Regulatory Considerations – Capital Regulations section on page 14 for a detailed discussion of the new Basel III Capital Rules. The reduction in our regulatory capital ratios in 2015 reflected the implementation of the Basel III Capital Rules and the repurchase of our common stock. In 2016, the repurchase of our common stock and the partial redemption of TRUPs reduced our regulatory capital ratios by approximately 38 basis points and 50 basis points, respectively. The common equity Tier 1 ratio is a required ratio that was created in 2015 as a result of the Basel III Capital Rules. The ratio measures core equity components relative to risk-weighted assets. Capital guidelines require a minimum common equity tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5% that will be phased in between 2016 and 2019 (0.625% in 2016, 1.25% in 2017, 1.875% in 2018, 2.5% in 2019). At December 31, 2017, our common equity tier 1 ratio was 13.42%.

A leverage ratio is also used in connection with the risk-based capital standards and is defined as Tier 1 Capital divided by average assets. The minimum leverage ratio under this standard is 4% for the highest-rated bank holding companies which are not undertaking significant expansion programs. A higher standard may be required for other companies, depending upon their regulatory ratings and expansion plans. At December 31, 2017, we had a leverage ratio of 10.47% compared to 10.23% at December 31, 2016.

At December 31, 2017, our common stock had a book value of \$16.65 per diluted share compared to \$16.23 at December 31, 2016. Book value is impacted by the net unrealized gains and losses on investment securities. At December 31, 2017, the net unrealized loss was \$1.7 million compared to a \$0.6 million net unrealized loss at December 31, 2016. Approximately \$0.3 million of this amount was a reclassification of deferred taxes attributable to issuance of ASU 2018-02. Further, the aforementioned net unrealized loss of \$1.7 million reflected a \$1.5 million net loss on available for sale securities and \$0.2 million in unamortized loss related to the transfer of securities to held-to-maturity in 2013. Book value is also impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with Accounting Standards Codification Topic 715. At December 31, 2017, the net pension liability reflected in other comprehensive loss was \$30.3 million compared to \$25.6 million at December 31, 2016. Approximately \$5.5 million of this amount was a reclassification of deferred taxes attributable to issuance of ASU 2018-02.

In February 2014, our Board of Directors authorized the repurchase of up to 1,500,000 shares of our outstanding common stock over a five-year period. Repurchases may be made in the open market or in privately negotiated transactions; however, we are not obligated to repurchase any specified number of shares. A total of 860,289 shares of our outstanding common stock have been repurchased at an average price of \$14.59 under the plan. No shares were repurchased in 2017. During 2016, we repurchased 435,461 shares at an average price \$14.49 per share and during 2015 we repurchased 405,228 shares at an average price of \$14.73 per share.

We offer an Associate Incentive Plan (“AIP”) under which certain associates are eligible to earn equity-based awards based upon achieving established performance goals. In 2017, 37,133 shares were earned under this plan of which 8,190 shares were issued in 2017 and 28,943 were issued in January 2018. In 2016, 71,153 shares were earned under this plan of which 9,680 shares were issued in 2016 and 61,473 shares were issued in January 2017. Under the AIP, we also maintain long-term incentive plans (“LTIPs”) for the President and Chief Executive Officer of the Company, the Chief Financial Officer of the Company, and the President of the Bank that are both tied to earnings progression goals over a three year period. Under these LTIPs, 12,216 shares were earned in 2017 and issued in January 2018.

We also offer stock purchase plans, which permit our associates and directors to purchase shares at a 10% discount. In 2017, 39,214 shares, valued at approximately \$0.8 million (before 10% discount), were issued under these plans. In 2016, 60,312 shares, valued at approximately \$0.8 million (before 10% discount), were issued under these plans.

## **Dividends**

Adequate capital and financial strength is paramount to our stability and the stability of our subsidiary bank. Cash dividends declared and paid should not place unnecessary strain on our capital levels. When determining the level of dividends the following factors are considered:

- Compliance with state and federal laws and regulations;
- Our capital position and our ability to meet our financial obligations;
- Projected earnings and asset levels; and
- The ability of the Bank and us to fund dividends.

### **Inflation**

The impact of inflation on the banking industry differs significantly from that of other industries in which a large portion of total resources are invested in fixed assets such as property, plant and equipment.

Assets and liabilities of financial institutions are virtually all monetary in nature, and therefore are primarily impacted by interest rates rather than changing prices. While the general level of inflation underlies most interest rates, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy. Net interest income and the interest rate spread are good measures of our ability to react to changing interest rates and are discussed in further detail in the section entitled "Results of Operations."

### **OFF-BALANCE SHEET ARRANGEMENTS**

We do not currently engage in the use of derivative instruments to hedge interest rate risks. However, we are a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of our clients.

At December 31, 2017, we had \$445.1 million in commitments to extend credit and \$4.7 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

If commitments arising from these financial instruments continue to require funding at historical levels, management does not anticipate that such funding will adversely impact our ability to meet on-going obligations. In the event these commitments require funding in excess of historical levels, management believes current liquidity, investment security maturities, available advances from the FHLB and Federal Reserve Bank provide a sufficient source of funds to meet these commitments.

## **FOURTH QUARTER, 2017 FINANCIAL RESULTS**

### **Results of Operations**

We realized net income of \$3,000, or \$0.00 per diluted share for the fourth quarter of 2017 which included a \$4.1 million, or \$0.24 per diluted share, one-time income tax expense related to the Tax Act enacted on December 22, 2017, compared to net income of \$4.6 million, or \$0.27 per diluted share for the third quarter of 2017. The decrease in net income reflected unfavorable variances in income tax expense of \$4.2 million, loan loss provision of \$0.3 million, noninterest expense of \$0.2 million, and noninterest income of \$0.1 million that were partially offset by higher net interest income of \$0.2 million.

Tax equivalent net interest income for the fourth quarter of 2017 was \$21.8 million compared to \$21.6 million for the third quarter of 2017. During the fourth quarter of 2017, overnight funds increased as a result of the growth in noninterest bearing deposits, and to a lesser degree, seasonal growth in our public funds deposits. A portion of these overnight funds were used to fund growth in the loan and investment portfolios. The net interest margin for the fourth quarter of 2017 was 3.45% (annualized), a decrease of three basis points compared to the third quarter of 2017 due to seasonal growth in our overnight funds, resulting in a slightly less favorable asset mix.

The provision for loan losses for the fourth quarter of 2017 was \$0.8 million compared to \$0.5 million for the third quarter of 2017 and reflected higher impaired reserves for two problem loans. Net loan charge-offs for the fourth quarter of 2017 totaled \$0.9 million compared to net loan charge-offs of \$0.4 million for the third quarter of 2017.

Noninterest income for the fourth quarter of 2017 totaled \$12.9 million, a decrease of \$0.1 million, or 0.8%, from the third quarter of 2017 and reflected lower deposit fees of \$0.1 million and other income of \$0.2 million (primarily data processing fees) that was partially offset by higher bank card fees of \$0.1 million. The reduction in data processing fees reflected the discontinuance of this line of business early in the fourth quarter of 2017.

Noninterest expense for the fourth quarter of 2017 totaled \$26.9 million, an increase of \$0.2 million, or 0.7%, over the third quarter of 2017 and reflected higher OREO expense of \$0.5 million and other expense of \$0.4 million, partially offset by lower compensation expense of \$0.6 million and occupancy expense of \$0.1 million. The increase in OREO expense was attributable to a higher level of gains from the sale of properties during the third quarter of 2017. Other expense increased due to higher advertising expense and professional fees. The reduction in compensation expense reflected the adjustment to performance based incentive expense during the fourth quarter of 2017 as well as lower commission expense which spiked during the third quarter of 2017 due to payment of a commission on a large new wealth management account.

We realized income tax expense of \$6.7 million for the fourth quarter of 2017 which included a \$4.1 million discrete tax expense related to the Tax Act. Excluding the discrete tax expense, income tax totaled \$2.7 million (39% effective rate) compared to \$2.5 million (35% effective rate) for the third quarter of 2017. Income tax expense for the fourth quarter included a \$0.3 million write-off of a deferred tax asset related to a cancelled stock award.



## Discussion of Financial Condition

Average earning assets were \$2.512 billion for the fourth quarter of 2017, an increase of \$45.7 million, or 1.9%, over the third quarter of 2017 and reflected a higher level of total deposits primarily attributable to the seasonal inflow of public fund balances. Average loans increased \$2.2 million, or 0.1%, over the third quarter of 2017 primarily attributable to growth in real estate construction and indirect consumer loans. Period end loan balances increased \$20.2 million, or 1.23%, over the third quarter of 2017 with growth realized in all but the residential and direct consumer loan categories which declined slightly.

Nonperforming assets (nonaccrual loans and OREO) totaled \$11.1 million at December 31, 2017, a decrease of \$1.4 million, or 12%, from September 30, 2017. Nonaccrual loans totaled \$7.2 million at December 31, 2017, a \$0.6 million increase over September 30, 2017. Nonaccrual loan additions totaled \$5.6 million in the fourth quarter of 2017 compared to \$2.4 million for the third quarter of 2017. The balance of OREO totaled \$3.9 million at December 31, 2017, a decrease of \$2.0 million from September 30, 2017. For the fourth quarter of 2017, we added properties totaling \$0.4 million, sold properties totaling \$2.2 million, and recorded valuation adjustments totaling \$0.2 million. Nonperforming assets represented 0.38% of total assets at December 31, 2017 compared to 0.45% at September 30, 2017.

Average total deposits were \$2.378 billion for the fourth quarter of 2017, an increase of \$49.2 million, or 2.1%, over the third quarter of 2017 and reflected growth in all deposit products except money market accounts and certificates of deposit. The seasonal inflow of public fund balances began late in the fourth quarter of 2017, and is expected to peak during the first quarter of 2018 for this cycle. Average borrowings decreased \$2.5 million compared to the third quarter of 2017 due to payoffs of FHLB advances.

## ACCOUNTING POLICIES

### Critical Accounting Policies

The consolidated financial statements and accompanying Notes to Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make various estimates and assumptions (see Note 1 in the Notes to Consolidated Financial Statements). We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity.

*Allowance for Loan Losses.* The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of

loans. The allowance is the amount considered adequate to absorb losses inherent in the loan portfolio based on management's evaluation of credit risk as of the balance sheet date.

The allowance for loan losses includes allowance allocations calculated in accordance with U.S. GAAP. The level of the allowance reflects management's continuing evaluation of specific credit risks, loss experience, loan portfolio quality, economic conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as information becomes available.

The Company's allowance for loan losses consists of two components: (i) specific reserves established for probable losses on impaired loans; and (ii) general reserves for non-homogenous loans not deemed impaired and homogenous loan pools based on, but not limited to, historical loan loss experience, current economic and market conditions, levels of past due loans, and levels of problem loans.

Our financial results are affected by the changes in and the absolute level of the allowance for loan losses. This estimation process is judgmental and requires an estimate of the loss severity rates that we apply to our unimpaired loan portfolio.

*Goodwill.* Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Adverse changes in the economic environment, declining operations, or other factors could result in a decline in the estimated implied fair value of goodwill. If the estimated implied fair value of goodwill is less than the carrying amount, a loss would be recognized to reduce the carrying amount to the estimated implied fair value.

We evaluate goodwill for impairment on an annual basis and in 2017 adopted ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying Accounting for Goodwill Impairment in 2017 which requires a qualitative assessment of goodwill impairment indicators. If the assessment indicates that impairment has more than likely occurred, the Company must compare the estimated fair value of the reporting unit to its carrying amount. If the carrying amount of the reporting unit exceeds its estimated fair value, an impairment charge is recorded equal to the excess.

During the fourth quarter, we performed our annual impairment testing. We proceeded with qualitative assessment by evaluating impairment indicators and concluded that a below peer return on average assets warranted movement to a fair value assessment. We estimated the fair value of the reporting unit utilizing a market approach that was supplemented with a reconciliation of the resulting equity value of the Company with our market capitalization. The market approach utilized the guideline company valuation (“GLC”) method to determine the overall equity valuation. A book and tangible book multiple was developed to determine a market value of equity on a controlling basis. The multiples that resulted from the GLC method were validated by comparing to peer companies. A control premium was then applied to the minority value to calculate a fair value indication for the Company. The control premium selected was validated by reviewing recent bank merger and acquisition transactions. Based on the outcome of the fair value assessment, the estimated fair value of our reporting unit exceeded the carrying value of goodwill and therefore, no impairment existed at December 31, 2017. For the fair value assessment, both economic conditions and observable bank purchase transactions can impact the outcome of the market valuation approach.

*Pension Assumptions.* We have a defined benefit pension plan for the benefit of substantially all of our associates. Our funding policy with respect to the pension plan is to contribute amounts to the plan sufficient to meet minimum funding requirements as set by law. Pension expense, which is included in the Consolidated Statements of Operations in noninterest expense as “Compensation,” is determined by an external actuarial valuation based on assumptions that are evaluated annually as of December 31, the measurement date for the pension obligation. The Consolidated Statements of Financial Condition reflect an accrued pension benefit cost due to funding levels and unrecognized actuarial amounts. The most significant assumptions used in calculating the pension obligation are the weighted-average discount rate used to determine the present value of the pension obligation, the weighted-average expected long-term rate of return on plan assets, and the assumed rate of annual compensation increases. These assumptions are re-evaluated annually with the external actuaries, taking into consideration both current market conditions and anticipated long-term market conditions.

The weighted-average discount rate is determined by matching the anticipated defined pension plan cash flows to a long-term corporate Aa-rated bond index and solving for the underlying rate of return, which investing in such securities would generate. This methodology is applied consistently from year-to-year. The discount rate utilized in 2017 was 4.10%. The estimated impact to 2017 pension expense of a 25 basis point increase or decrease in the discount rate would have been a decrease and increase of approximately \$744,000 and \$784,000, respectively. We anticipate using a 3.71% discount rate in 2018.

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Government agency debt securities, and other securities (typically temporary liquid funds awaiting investment). The weighted-average expected long-term rate of return on plan assets utilized for 2017 was 7.25%. The estimated impact to 2017 pension expense of a 25 basis point increase or decrease in the rate of return would have been an approximate \$275,000 increase or decrease, respectively. We anticipate using a rate of return on plan assets for 2018 of 7.25%.

The assumed rate of annual compensation increases of 3.25% in 2017 reflected expected trends in salaries and the employee base. We anticipate using a compensation increase of 3.25% for 2018 reflecting current market trends.

Effective December 31, 2015, we changed the method used to estimate the service and interest components of net periodic benefit cost for the defined benefit plan. Detailed information on the pension plan, the actuarially determined disclosures, and the assumptions used are provided in Note 12 of the Notes to Consolidated Financial Statements.

*Income Taxes.* Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in other expenses.

#### **Recent Accounting Pronouncements**

*The Financial Accounting Standards Board, the SEC, and other regulatory bodies have enacted new accounting pronouncements and standards that either have impacted our results in prior years presented, or will likely impact our results in 2018. Please refer to Note 1 of the Notes to our Consolidated Financial Statements.*

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

See “Financial Condition - Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference.

**Item 8. Financial Statements and Supplementary Data****Table 16**  
**QUARTERLY FINANCIAL DATA (Unaudited)**

<i>(Dollars in Thousands, Except</i>	<b>2017</b>				<b>2016</b>			
	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>	<b>Fourth</b>	<b>Third</b>	<b>Second</b>	<b>First</b>
<i>Per Share Data)</i>								
<b>Summary of Operations:</b>								
Interest Income	\$ 22,627	\$ 22,341	\$ 21,422	\$ 20,540	\$ 20,832	\$ 20,104	\$ 20,174	\$ 20,044
Interest Expense	1,138	1,080	926	804	773	784	798	834
Net Interest Income	21,489	21,261	20,496	19,736	20,059	19,320	19,376	19,210
Provision for Loan Losses	826	490	589	310	464	-	(97)	452
Net Interest Income After Provision for Loan Losses	20,663	20,771	19,907	19,426	19,595	19,320	19,473	18,758
Noninterest Income <sup>(1)</sup>	12,897	12,996	13,135	12,718	12,778	13,011	15,215	12,677
Noninterest Expense	26,897	26,707	27,921	27,922	27,560	28,022	28,702	28,930
Income Before Income Taxes	6,663	7,060	5,121	4,222	4,813	4,309	5,986	2,505
Income Tax Expense <sup>(2)</sup>	6,660	2,505	1,560	1,478	1,517	1,436	2,056	858
Net Income	3	4,555	3,561	2,744	3,296	2,873	3,930	1,647
Net Interest Income (FTE)	\$ 21,808	\$ 21,595	\$ 20,799	\$ 20,006	\$ 20,335	\$ 19,603	\$ 19,617	\$ 19,421
<b>Per Common Share:</b>								
Basic Net Income	\$ 0.00	\$ 0.27	\$ 0.21	\$ 0.16	\$ 0.20	\$ 0.18	\$ 0.22	\$ 0.10
Diluted Net Income	0.00	0.27	0.21	0.16	0.20	0.17	0.22	0.10
Cash Dividends Declared	0.07	0.07	0.05	0.05	0.05	0.04	0.04	0.04
Diluted Book Value	16.65	16.73	16.54	16.38	16.23	16.39	16.31	16.04
Market Price:								
High	26.01	24.58	22.39	21.79	23.15	15.35	15.96	15.88
Low	22.21	19.60	17.68	19.22	14.29	13.32	13.16	12.83

Explanation of Responses:

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Close	22.94	24.01	20.42	21.39	20.48	14.77	13.92	14.59
<b>Selected Average Balances:</b>								
Loans, Net	\$ 1,640,738	\$ 1,638,578	\$ 1,608,629	\$ 1,585,561	\$ 1,573,264	\$ 1,555,889	\$ 1,531,777	\$ 1,507,508
Earning Assets	2,511,985	2,466,287	2,502,030	2,529,207	2,423,388	2,417,943	2,447,777	2,440,718
Total Assets	2,822,451	2,779,960	2,817,479	2,845,140	2,743,463	2,734,465	2,767,854	2,763,746
Deposits	2,378,411	2,329,162	2,373,423	2,407,278	2,306,917	2,288,741	2,276,553	2,258,600
Shareowners' Equity	288,044	285,296	281,661	278,489	278,943	277,407	279,532	277,464
Common Equivalent								
Average Shares:								
Basic	16,967	16,965	16,955	16,919	16,809	16,804	17,144	17,202
Diluted	17,050	17,044	17,016	16,944	16,913	16,871	17,196	17,235
<b>Performance Ratios:</b>								
Return on Average Assets	0.00%	0.65%	0.51%	0.39%	0.48%	0.42%	0.57%	0.24%
Return on Average Equity	0.00	6.33	5.07	4.00	4.70	4.12	5.65	2.39
Net Interest Margin (FTE)	3.45	3.48	3.33	3.21	3.34	3.23	3.22	3.20
Noninterest Income as % of Operating Revenue	37.51	37.94	39.05	39.19	38.91	40.24	43.99	39.76
Efficiency Ratio	77.50	77.21	82.28	85.33	83.23	85.92	82.40	90.13
<b>Asset Quality:</b>								
Allowance for Loan Losses	\$ 13,307	\$ 13,339	\$ 13,242	\$ 13,335	\$ 13,431	\$ 13,744	\$ 13,677	\$ 13,613
Allowance for Loan Losses to Loans	0.80%	0.82%	0.81%	0.84%	0.86%	0.88%	0.89%	0.90%
Nonperforming Assets ("NPA's")	11,100	12,545	15,934	17,799	19,171	21,352	22,836	26,499
NPA's to Total Assets	0.38	0.45	0.57	0.61	0.67	0.78	0.83	0.95
NPA's to Loans plus ORE	0.67	0.76	0.97	1.11	1.21	1.35	1.48	1.73
Allowance to Non-Performing Loans	185.87	203.39	166.23	160.70	157.40	159.56	166.50	150.44
Net Charge-Offs to Average Loans	0.21	0.10	0.17	0.10	0.20	(0.02)	(0.04)	0.21

**Capital Ratios:**

Explanation of Responses:

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Tier 1 Capital	16.33%	16.19%	15.58%	15.68%	15.51%	15.48%	15.63%	16.39
Total Capital	17.10	16.96	16.32	16.44	16.28	16.28	16.44	17.20
Common Equity								
Tier 1 Capital	13.42	13.26	12.72	12.77	12.61	12.55	12.65	12.82
Leverage	10.47	10.48	10.20	9.95	10.23	10.12	9.98	10.34
Tangible								
Common	7.09	7.41	7.21	6.88	6.90	7.19	7.08	7.09
Equity <sup>(3)</sup>								

*(1) Includes \$2.5 million gain on partial retirement of trust preferred securities in the second quarter, 2016.*

*(2) For fourth quarter 2017, includes \$4.1 million, or \$0.24 per diluted share, income tax expense adjustment related to the Tax Cuts and Jobs Act of 2017.*

*(3) Tangible common equity ratio is a non-GAAP financial measure. For additional information, including a reconciliation to GAAP, refer to page 31.*



**CAPITAL CITY BANK GROUP, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

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### **Report of Independent Registered Certified Public Accounting Firm**

To the Shareowners and Board of Directors of  
Capital City Bank Group, Inc.

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial condition of Capital City Bank Group, Inc. (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 5, 2018 expressed an unqualified opinion

Explanation of Responses:

thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2007.

Tampa, Florida

March 5, 2018

**CAPITAL CITY BANK GROUP, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

<i>(Dollars in Thousands)</i>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 58,419	\$ 48,268
Federal Funds Sold and Interest Bearing Deposits	227,023	247,779
Total Cash and Cash Equivalents	285,442	296,047
Investment Securities, Available for Sale, at fair value	480,911	522,734
Investment Securities, Held to Maturity, at amortized cost (fair value of \$215,007 and \$176,746)	216,679	177,365
Total Investment Securities	697,590	700,099
Loans Held For Sale	4,817	10,886
Loans, Net of Unearned Income	1,653,492	1,561,289
Allowance for Loan Losses	(13,307)	(13,431)
Loans, Net	1,640,185	1,547,858
Premises and Equipment, Net	91,698	95,476
Goodwill	84,811	84,811
Other Real Estate Owned	3,941	10,638
Other Assets	90,310	99,382
Total Assets	\$ 2,898,794	\$ 2,845,197
<b>LIABILITIES</b>		
Deposits:		
Noninterest Bearing Deposits	\$ 874,583	\$ 791,182
Interest Bearing Deposits	1,595,294	1,621,104
Total Deposits	2,469,877	2,412,286
Short-Term Borrowings	7,480	12,749
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	13,967	14,881
Other Liabilities	70,373	77,226
Total Liabilities	2,614,584	2,570,029
<b>SHAREOWNERS' EQUITY</b>		
Preferred Stock, \$.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock, \$.01 par value; 90,000,000 shares authorized; 16,988,951 and 16,844,698		
shares issued and outstanding at December 31, 2017		
and December 31, 2016, respectively	170	168
Additional Paid-In Capital	36,674	34,188

Explanation of Responses:

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Retained Earnings	279,410	267,037
Accumulated Other Comprehensive Loss, Net of Tax	(32,044)	(26,225)
Total Shareowners' Equity	284,210	275,168
Total Liabilities and Shareowners' Equity	\$ 2,898,794	\$ 2,845,197

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

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**CAPITAL CITY BANK GROUP, INC.****CONSOLIDATED STATEMENTS OF INCOME****For the Years Ended December 31,***(Dollars in Thousands, Except Per Share Data)*

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>INTEREST INCOME</b>			
Loans, including Fees	\$ 75,717	\$ 72,867	\$ 73,169
Investment Securities:			
Taxable	8,095	6,317	5,224
Tax Exempt	1,052	866	633
Funds Sold	2,066	1,104	632
Total Interest Income	86,930	81,154	79,658
<b>INTEREST EXPENSE</b>			
Deposits	1,789	879	944
Short-Term Borrowings	82	148	59
Subordinated Notes Payable	1,634	1,434	1,368
Other Long-Term Borrowings	443	728	936
Total Interest Expense	3,948	3,189	3,307
<b>NET INTEREST INCOME</b>	82,982	77,965	76,351
Provision for Loan Losses	2,215	819	1,594
Net Interest Income After Provision for Loan Losses	80,767	77,146	74,757
<b>NONINTEREST INCOME</b>			
Deposit Fees	20,335	21,332	22,608
Bank Card Fees	11,191	11,221	11,278
Wealth Management Fees	8,284	7,029	7,533
Mortgage Banking Fees	5,754	5,192	4,539
Other	6,182	8,907	8,133
Total Noninterest Income	51,746	53,681	54,091
<b>NONINTEREST EXPENSE</b>			
Compensation	64,877	64,984	65,414
Occupancy, Net	17,837	18,296	17,738
Other Real Estate Owned, Net	1,135	3,649	4,971
Other	25,598	26,285	27,150
Total Noninterest Expense	109,447	113,214	115,273
<b>INCOME BEFORE INCOME TAXES</b>	23,066	17,613	13,575
Income Tax Expense	12,203	5,867	4,459
<b>NET INCOME</b>	<b>\$ 10,863</b>	<b>\$ 11,746</b>	<b>\$ 9,116</b>
<b>BASIC NET INCOME PER SHARE</b>	<b>\$ 0.64</b>	<b>\$ 0.69</b>	<b>\$ 0.53</b>
<b>DILUTED NET INCOME PER SHARE</b>	<b>\$ 0.64</b>	<b>\$ 0.69</b>	<b>\$ 0.53</b>

Explanation of Responses:

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Average Basic Common Shares Outstanding	16,952	16,989	17,273
Average Diluted Common Shares Outstanding	17,013	17,061	17,318

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

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**CAPITAL CITY BANK GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(Dollars in Thousands)</i>	<b>For the Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b>	\$ 10,863	\$ 11,746	\$ 9,116
<b>Other comprehensive income (loss), before tax:</b>			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	(1,459)	(828)	(373)
Amortization of unrealized losses on securities transferred from			
available for sale to held to maturity	73	82	76
Total Investment Securities	(1,386)	(746)	(297)
Benefit Plans:			
Reclassification adjustment for amortization of prior service cost	223	278	316
Reclassification adjustment for amortization of net loss	4,409	3,960	3,743
Current year actuarial loss	(3,470)	(9,958)	(4,975)
Total Benefit Plans	1,162	(5,720)	(916)
<b>Other comprehensive income (loss), before tax:</b>	(224)	(6,466)	(1,213)
Deferred tax (expense) benefit related to other comprehensive income	(14)	2,498	465
<b>Other comprehensive income (loss), net of tax</b>	(238)	(3,968)	(748)
<b>TOTAL COMPREHENSIVE INCOME</b>	\$ 10,625	\$ 7,778	\$ 8,368

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*



**CAPITAL CITY BANK GROUP, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY**

	Shares	Common	Additional	Retained	Accumulated	
(Dollars in Thousands, Except Per Share Data)	Outstanding	Stock	Paid-In	Earnings	Other	T
			Capital		Comprehensive	
					Loss, Net of	
					Taxes	
Balance, January 1, 2015	17,447,223	\$ 174	\$ 42,569	\$ 251,306	\$ (21,509)	\$ 27
Net Income		-	-	9,116	-	-
Other Comprehensive Loss, Net of Tax		-	-	-	(748)	(2)
Cash Dividends (\$0.13 per share)		-	-	(2,241)	-	(2)
Stock Compensation Expense		-	1,109	-	-	-
Impact of Transactions Under Compensation Plans, net	114,924	2	555	-	-	-
Repurchase of Common Stock	(405,228)	(4)	(5,977)	-	-	(5)
Balance, December 31, 2015	17,156,919	172	38,256	258,181	(22,257)	27
Net Income		-	-	11,746	-	1
Other Comprehensive Loss, Net of Tax		-	-	-	(3,968)	(3)
Cash Dividends (\$0.17 per share)		-	-	(2,890)	-	(2)
Stock Compensation Expense		-	1,260	-	-	-
Impact of Transactions Under Compensation Plans, net	123,240	-	980	-	-	-
Repurchase of Common Stock	(435,461)	(4)	(6,308)	-	-	(6)
Balance, December 31, 2016	16,844,698	168	34,188	267,037	(26,225)	27
Net Income		-	-	10,863	-	1
Other Comprehensive Loss, Net of Tax		-	-	-	(238)	(2)
Cash Dividends (\$0.24 per share)		-	-	(4,071)	-	(4)
Stock Compensation Expense		-	1,502	-	-	-
Impact of Transactions Under Compensation Plans, net	144,253	2	984	-	-	-
Reclassification per Adoption of ASU No. 2018-02		-	-	5,581	(5,581)	-
Balance, December 31, 2017	16,988,951	\$ 170	\$ 36,674	\$ 279,410	\$ (32,044)	\$ 28

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

**CAPITAL CITY BANK GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(Dollars in Thousands)</i>	<b>For the Years Ended December</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 10,863	\$ 11,746	\$ 9,116
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Provision for Loan Losses	2,215	819	1,594
Depreciation	6,558	6,975	6,586
Amortization of Premiums, Discounts, and Fees, net	6,626	6,219	5,182
Impairment Loss on Security	-	-	90
Gain on Retirement of Trust Preferred Securities	-	(2,487)	-
Net Increase (Decrease) in Loans Held-for-Sale	6,069	746	(944)
Stock Compensation	1,502	1,260	1,109
Net Tax Benefit from Stock Compensation	(223)	-	-
Deferred Income Taxes	7,576	3,457	3,847
Net Loss on Sales and Write-Downs of Other Real Estate Owned	783	3,225	2,943
Loss on Disposal of Premises and Equipment	276	131	44
Net Decrease (Increase) in Other Assets	2,063	(18,374)	684
Net (Decrease) Increase in Other Liabilities	(5,531)	8,904	3,510
Net Cash Provided By Operating Activities	38,777	22,621	33,761
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Securities Held to Maturity:			
Purchases	(98,861)	(50,001)	(66,021)
Payments, Maturities, and Calls	58,449	59,460	40,482
Securities Available for Sale:			
Purchases	(163,469)	(192,005)	(190,756)
Payments, Maturities, and Calls	198,027	114,189	76,452
Purchase of Loans Held for Investment	(44,083)	-	-
Net Increase in Loans	(51,625)	(73,997)	(71,432)
Proceeds From Sales of Other Real Estate Owned	8,031	9,443	18,925
Purchases of Premises and Equipment, net	(3,997)	(4,450)	(4,703)
Net Cash Used In Investing Activities	(97,528)	(137,361)	(197,053)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net Increase in Deposits	57,591	109,437	156,055
Net (Decrease) Increase in Short-Term Borrowings	(2,489)	(52,666)	11,536
Redemption of Subordinated Notes	-	(7,500)	-
Repayment of Other Long-Term Borrowings	(3,694)	(9,027)	(2,735)
Dividends Paid	(4,071)	(2,890)	(2,241)
Payments to Repurchase Common Stock	-	(6,312)	(5,981)
Issuance of Common Stock Under Compensation Plans	809	840	507
Net Cash Provided By Financing Activities	48,146	31,882	157,141
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(10,605)</b>	<b>(82,858)</b>	<b>(6,151)</b>

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Cash and Cash Equivalents at Beginning of Year	296,047	378,905	385,056
Cash and Cash Equivalents at End of Year	\$ 285,442	\$ 296,047	\$ 378,905

**Supplemental Cash Flow Disclosures:**

Interest Paid	\$ 3,952	\$ 3,195	\$ 3,314
Income Taxes Paid (Refunded)	\$ 6,514	\$ (330)	\$ 1,442

**Noncash Investing and Financing Activities:**

Loans Transferred to Other Real Estate Owned	\$ 2,384	\$ 4,016	\$ 5,752
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*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

*Notes to Consolidated Financial Statements*

**Note 1**

**SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Capital City Bank Group, Inc. (“CCBG” or the “Company”) provides a full range of banking and banking-related services to individual and corporate clients through its subsidiary, Capital City Bank, with banking offices located in Florida, Georgia, and Alabama. The Company is subject to competition from other financial institutions, is subject to regulation by certain government agencies and undergoes periodic examinations by those regulatory authorities.

**Basis of Presentation**

The consolidated financial statements include the accounts of Capital City Bank Group, Inc. (“CCBG”), and its wholly owned subsidiary, Capital City Bank (“CCB” or the “Bank” and together with CCBG, the “Company”). All material inter-company transactions and accounts have been eliminated in consolidation.

The Company, which operates a single reportable business segment that is comprised of commercial banking within the states of Florida, Georgia, and Alabama, follows accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. The principles which materially affect the financial position, results of operations and cash flows are summarized below.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provide the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (“VIE’s”) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. CCBG’s wholly owned subsidiaries, CCBG Capital Trust I

(established November 1, 2004) and CCBG Capital Trust II (established May 24, 2005) are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements.

Certain previously reported amounts have been reclassified to conform to the current year's presentation. The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Annual Report on Form 10-K were filed with the United States Securities and Exchange Commission.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses, pension expense, income taxes, loss contingencies, valuation of other real estate owned, and valuation of goodwill and their respective analysis of impairment.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods and all other cash equivalents have a maturity of 90 days or less. The Company is required to maintain average reserve balances with the Federal Reserve Bank based upon a percentage of deposits. The average amounts of these required reserve balances for the years ended December 31, 2017 and 2016 were \$18.8 million and \$15.3 million, respectively.

## **Investment Securities**

Securities are classified as held to maturity and carried at amortized cost when the Company has the positive intent and ability to hold them until maturity. Securities not classified as held to maturity or trading securities are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income, net of tax. The Company determines the appropriate classification of securities at the time of purchase. Securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are carried at cost. Securities transferred from available for sale to held to maturity are recorded at fair value at the time of transfer. The respective gain or loss is reclassified as a separate component of other comprehensive income and amortized as an adjustment to interest income over the remaining life of the security.

Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers, (i) whether it has decided to sell the security, (ii) whether it is more likely than not that the Company will have to sell the security before its market value recovers, and (iii) whether the present value of expected cash flows is sufficient to recover the entire amortized cost basis. When assessing the security's expected cash flows, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost and (ii) the financial condition and near-term prospects of the issuer.

## **Loans Held For Sale**

Certain residential mortgage loans are originated for sale in the secondary mortgage loan market. Additionally, certain other loans are periodically identified to be sold. The Company has the ability and intent to sell these loans and they are classified as loans held for sale and carried at the lower of cost or estimated fair value. Fair value is determined on the basis of rates quoted in the respective secondary market for the type of loan held for sale. Loans are generally sold with servicing released at a premium or discount from the carrying amount of the loans. Such premium or discount is recognized as mortgage banking revenue at the date of sale. Fixed commitments are generally used at the time loans are originated or identified for sale to mitigate interest rate risk. The fair value of fixed commitments to originate and sell loans held for sale is not material.

## **Loans**

Loans are stated at the principal amount outstanding, net of unearned income. Interest income is accrued on the effective yield method based on outstanding balances, and includes loan late fees. Fees charged to originate loans and direct loan origination costs are deferred and amortized over the life of the loan as a yield adjustment.

The Company defines loans as past due when one full payment is past due or a contractual maturity is over 30 days late. The accrual of interest is generally suspended on loans more than 90 days past due with respect to principal or interest. When a loan is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

Loan charge-offs on commercial and investor real estate loans are recorded when the facts and circumstances of the individual loan confirm the loan is not fully collectible and the loss is reasonably quantifiable. Factors considered in making these determinations are the borrower's and any guarantor's ability and willingness to pay, the status of the account in bankruptcy court (if applicable), and collateral value. Charge-off decisions for consumer loans are dictated by the Federal Financial Institutions Examination Council's (FFIEC) Uniform Retail Credit Classification and Account Management Policy which establishes standards for the classification and treatment of consumer loans, which generally require charge-off after 120 days of delinquency.

#### **Allowance for Loan Losses**

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. The allowance is that amount considered adequate to absorb losses inherent in the loan portfolio based on management's evaluation of credit risk as of the balance sheet date.

The allowance for loan losses includes allowance allocations calculated in accordance with FASB ASC Topic 310 – Receivables and ASC Topic 450 - Contingencies. The level of the allowance reflects management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio quality, present economic conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company's allowance for loan losses consists of two components: (i) specific reserves established for probable losses on impaired loans; and (ii) general reserve for non-homogenous loans not deemed impaired and homogenous loan pools based on, but not limited to, historical loan loss experience, current economic conditions, levels of past due loans, and levels of problem loans.

Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans to borrowers who are experiencing financial difficulties and whose loans were modified with concessions are classified as troubled debt restructurings and measured for impairment. Loans to borrowers that have filed Chapter 7 bankruptcy, but continue to perform as agreed are classified as troubled debt restructurings and measured for impairment.

### **Long-Lived Assets**

Premises and equipment is stated at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives for each type of asset with premises being depreciated over a range of 10 to 40 years, and equipment being depreciated over a range of 3 to 10 years. Additions, renovations and leasehold improvements to premises are capitalized and depreciated over the lesser of the useful life or the remaining lease term. Repairs and maintenance are charged to noninterest expense as incurred.

Long-lived assets are evaluated for impairment if circumstances suggest that their carrying value may not be recoverable, by comparing the carrying value to estimated undiscounted cash flows. If the asset is deemed impaired, an impairment charge is recorded equal to the carrying value less the fair value.

### **Bank Owned Life Insurance (BOLI)**

The Company, through its subsidiary bank, has purchased life insurance policies on certain key officers. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

### **Goodwill**



Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. In accordance with FASB ASC Topic 350, the Company determined it has one goodwill reporting unit. Goodwill is tested for impairment annually during the fourth quarter or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. See Note 5 – Goodwill for additional information.

### **Other Real Estate Owned**

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Revenue and expenses from operations and changes in value are included in noninterest expense.

### **Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

### **Revenue Recognition**

The Company recognizes revenue as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Certain specific policies include the following:

*Deposit Fees.* Deposit fees are primarily overdraft and insufficient fund fees and monthly transaction-based fees. These fees are recognized as earned or as transactions occur and services are provided.

*Bank Card Fees.* Bank card fees primarily include interchange income from client use of consumer and business debit cards. Interchange income is a fee paid by a merchant bank to the card-issuing bank through the interchange network. Interchange fees are set by the credit card associations and are based on cardholder purchase volumes. The Company records interchange income as transactions occur.



## **Income Taxes**

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to business combinations or components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. 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. The income tax effects related to settlements of share-based payment awards are reported in earnings as an increase or decrease in income tax expense. Prior to 2017, income tax benefits at settlement of an award were reported as an increase or decrease to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits recognized in earnings during the award's vesting period.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Tax Act"), was signed into law. Among other things, the Tax Act reduced the Company's corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result, the Company was required to re-measure, through income tax expense, its deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. Further discussion is provided in Note 10 – Income Taxes.

The Company files a consolidated federal income tax return and each subsidiary files a separate state income tax return.

## **Earnings Per Common Share**

Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 13 — Earnings Per Share.

## **Comprehensive Income**

Comprehensive income includes all changes in shareowners' equity during a period, except those resulting from transactions with shareowners. Besides net income, other components of the Company's comprehensive income

include the after tax effect of changes in the net unrealized gain/loss on securities available for sale and changes in the funded status of defined benefit and supplemental executive retirement plans. Comprehensive income is reported in the accompanying Consolidated Statements of Comprehensive Income and Changes in Shareowners' Equity.

The Company elected to early adopt FASB ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* and reclassify to retained earnings the stranded effects in accumulated other comprehensive income related to the Tax Act. Further discussion is provided in Note 15 – Other Comprehensive Income (Loss).

### **Stock Based Compensation**

Compensation cost is recognized for share-based awards issued to employees, based on the fair value of these awards at the date of grant. Compensation cost is recognized over the requisite service period, generally defined as the vesting period. The market price of the Company's common stock at the date of the grant is used for restricted stock awards. For stock purchase plan awards, a Black-Scholes model is utilized to estimate the fair value of the award. The impact of forfeitures of share-based awards on compensation expense is recognized as forfeitures occur.

## NEW AUTHORITATIVE ACCOUNTING GUIDANCE

*ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. A significant portion of the Company's revenue is comprised of net interest income on financial instruments, which is explicitly excluded from the scope of ASU 2014-09. In addition to interest income, the Company has various noninterest income revenue streams that required assessment. The Company formed a revenue recognition working group that has completed its scoping and walk-through of noninterest income revenue streams. Amongst non-interest income revenue streams, mortgage banking fees are not in the scope of the standard. Management has also completed its detailed contract review for the remaining revenue streams. Management has determined that ASU 2014-09 will not have a significant impact on its financial statements. ASU 2014-09 is effective for the Company on January 1, 2018 and must be retrospectively applied.

*ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities".* ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-1 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2016-02, "Leases (Topic 842)."* ASU 2016-02 requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. ASU 2016-02 is effective for the Company on January 1, 2019 and is not expected to have a significant impact on its financial statements.

*ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements."* ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the

reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on its financial statements and related disclosures. As part of its implementation efforts to date, management has formed a cross-functional implementation team, developed a project plan, and selected a vendor to provide a solution to assist in model development. The Company expects the new guidance will result in an increase in the allowance for credit losses given the change from accounting for losses inherent in the loan portfolio to accounting for losses over the remaining expected life of the portfolio. However, since the magnitude of the anticipated increase in the allowance for credit losses will be impacted by economic conditions and trends in the Company's portfolio at the time of adoption, the quantitative impact cannot yet be reasonably estimated.

*ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Asset."* ASU 2017-05 clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, accounting principles generally accepted in the United States ("GAAP") contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. ASU 2017-05 reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. ASU 2017-05 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2017-07, "Compensation – Retirement Benefits (Topic 715)."* ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. ASU 2017-07 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2017-09, "Compensation – Stock Compensation (Topic 718)."* ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Modification accounting is required only if the fair value, or calculated intrinsic value if it is used to measure the award, the vesting conditions, or the classification of the award as equity or liability changes as a result of the change in terms or conditions. ASU 2017-09 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815)."* ASU 2017-11 has two parts (i) Accounting for Certain Financial Instruments with Down Round Features and (ii) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. Part (i) changes the classification analysis of certain equity-linked financial instruments with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. Part (ii) re-characterizes the indefinite deferral of certain provisions of Topic 480 that are now presented as pending continent in the Codification, to a scope exception. Those amendments do not have an accounting effect. ASU 2017-11 is effective for the Company on January 1, 2019 and is not expected to have a significant impact on its financial statements.

*ASU 2017-12, "Derivatives and Hedging (Topic 815)."* ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815. The amendments objectives are to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and to simplify the application of hedge accounting by preparers. ASU 2017-12 is effective for the Company on January 1, 2019 and is not expected to have a significant impact on its financial statements.

*ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income."* ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments will improve the usefulness of information reported to the users of the financial statements. The

underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this update are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. ASU 2018-02 was early adopted by the Company and is included in its financial statements as of December 31, 2017. The adoption of this standard resulted in the reclassification of \$5.6 million from accumulated other comprehensive income to retained earnings.



**Note 2****INVESTMENT SECURITIES**

*Investment Portfolio Composition.* The amortized cost and related market value of investment securities available-for-sale and held-to-maturity were as follows:

<i>(Dollars in Thousands)</i>	2017				2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
<b>Available for Sale</b>								
U.S. Government Treasury	\$237,505	\$ -	\$ 2,164	\$235,341	\$286,867	\$ 262	\$ 851	\$286,278
U.S. Government Agency States and Political Subdivisions	144,324	727	407	144,644	131,489	495	344	131,640
Mortgage-Backed Securities	91,533	2	378	91,157	95,197	23	381	94,839
Equity Securities <sup>(1)</sup>	1,102	83	-	1,185	1,312	118	-	1,430
Total	8,584	-	-	8,584	8,547	-	-	8,547
	\$483,048	\$ 812	\$ 2,949	\$480,911	\$523,412	\$ 898	\$ 1,576	\$522,734
<b>Held to Maturity</b>								
U.S. Government Treasury	\$ 98,256	\$ -	\$ 441	\$ 97,815	\$119,131	\$ 107	\$ 81	\$119,157
States and Political Subdivisions	6,996	-	41	6,955	8,175	1	38	8,138
Mortgage-Backed Securities	111,427	22	1,212	110,237	50,059	29	637	49,451
Total	\$216,679	\$ 22	\$ 1,694	\$215,007	\$177,365	\$ 137	\$ 756	\$176,746
Total Investment Securities	\$699,727	\$ 834	\$ 4,643	\$695,918	\$700,777	\$ 1,035	\$ 2,332	\$699,480

<sup>(1)</sup> Includes Federal Home Loan Bank, Federal Reserve Bank and FNBB Inc. stock recorded at cost of \$3.1 million, \$4.8 million, and \$0.8 million, respectively, at December 31, 2017 and Federal Home Loan Bank, Federal Reserve Bank and FNBB, Inc. stock at \$3.3 million, \$4.8 million and \$0.5 million, respectively, at December 31, 2016.

Securities with an amortized cost of \$328.1 million and \$332.7 million at December 31, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and for other purposes.

The Bank, as a member of the Federal Home Loan Bank of Atlanta (“FHLB”), is required to own capital stock in the FHLB based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock which is included in other securities is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value; however, redemption of this stock has historically been at par value.

As a member of the Federal Reserve Bank of Atlanta, the Bank is required to maintain stock in the Federal Reserve Bank of Atlanta based on a specified ratio relative to the Bank’s capital. Federal Reserve Bank stock is carried at cost and may be sold back to the Federal Reserve Bank at its carrying value.

*Investment Sales.* There were no sales of investment securities for each of the last three years.

*Maturity Distribution.* At December 31, 2017, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately since they are not due at a certain maturity date.

	Available for Sale		Held to Maturity	
	Amortized Cost	Market Value	Amortized Cost	Market Value
<i>(Dollars in Thousands)</i>				
Due in one year or less	\$ 107,977	\$ 107,740	\$ 63,381	\$ 63,271
Due after one through five years	258,193	255,593	41,871	41,499
Mortgage-Backed Securities	1,102	1,185	111,427	110,237
U.S. Government Agency	107,192	107,809	-	-
Equity Securities	8,584	8,584	-	-
Total	\$ 483,048	\$ 480,911	\$ 216,679	\$ 215,007

*Unrealized Losses.* The following table summarizes the investment securities with unrealized losses at December 31, aggregated by major security type and length of time in a continuous unrealized loss position:

<i>(Dollars in Thousands)</i>	<b>Less Than 12 Months</b>		<b>Greater Than 12 Months</b>		<b>Total</b>	
	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Market Value</b>	<b>Unrealized Losses</b>
<b>December 31, 2017</b>						
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 155,443	\$ 963	\$ 79,900	\$ 1,201	\$235,343	\$ 2,164
U.S. Government Agency	45,737	150	25,757	257	71,494	407
States and Political Subdivisions	82,999	320	5,549	58	88,548	378
Mortgage-Backed Securities	2	-	-	-	2	-
Total	284,181	1,433	111,206	1,516	395,387	2,949
<b>Held to Maturity</b>						
U.S. Government Treasury	77,861	298	14,939	143	92,800	441
States and Political Subdivisions	6,955	41	-	-	6,955	41
Mortgage-Backed Securities	56,030	469	30,216	743	86,246	1,212
Total	\$ 140,846	\$ 808	\$ 45,155	\$ 886	\$186,001	\$ 1,694
<b>December 31, 2016</b>						
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 116,704	\$ 851	\$ -	\$ -	\$116,704	\$ 851
U.S. Government Agency	48,520	310	6,699	34	55,219	344
States and Political Subdivisions	81,521	380	294	1	81,815	381
Mortgage-Backed Securities	3	-	-	-	3	-
Total	246,748	1,541	6,993	35	253,741	1,576
<b>Held to Maturity</b>						
U.S. Government Treasury	35,210	81	-	-	35,210	81
States and Political Subdivisions	7,491	38	-	-	7,491	38
Mortgage-Backed Securities	36,710	599	4,010	38	40,720	637
Total	\$ 79,411	\$ 718	\$ 4,010	\$ 38	\$ 83,421	\$ 756

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers, (i) whether it has decided to sell the security, (ii) whether it is more likely than not that the Company will have to sell the security before its market value recovers, and (iii) whether the present value of expected cash flows is sufficient to recover the entire amortized cost basis. When assessing a security's expected cash flows, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost and (ii) the financial condition and near-term prospects of the issuer. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, regulatory issues, and analysts' reports.

At December 31, 2017, there were 532 positions (combined AFS and HTM) with unrealized losses totaling \$4.6 million. 67 of these positions were U.S. government treasury securities guaranteed by the U.S. government. 159 of these positions were U.S. government agency and mortgage-backed securities issued by U.S. government sponsored entities. The remaining 306 securities are direct obligations of the US Government (23) and municipal bonds (283). Municipal bonds are relatively short-term in nature (less than 5 years), and hold a minimum rating of A+, with over 70% of the municipal bond portfolio pre-refunded with US Treasury securities. Because the declines in the market value of these securities are attributable to changes in interest rates and not credit quality and because the Company has the present ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

**Note 3****LOANS, NET**

*Loan Portfolio Composition.* The composition of the loan portfolio at December 31 was as follows:

<i>(Dollars in Thousands)</i>	<b>2017</b>	<b>2016</b>
Commercial, Financial and Agricultural	\$ 218,166	\$ 216,404
Real Estate – Construction	77,966	58,443
Real Estate – Commercial Mortgage	535,707	503,978
Real Estate – Residential <sup>(1)</sup>	311,906	281,509
Real Estate – Home Equity	229,513	236,512
Consumer <sup>(2)</sup>	280,234	264,443
Loans, Net of Unearned Income	\$ 1,653,492	\$ 1,561,289

<sup>(1)</sup> Includes loans in process with outstanding balances of \$9.1 million and \$9.6 million for 2017 and 2016, respectively.

<sup>(2)</sup> Includes overdraft balances of \$1.6 million and \$1.7 million for 2017 and 2016, respectively.

Net deferred costs included in loans were \$1.5 million at December 31, 2017 and \$0.5 million at December 31, 2016.

The Company has pledged a blanket floating lien on all 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity loans to support available borrowing capacity at the FHLB of Atlanta and has pledged a blanket floating lien on all consumer loans, commercial loans, and construction loans to support available borrowing capacity at the Federal Reserve Bank of Atlanta.

*Nonaccrual Loans.* Loans are generally placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans at December 31:

<i>(Dollars in Thousands)</i>	2017		2016	
	Nonaccrual	90 + Days	Nonaccrual	90 + Days
Commercial, Financial and Agricultural \$	629	\$ -	\$ 468	\$ -
Real Estate – Construction	297	-	311	-
Real Estate – Commercial Mortgage	2,370	-	3,410	-
Real Estate – Residential	1,938	-	2,330	-
Real Estate – Home Equity	1,748	-	1,774	-
Consumer	177	36	240	-
Total Nonaccrual Loans	\$ 7,159	\$ 36	\$ 8,533	\$ -

*Loan Portfolio Aging.* A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due (“DPD”).

The following table presents the aging of the recorded investment in past due loans by class of loans at December 31,

<i>(Dollars in Thousands)</i>	<b>30-59 DPD</b>	<b>60-89 DPD</b>	<b>90 + DPD</b>	<b>Total Past Due</b>	<b>Total Current</b>	<b>Total Loans</b>
<b>2017</b>						
Commercial, Financial and Agricultural	\$ 87	\$ 55	\$ -	\$ 142	\$ 217,395	\$ 218,166
Real Estate – Construction	811	-	-	811	76,858	77,966
Real Estate – Commercial Mortgage	437	195	-	632	532,705	535,707
Real Estate – Residential	701	446	-	1,147	308,821	311,906
Real Estate – Home Equity	80	2	-	82	227,683	229,513
Consumer	1,316	413	36	1,765	278,292	280,234
Total Past Due Loans	\$ 3,432	\$ 1,111	\$ 36	\$ 4,579	\$ 1,641,754	\$ 1,653,492
<b>2016</b>						
Commercial, Financial and Agricultural	\$ 209	\$ 48	\$ -	\$ 257	\$ 215,679	\$ 216,404
Real Estate – Construction	949	282	-	1,231	56,901	58,443
Real Estate – Commercial Mortgage	835	1	-	836	499,732	503,978
Real Estate – Residential	1,199	490	-	1,689	277,490	281,509
Real Estate – Home Equity	577	51	-	628	234,110	236,512
Consumer	1,516	281	-	1,797	262,406	264,443
Total Past Due Loans	\$ 5,285	\$ 1,153	\$ -	\$ 6,438	\$ 1,546,318	\$ 1,561,289

*Allowance for Loan Losses.* The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. Loans are charged-off to the allowance when losses are deemed to be probable and reasonably quantifiable.

The following table details the activity in the allowance for loan losses by portfolio class for the years ended December 31. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

<i>(Dollars in Thousands)</i>	<b>Commercial, Financial, Agricultural</b>	<b>Real Estate Construction</b>	<b>Real Estate Commercial Mortgage</b>	<b>Real Estate Residential</b>	<b>Real Estate Home Equity</b>	<b>Consumer</b>	<b>Total</b>
<b>2017</b>							
Beginning Balance	\$ 1,198	\$ 168	\$ 4,315	\$ 3,445	\$ 2,297	\$ 2,008	\$ 13,431
Provision for Loan Losses	1,037	(96)	542	(444)	180	996	2,215
Charge-Offs	(1,357)	-	(685)	(411)	(190)	(2,193)	(4,836)
Recoveries	313	50	174	616	219	1,125	2,497
Net Charge-Offs	(1,044)	50	(511)	205	29	(1,068)	(2,339)

Explanation of Responses:

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Ending Balance	\$ 1,191	\$ 122	\$ 4,346	\$ 3,206	\$ 2,506	\$ 1,936	\$ 13,307
<b>2016</b>							
Beginning Balance	\$ 905	\$ 101	\$ 4,498	\$ 4,409	\$ 2,473	\$ 1,567	\$ 13,953
Provision for Loan Losses	817	67	(242)	(1,296)	(135)	1,608	819
Charge-Offs	(861)	-	(349)	(899)	(450)	(2,127)	(4,686)
Recoveries	337	-	408	1,231	409	960	3,345
Net Charge-Offs	(524)	-	59	332	(41)	(1,167)	(1,341)
Ending Balance	\$ 1,198	\$ 168	\$ 4,315	\$ 3,445	\$ 2,297	\$ 2,008	\$ 13,431
<b>2015</b>							
Beginning Balance	\$ 784	\$ 843	\$ 5,287	\$ 6,520	\$ 2,882	\$ 1,223	\$ 17,539
Provision for Loan Losses	911	(742)	278	(964)	858	1,253	1,594
Charge-Offs	(1,029)	-	(1,250)	(1,852)	(1,403)	(1,901)	(7,435)
Recoveries	239	-	183	705	136	992	2,255
Net Charge-Offs	(790)	-	(1,067)	(1,147)	(1,267)	(909)	(5,180)
Ending Balance	\$ 905	\$ 101	\$ 4,498	\$ 4,409	\$ 2,473	\$ 1,567	\$ 13,953



The following table details the amount of the allowance for loan losses by portfolio class at December 31, disaggregated on the basis of the Company's impairment methodology:

	Commercial,		Real Estate		Real Estate		Real Estate		Total
	Financial,	Real Estate	Commercial	Real Estate	Real Estate	Real Estate	Consumer		
(Dollars in Thousands)	Agriculture	Construction	Mortgage	Residential	Home Equity	Home Equity	Consumer		
<b>2017</b>									
Period-end amount									
Allocated to:									
Loans Individually									
Evaluated for Impairment	\$ 215	\$ 1	\$ 2,165	\$ 1,220	\$ 515	\$ 1	\$ 4,117		
Loans Collectively									
Evaluated for Impairment	976	121	2,181	1,986	1,991	1,935	9,190		
Ending Balance	\$ 1,191	\$ 122	\$ 4,346	\$ 3,206	\$ 2,506	\$ 1,936	\$ 13,307		
<b>2016</b>									
Period-end amount									
Allocated to:									
Loans Individually									
Evaluated for Impairment	\$ 80	\$ -	\$ 2,038	\$ 1,561	\$ 335	\$ 6	\$ 4,020		
Loans Collectively									
Evaluated for Impairment	1,118	168	2,277	1,884	1,962	2,002	9,411		
Ending Balance	\$ 1,198	\$ 168	\$ 4,315	\$ 3,445	\$ 2,297	\$ 2,008	\$ 13,431		
<b>2015</b>									
Period-end amount									
Allocated to:									
Loans Individually									
Evaluated for Impairment	\$ 77	\$ -	\$ 2,049	\$ 2,118	\$ 384	\$ 18	\$ 4,646		
Loans Collectively									
Evaluated for Impairment	828	101	2,449	2,291	2,089	1,549	9,307		
Ending Balance	\$ 905	\$ 101	\$ 4,498	\$ 4,409	\$ 2,473	\$ 1,567	\$ 13,953		

The Company's recorded investment in loans as of December 31 related to each balance in the allowance for loan losses by portfolio class and disaggregated on the basis of the Company's impairment methodology was as follows:

(Dollars in Thousands)	Commercial, Financial,	Real Estate	Real Estate	Real Estate	Real Estate	Real Estate	Total
	Agricultural	Construction	Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	
<b>2017</b>							
Individually Evaluated for Impairment	\$ 1,378	\$ 361	\$ 19,280	\$ 12,871	\$ 3,332	\$ 113	\$ 37,335
Collectively Evaluated for Impairment	216,788	77,605	516,427	299,035	226,181	280,121	1,616,157
Total	\$ 218,166	\$ 77,966	\$ 535,707	\$ 311,906	\$ 229,513	\$ 280,234	\$1,653,492
<b>2016</b>							
Individually Evaluated for Impairment	\$ 1,042	\$ 247	\$ 23,855	\$ 15,596	\$ 3,375	\$ 174	\$ 44,289
Collectively Evaluated for Impairment	215,362	58,196	480,123	265,913	233,137	264,269	1,517,000
Total	\$ 216,404	\$ 58,443	\$ 503,978	\$ 281,509	\$ 236,512	\$ 264,443	\$1,561,289
<b>2015</b>							
Individually Evaluated for Impairment	\$ 834	\$ 97	\$ 20,847	\$ 18,569	\$ 3,144	\$ 261	\$ 43,752
Collectively Evaluated for Impairment	178,982	46,387	478,966	272,016	230,757	241,415	1,448,523
Total	\$ 179,816	\$ 46,484	\$ 499,813	\$ 290,585	\$ 233,901	\$ 241,676	\$1,492,275

*Impaired Loans.* Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The following table presents loans individually evaluated for impairment by class of loans at December 31:

**Unpaid                      Recorded                      Recorded**

<i>(Dollars in Thousands)</i>	<b>Principal Balance</b>	<b>Investment With No Allowance</b>	<b>Investment With Allowance</b>	<b>Related Allowance</b>
<b>2017</b>				
Commercial, Financial and Agricultural	\$ 1,378	\$ 118	\$ 1,260	\$ 215
Real Estate – Construction	361	297	64	1
Real Estate – Commercial Mortgage	19,280	1,763	17,517	2,165
Real Estate – Residential	12,871	1,516	11,355	1,220
Real Estate – Home Equity	3,332	1,157	2,175	515
Consumer	113	45	68	1
Total	\$ 37,335	\$ 4,896	\$ 32,439	\$ 4,117
<b>2016</b>				
Commercial, Financial and Agricultural	\$ 1,042	\$ 565	\$ 477	\$ 80
Real Estate – Construction	247	-	247	-
Real Estate – Commercial Mortgage	23,855	8,954	14,901	2,038
Real Estate – Residential	15,596	2,509	13,087	1,561
Real Estate – Home Equity	3,375	1,871	1,504	335
Consumer	174	65	109	6
Total	\$ 44,289	\$ 13,964	\$ 30,325	\$ 4,020

Nonaccrual loans include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. Therefore, the sum of nonaccrual loans and accruing troubled debt restructurings will differ from the total impaired amount.

The following table summarizes the average recorded investment and interest income recognized for each of the last three years by class of impaired loans:

	2017		2016		2015	
	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
<i>(Dollars in Thousands)</i>						
Commercial, Financial and Agricultural	\$ 1,117	\$ 48	\$ 886	\$ 49	\$ 1,002	\$ 46
Real Estate – Construction	339	4	69	1	335	-
Real Estate – Commercial Mortgage	21,682	911	21,376	920	27,644	1,093
Real Estate – Residential	14,261	683	17,314	786	19,105	842
Real Estate – Home Equity	3,290	108	3,076	115	3,001	86
Consumer	141	8	207	9	201	7
Total	\$ 40,830	\$ 1,762	\$ 42,928	\$ 1,880	\$ 51,288	\$ 2,074

*Credit Risk Management.* The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures designed to maximize loan income within an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis (at least annually).

Reporting systems have been implemented to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans. Management and the Credit Risk Oversight Committee periodically review our lines of business to monitor asset quality trends and the appropriateness of credit policies. In addition, total borrower exposure limits are established and concentration risk is monitored. As part of this process, the overall composition of the portfolio is reviewed to gauge diversification of risk, client concentrations, industry group, loan type, geographic area, or other relevant classifications of loans. Specific segments of the loan portfolio are monitored and reported to the Board on a quarterly basis and have strategic plans in place to supplement Board approved credit policies governing exposure limits and underwriting standards. Detailed below are the types of loans within the Company's loan portfolio and risk characteristics unique to each.