AMENDED
JUL 30 2018

Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Curtis Griffith
Name of the Holding Company Director and Official

Chairman of Trustee
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3-29-18
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 3382332
C.I.

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

December 31, 2017
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

South Plains Financial Inc Employee Stock Ownership Plan
Legal Title of Holding Company

PO Box 5060
(Mailing Address of the Holding Company) Street / P.O. Box

Lubbock	TX	79408
City	State	Zip Code

5219 City Bank Parkway, Lubbock, TX 79407
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Steve Crockett	CFO
Name	Title

(806) 792-7101
Area Code / Phone Number / Extension

None
Area Code / FAX Number

scrockett@citybanktexas.com
E-mail Address

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

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

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

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

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

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

For Use By Tiered Holding Companies

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

South Plains Financial, Inc
Legal Title of Subsidiary Holding Company

PO Box 5060
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Lubbock	TX	79408

5219 City Bank Parkway, Lubbock, TX 79407
Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

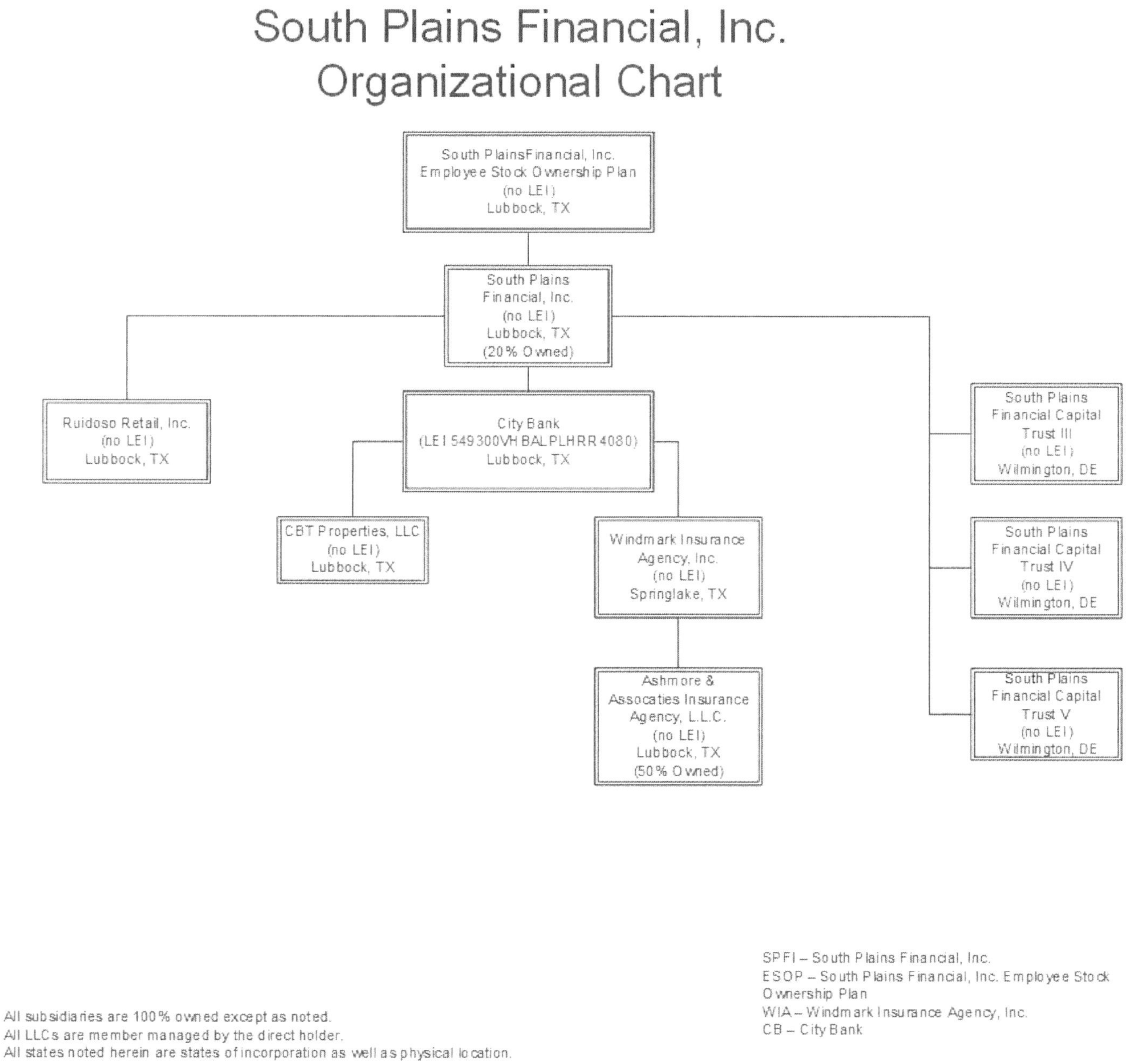
Form FR Y-6

South Plains Financial, Inc. Employee Stock Ownership Plan
Lubbock, Texas
Fiscal Year Ending December 31, 2017

Report Item

1.
   a. South Plains Financial, Inc. is not required to prepare form 10K with the SEC.
   b. A copy of the Annual Report has been sent.

2a. Organization Chart



2.b. Domestic Branch Listing

Branch report has been submitted

Results: A list of branches for your depository institution: CITY BANK (ID_RSSD: 575254).
This depository institution is held by SOUTH PLAINS FINANCIAL, INC. EMPLOYEE STOCK OWNERSHIP PLAN (3382332) of LUBBOCK, TX
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	575254	CITY BANK	5219 CITY BANK PARKWAY	LUBBOCK	TX	79407-3501	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3665174	GATEWAY BRANCH	143A EL PASO ROAD	RUIDOSO	NM	88345	LINCOLN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3635757	MIDTOWN BRANCH	1850 SUDDERTH DRIVE	RUIDOSO	NM	88345	LINCOLN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3624845	COLLEGE STATION BRANCH	1409 UNIVERSITY DRIVE EAST	COLLEGE STATION	TX	77840	BRAZOS	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	4804224	UPTOWN DALLAS BRANCH	2525 MCKINNON STREET SUITE 100	DALLAS	TX	75201	DALLAS	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3400197	EL PASO GEORGE DIETER BRANCH	1418 GEORGE DIETER DR	EL PASO	TX	79936-7601	EL PASO	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3260430	EL PASO MESA BRANCH	7901 N MESA	EL PASO	TX	79932-1625	EL PASO	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3709658	FORNEY HIGHWAY 80 BRANCH	771 EAST HIGHWAY 80	FORNEY	TX	75126	KAUFMAN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3607053	HOUSTON BRANCH	10080 BELLAIRE BLVD., SUITE 101	HOUSTON	TX	77072	HARRIS	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3680047	IDALOU BRANCH	304 WEST 1ST STREET	IDALOU	TX	79329	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	941859	LEVELLAND BRANCH	600 COLLEGE AVE.	LEVELLAND	TX	79336	HOCKLEY	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	1451131	50TH STREET BRANCH	3251 50TH STREET	LUBBOCK	TX	79413	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Limited Service	4804215	HOCKLEY/COCHRAN COUNTY COURIER	5219 CITY BANK PARKWAY	LUBBOCK	TX	79407	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3598339	LUBBOCK 4TH STREET BRANCH	5506 4TH STREET	LUBBOCK	TX	79416-4220	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3657795	LUBBOCK QUAKER BRANCH	8201 QUAKER AVENUE	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3838165	MILWAUKEE & 82ND STREET BRANCH	6524 82ND STREET	LUBBOCK	TX	79424-7012	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3657807	MORTGAGE CENTER BRANCH	5815 82ND STREET, SUITE 120	LUBBOCK	TX	79424	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3367898	OVERTON BRANCH	611 UNIVERSITY AVENUE	LUBBOCK	TX	79401-2206	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3657777	UNIVERSITY BRANCH	8009 UNIVERSITY AVENUE	LUBBOCK	TX	79423	LUBBOCK	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	2719379	MORTON BRANCH	107 WEST TAYLOR	MORTON	TX	79346	COCHRAN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	3453803	PRESTON ROAD BRANCH	7800 PRESTON RD, STE 201	PLANO	TX	75024	COLLIN	UNITED STATES	Not Required	Not Required	CITY BANK	575254	
OK		Full Service	2798664	SPRINGLAKE BRANCH	118 HIGHWAY 70	SPRINGLAKE	TX	79082	LAMB	UNITED STATES	Not Required	Not Required	CITY BANK	575254	

Form FR Y-6

South Plains Financial, Inc. Employee Stock Ownership Plan
Lubbock, TX
Fiscal Year Ending December 31, 2017

Report Item 3: Shareholders
(1)(a)(b)(c) (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/17			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/17		
(1)(a) Name , City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
N/A			N/A		

Form FR Y-6

South Plains Financial, Inc.
Lubbock, TX
Fiscal Year Ending December 31, 2017

Report Item 3: Shareholders
(1)(a)(b)(c) (2)(a)(b)(c)

Current Shareholders with ownership, control or holdings of 5% or more with power to vote as of 12/31/17			Shareholders not listed in (3)(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12/31/17		
(1)(a) Name , City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
		Common Stock			
ESOP Lubbock, TX, USA	USA	99,949 – Owned 20% * - voted by Curtis Griffith on behalf of the ESOP Committee	N/A		
Curtis Griffith Lubbock, TX, USA	USA	80,505 – Owned 16% 121,579 – Voted 25% Total 202,084 – 41%			
James Henry Midland, TX, USA	USA	40,290 – Owned 8% 38,710 – Voted 8% Total 79,000 – 16%			

Form FR Y-6

South Plains Financial, Inc. Employee Stock Ownership Plan
Lubbock, TX
Fiscal Year Ending December 31, 2017

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) (4)(a)(b)(c)

(1) Names , City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Curtis Griffith Lubbock, TX, USA	Investor	Chairman of ESOP Committee	Chairman & CEO (SPFI) Chairman (CB, WIA)	**	0%	SPFI – 40%	**
Rob Dean Lubbock, TX, USA	N/A	ESOP Committee Member	SVP (CB)	**	0%	SPFI – 3%	**
Cory Newsom Lubbock, TX, USA	N/A	ESOP Committee Member	EVP & COO (SPFI) President & CEO (CB)	**	0%	SPFI – 0%	**
Kyle Wargo Lubbock, TX, USA	N/A	ESOP Committee Member	Director (SPFI)	**	0%	None	**
Steve Crockett Lubbock, TX, USA	N/A	ESOP Committee Member	SVP & CFO (CB)	**	0%	SPFI – 0%	**
Paul Ehlers Lubbock, TX, USA	N/A	ESOP Committee Member	SVP & COO (CB)	**	0%	SPFI – 0%	**
Kendra Lane Lubbock, TX, USA	N/A	ESOP Committee Member	VP (CB)	**	0%	None	**

**The responsive data may be found in the confidential volume.

AMENDED JUL 30 2018

Form FR Y-6

South Plains Financial, Inc.
Lubbock, TX
Fiscal Year Ending December 31, 2017

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) (4)(a)(b)(c)

(1) Names , City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Curtis Griffith Lubbock, TX, USA	Investor	Chairman & President	Chairman (CB, WIA)	**	41%	None	**
Bobby Neal Whiteface, TX, USA	Farmer	Director	Director (CB)	**	1%	None	**
ESOP Lubbock, TX, USA	N/A	Principal Securities Holder	N/A	N/A	20%	N/A	N/A
Larry Beseda Kingsland, TX, USA	Farmer	Director	Director (CB)	**	2%	None	**
Jodie Riley Dimmitt, TX, USA	Farmer	Director	Director (CB)	**	1%	None	**
Mikella Newsom Lubbock, TX, USA	N/A	SVP & Secretary	SVP & CRO (CB)	**	0%	None	**
Steve Crockett Lubbock, TX, USA	N/A	SVP, CFO & Treasurer	SVP & CFO (CB)	**	0%	None	**

**The responsive data may be found in the confidential volume.

AMENDED
JUL 30 2018

Form FR Y-6

South Plains Financial, Inc.
Lubbock, TX
Fiscal Year Ending December 31, 2017

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) (4)(a)(b)(c)

(1) Names , City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) If 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Lonnie Hollingsworth Lubbock, TX, USA	Investor	Director	Director (CB)	**	1%	None	**
Cory Newsom Lubbock, TX, USA	N/A	EVP & COO	President & CEO (CB) CEO & Director (WIA)	**	1%	None	**
Kevin Bass Lubbock, TX, USA	N/A	EVP	SEVP & Director (CB)	**	0%	None	**
Danny Campbell Midland, TX, USA	Executive	Director	Director (CB)	**	0%	None	**
Kyle Wargo Lubbock, TX, USA	Executive Director	Director	N/A	**	0%	None	**
James Henry Midland, TX, USA	Investor	Principal Securities Holder	N/A	**	16%	None	**

**The responsive data may be found in the confidential volume.

SOUTH PLAINS FINANCIAL, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

South Plains Financial, Inc.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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Independent Auditor's Report

The Board of Directors
South Plains Financial, Inc.
Lubbock, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of South Plains Financial, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

AN INDEPENDENT MEMBER OF
BAKER TILLY INTERNATIONAL

WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

2821 WEST SEVENTH STREET, SUITE 700, FORT WORTH, TX 76107
P: 817.332.7905 F: 817.429.5936

The Board of Directors
South Plains Financial, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 22, 2017.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
March 21, 2018

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS	(In thousands)	
Cash and due from banks	$ 53,106	$ 57,654
Interest-bearing deposits in banks	241,457	304,091
Federal funds sold	-	1,655
Cash and cash equivalents	294,563	363,400
Securities available for sale	194,179	221,687
Securities held to maturity	89,920	103,136
Loans held for sale	29,314	25,782
Loans, net	1,816,694	1,640,012
Accrued interest receivable	14,303	13,662
Premises and equipment, net	61,887	58,321
Bank-owned life insurance	55,890	54,558
Foreclosed assets, net	2,830	7,849
Other assets	13,795	12,406
Total assets	$ 2,573,375	$ 2,500,813
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 475,162	$ 432,725
Interest-bearing	1,678,919	1,658,198
Total deposits	2,154,081	2,090,923
Short-term borrowings	15,550	26,240
Accrued expenses and other liabilities	26,137	20,975
Notes payable & other borrowings	95,000	95,676
Subordinated debt securities	20,887	20,887
Junior subordinated deferrable interest debentures	46,393	46,393
Total liabilities	2,358,048	2,301,094
Stockholders' equity:		
Common stock, $1 par value, 1,000,000 shares authorized; 505,117 issued in 2017 and 2016	505	505
Additional paid-in capital	100,537	100,139
Retained earnings	120,589	105,226
Accumulated other comprehensive income (loss)	(446)	383
Treasury stock, at cost (12,733 shares in 2017 and 2016)	(5,858)	(5,858)
Unearned Employee Stock Ownership Plan (ESOP) shares	-	(676)
Total stockholders' equity	215,327	199,719
Total liabilities and stockholders' equity	$ 2,573,375	$ 2,500,813

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Interest income:		
Loans, including fees	$ 94,110	$ 87,598
Securities	7,469	7,774
Federal funds sold and interest-bearing deposits in banks	2,861	1,848
Total interest income	104,440	97,220
Interest expense:		
Deposits	12,404	11,712
Short-term borrowings	175	123
Notes payable & other borrowings	1,056	640
Subordinated debt securities	979	980
Junior subordinated deferrable interest debentures	1,363	1,127
Total interest expense	15,977	14,582
Net interest income	88,463	82,638
Provision for loan losses	3,966	1,968
Net interest income, after provision for loan losses	84,497	80,670
Noninterest income:		
Service charges on deposit accounts	7,425	8,296
Income from insurance activities	6,422	7,235
Net gain on sales of loans	18,936	20,637
Other	14,606	13,728
Total noninterest income	47,389	49,896
Noninterest expense:		
Salaries and employee benefits	67,127	63,210
Occupancy and equipment, net	12,988	13,147
Professional services	4,544	5,281
Marketing and development	2,994	2,892
Foreclosed assets, net	244	522
Other	20,247	19,336
Total noninterest expense	108,144	104,388
Income before income taxes	23,742	26,178
Income tax expense	107	101
Net income	23,635	26,077
Other comprehensive income:		
Change in net unrealized gain (loss) on securities available for sale	(1,320)	(1,509)
Reclassification adjustment for losses included in net income	491	-
Other comprehensive (loss)	(829)	(1,509)
Comprehensive income	$ 22,806	$ 24,568

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Unearned ESOP	Treasury	
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Stock	Total
				(In thousands, except share data)				
Balance at December 31, 2015	505,117	$ 505	$ 99,935	$ 85,786	$ 1,892	$ (1,353)	$ (1,526)	$ 185,239
Net income	-	-	-	26,077	-	-	-	26,077
Cash dividends on common stock	-	-	-	(6,433)	-	-	-	(6,433)
Other comprehensive (loss)	-	-	-	-	(1,509)	-	-	(1,509)
Earned ESOP shares	-	-	204	(204)	-	677	-	677
Purchase of treasury stock	-	-	-	-	-	-	(4,332)	(4,332)
Balance at December 31, 2016	505,117	505	100,139	105,226	383	(676)	(5,858)	199,719
Net income	-	-	-	23,635	-	-	-	23,635
Cash dividends on common stock	-	-	-	(7,874)	-	-	-	(7,874)
Other comprehensive (loss)	-	-	-	-	(829)	-	-	(829)
Earned ESOP shares	-	-	398	(398)	-	676	-	676
Balance at December 31, 2017	505,117	$ 505	$ 100,537	$ 120,589	$ (446)	$ -	$ (5,858)	$ 215,327

The accompanying notes are an integral part of these consolidated financial statements.

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2017	Years Ended December 31, 2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 23,635	$ 26,077
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	3,966	1,968
Provision for foreclosed asset losses	538	510
Depreciation and amortization	5,284	5,032
Accretion and amortization	2,984	3,557
Other gains, net	(13)	(574)
Net gain on sales of loans	(18,936)	(20,637)
Proceeds from sales of loans held for sale	542,132	589,554
Loans originated for sale	(526,728)	(551,271)
Earned ESOP shares	676	677
Earnings on bank-owned life insurance	(1,332)	(934)
Net change in:		
Accrued interest receivable and other assets	(2,044)	449
Accrued expenses and other liabilities	5,162	3,020
Net cash from operating activities	35,324	57,428
Cash flows from investing activities:		
Activity in securities available for sale:		
Purchases	(328,160)	(344,052)
Sales	64,767	-
Maturities, prepayments, and calls	287,788	340,425
Activity in securities held to maturity:		
Maturities, prepayments, and calls	12,025	5,060
Loan originations and principal collections, net	(180,322)	6,646
Purchases of premises and equipment, net	(9,024)	(5,261)
Proceeds from sales of premises and equipment	173	549
Proceeds from sales of foreclosed assets	4,674	6,419
Net cash from investing activities	(148,079)	9,786
Cash flows from financing activities:		
Net change in deposits	63,158	(36,330)
Net change in short-term borrowings	(10,690)	(16,545)
Payments made on notes payable and other borrowings	(676)	(677)
Cash dividends on common stock	(7,874)	(6,433)
Purchases of treasury stock	-	(4,332)
Net cash from financing activities	43,918	(64,317)

Continued

SOUTH PLAINS FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Net change in cash and cash equivalents	$ (68,837)	$ 2,897
Beginning cash and cash equivalents	363,400	360,503
Ending cash and cash equivalents	$ 294,563	$ 363,400
Supplemental disclosures of cash flow information:		
Interest paid on deposits and borrowed funds	$ 15,892	$ 14,529
Income taxes paid	107	101
Supplemental schedule of noncash investing and financing activities:		
Loans transferred to foreclosed assets	1,954	6,468
Financed foreclosed asset sales	2,280	-

The accompanying notes are an integral part of these consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – South Plains Financial, Inc. (SPFI) is a Texas bank holding company that conducts its principal activities through its subsidiaries from offices located throughout Texas and Eastern New Mexico. Principal activities include commercial and retail banking, along with insurance, investment, trust, and mortgage services. Subsidiaries of SPFI follow:

Wholly Owned, Consolidated Subsidiaries:	
City Bank	Bank subsidiary
Windmark Insurance Agency, Inc.	Non-bank subsidiary
Ruidoso Retail, Inc.	Non-bank subsidiary
CB Provence, LLC	Non-bank subsidiary
CBT Brushy Creek, LLC	Non-bank subsidiary
CBT Properties, LLC	Non-bank subsidiary
Wholly Owned, Equity Method Subsidiaries:	
South Plains Financial Capital Trusts (SPFCT) III-V	Non-bank subsidiaries

CBNM Properties, LLC, a non-bank subsidiary, was dissolved during 2016.

Basis of Presentation and Consolidation – The consolidated financial statements (CFS) include the accounts of SPFI and its wholly owned consolidated subsidiaries (collectively referred to as the "Company") identified above. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company's CFS are prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Subsequent Events – The Company evaluated subsequent events for potential recognition and/or disclosure through March 21, 2018, the date the CFS were available to be issued.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Determination of the adequacy of the allowance for loan losses is a material estimate that is particularly susceptible to significant change in the near term; the valuation of foreclosed assets and fair values of financial instruments can also involve significant management estimates.

Concentration of Credit Risk – The bank subsidiary is primarily involved in real estate, commercial, agricultural, and consumer lending activities with customers throughout Texas and Eastern New Mexico. Although the bank subsidiary has a diversified portfolio, its debtors' ability to honor their contracts is substantially dependent upon the general economic conditions of the region which consist primarily of agribusiness, wholesale/retail, oil and gas and related business, healthcare industries, and institutions of higher education.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income – Comprehensive income is comprised of net income or loss and other comprehensive income or loss (OCI). Relevant examples of OCI items are unrealized holding gains and losses on securities available for sale, and subsequent decreases (if not an other-than-temporary impairment) or increases in the fair value of securities available for sale previously written down as impaired.

Cash and Cash Equivalents – The Company includes all cash on hand, balances due from other banks, and Federal funds sold, all of which have original maturities within three months, as cash and cash equivalents in the accompanying CFS. Federal regulations require the bank subsidiary to set aside specified amounts of cash as reserves against transaction and time deposits, which fluctuate daily. These reserves may be held as cash on hand or on deposit with a district Federal Reserve Bank. Management believes that the bank subsidiary complies with these requirements.

Securities – Investment securities may be classified into trading, held to maturity (HTM) or available for sale (AFS) portfolios. Securities that are held principally for resale in the near term are classified as trading. Securities that management has the ability and positive intent to hold to maturity are classified as HTM and recorded at amortized cost. Securities not classified as trading or HTM are AFS and are reported at fair value with unrealized gains and losses excluded from earnings, but included in the determination of OCI. Management uses these assets as part of its asset/liability management strategy; they may be sold in response to changes in liquidity needs, interest rates, resultant prepayment risk changes, and other factors. Management determines the appropriate classification of securities at the time of purchase. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses and declines in value judged to be other-than-temporary are included in gain (loss) on sale of securities. The cost of securities sold is based on the specific identification method.

When the fair value of a security is below its amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. The analysis considers (i) whether there is intent to sell securities prior to recovery and/or maturity, (ii) whether it is more likely than not that securities will have to be sold prior to recovery and/or maturity, and (iii) whether there is a credit loss component to the impairment. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of a security may be different than previously estimated, which could have a material effect on the Company's results of operations and financial condition.

Nonmarketable Equity Securities – Securities with limited marketability, such as stock in the Federal Home Loan Bank of Dallas (FHLB), are carried at cost and are reported in other assets. Windmark Insurance Agency, Inc. owns 50% of WBSPF, LLC and accounts for its ownership using the equity method of accounting.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the straight-line method, which is not materially different from the effective interest method required by GAAP.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans are placed on non-accrual status when, in management's opinion, collection of interest is unlikely, which typically occurs when principal or interest payments are more than ninety days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

<u>Allowance for Loan Losses</u> – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and general valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends, judgmentally adjusted for general economic conditions and other qualitative risk factors internal and external to the Company.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The bank subsidiary's loans are generally secured by specific items of collateral including real property, crops, livestock, consumer assets, and other business assets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on various factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the bank subsidiary to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. All loans rated substandard or worse and greater than $250,000 are specifically reviewed to determine if they are impaired. Factors considered by management in determining whether a loan is impaired include payment status and the sources, amounts, and probabilities of estimated cash flow available to service debt in relation to amounts due according to contractual terms. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans that are determined to be impaired are then evaluated to determine estimated impairment, if any. GAAP allows impairment to be measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Loans that are not individually determined to be impaired or are not subject to the specific review of impaired status are subject to the general valuation allowance portion of the allowance for loan loss.

The Company may modify its loan agreement with a borrower. The modification will be considered a troubled debt restructuring if the following criteria are met: (1) the borrower is experiencing a financial difficulty and (2) the Company makes a concession that it would not otherwise make. Concessions may include debt forgiveness, interest rate change, or maturity extension. Each of these loans is impaired and is evaluated for impairment, with a specific reserve recorded as necessary based on probable losses related to collateral and cash flow. A loan will no longer be required to be reported as restructured in calendar years following the restructure if the interest rate at the time of restructure is greater than or equal to the rate the Company was willing to accept for a new extension of credit with similar risk and the loan is in compliance with its modified terms.

Loans Held for Sale – Loans held for sale are comprised of residential mortgage loans. Loans that are originated for best efforts delivery are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. All other loans held for sale are carried at fair value. Loans sold are typically subject to certain indemnification provisions with the investor; management does not believe these provisions will have any significant consequences.

Premises and Equipment – Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the term of the respective leases or the estimated useful lives of the improvements.

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

Bank-Owned Life Insurance – The bank subsidiary has purchased life insurance policies on various officers and also is the beneficiary. These policies are issued by third party insurance companies. Assets are carried at the cash surrender value and changes in the cash surrender values are recognized in other noninterest income in the accompanying CFS.

Mortgage Banking Derivatives – Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market, forward commitments for the future delivery of these mortgage loans, and forward sales of mortgage-backed securities are accounted for as free standing derivatives. At the time of the interest rate lock, the Company determines whether the loan will be sold through a best efforts contract or a mandatory delivery contract.

In order to hedge the change in interest rates resulting from the commitments to fund the loans that will be sold through a best efforts contract, the Company enters into forward loans sales commitments for the future delivery of mortgage loans when interest rate locks are entered into. At inception, these interest rate locks

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and the related forward loan sales commitments, adjusted for the expected exercise of the commitment before the loan is funded, are recorded with a zero value. Subsequent changes in fair value are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked.

In order to hedge the change in interest rates resulting from all other mortgage commitments to funds loans, the Company enters into forward sales of mortgage-backed securities contracts. At inception, these interest rate locks are recorded at fair value and is adjusted for the expected exercise of the commitment before the loan is funded. Subsequent changes in fair value are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in net gain on sales of loans in the CFS.

Derivatives – At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Advertising – Advertising costs are recognized when incurred. Advertising costs during 2017 and 2016 were approximately $2.6 million and $2.5 million, respectively.

Income Taxes – The Company elected to be taxed as an S corporation beginning January 1, 1998. Accordingly, Federal income taxes are not reflected in the CFS. The Company files a consolidated Federal income tax return.

In 2006, the State of Texas modified the franchise tax structure. The change was effective for franchise tax reports filed on or after January 1, 2008. The modified tax is an income tax for financial reporting purposes under GAAP and the Company and its subsidiaries are subject to the modified tax as a combined group.

Trust Assets – Custodial assets of City Bank's trust department, other than cash on deposit at City Bank, if any, are not included in the accompanying CFS because they are not assets of City Bank. Trust fees are recognized on the accrual basis.

Fair Values of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully described in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect estimates.

Recent Accounting Pronouncements – *Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC)* constitutes U.S. GAAP for nongovernmental entities. Updates to ASC are prescribed in Accounting Standards Updates (ASU), which are not authoritative until incorporated into ASC.

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2014-09 Revenue from Contracts with Customers (Topic 606) and *ASU 2016-14 - Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date.* The FASB amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective beginning January 1, 2019. The adoption of this standard is not expected to have a material impact on the Company's operating results or financial condition.

ASU 2016-02 Leases (Topic 842). The FASB amended existing guidance that requires that lessees recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The Company is in the process of determining the effect of the standard on its consolidated operating results and financial condition. These amendments are effective beginning January 1, 2020

ASU 2016-13 Financial Instruments - Credit Losses (Topic 326). The FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held to maturity securities, and debt securities. ASU 2016-13 is effective for the Company for annual periods beginning after December 15, 2020, including interim periods within those fiscal years. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact adoption of ASU 2016-13 will have on its consolidated operating results and financial condition.

ASU 2016-15 Statement of Cash Flows (Topic 320). The FASB issued guidance to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The adoption of this standard is not expected to have a material impact on the Company's operating results or financial condition. These amendments are effective beginning January 1, 2019.

ASU 2017-12 Derivatives and Hedging (Topic 815). The FASB issued guidance to improve the financial reporting of hedging relationships to better portray economic results of an entity's risk management activities in its financial statements. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. These amendments are effective beginning January 1, 2020. The adoption of this standard is not expected to have a material impact on the Company's operating results or financial condition.

Continued

2. *SECURITIES*

The amortized cost and fair value of securities, with gross unrealized gains and losses, at year-end follow (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2017				
Available for sale:				
U.S. government and agencies	$ 10,302	$ 113	$ (23)	$ 10,392
State and municipal	74,597	755	(368)	74,984
Mortgage-backed securities	66,373	39	(629)	65,783
Asset-backed and other amortizing securities	43,353	9	(342)	43,020
	$ 194,625	$ 916	$ (1,362)	$ 194,179
Held to maturity:				
State and municipal	$ 89,920	$ 2,417	$ (27)	$ 92,310
2016				
Available for sale:				
U.S. government and agencies	$ 74,672	$ 442	$ (255)	$ 74,859
State and municipal	78,287	930	(569)	78,648
Mortgage-backed securities	53,577	92	(373)	53,296
Asset-backed and other amortizing securities	14,768	159	(43)	14,884
	$ 221,304	$ 1,623	$ (1,240)	$ 221,687
Held to maturity:				
State and municipal	$ 103,136	$ 3,723	$ (36)	$ 106,823

The amortized cost and fair value of debt securities at December 31, 2017 are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Other securities are shown separately since they are not due at a single maturity date.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ 9,058	$ 9,104	$ 23,283	$ 23,399
After 1 year through 5 years	25,601	25,777	30,635	31,615
After 5 years through 10 years	27,505	27,473	6,050	6,134
After 10 years	22,735	23,022	29,952	31,162
Other	109,726	108,803	-	-
	$ 194,625	$ 194,179	$ 89,920	$ 92,310

2. *SECURITIES (Continued)*

Securities with a carrying value of approximately $188.1 million and $225.4 million at December 31, 2017 and 2016, respectively, were pledged to collateralize public deposits and for other purposes as required or permitted by law.

The following table segregates securities with unrealized losses at year-end, by the period they have been in a loss position (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2017						
U.S. government and agencies	$ 2,073	$ 23	$ -	$ -	$ 2,073	$ 23
State and municipal	30,247	209	6,389	159	36,636	368
Mortgage-backed securities	47,477	368	11,623	261	59,100	629
Asset-backed and other amortizing securities	41,197	342	-	-	41,197	342
	$ 120,994	$ 942	$ 18,012	$ 420	$ 139,006	$ 1,362
Held to maturity:						
State and municipal	$ 14,764	$ 20	$ 460	$ 7	$ 15,224	$ 27
2016						
U.S. government and agencies	$ 34,979	$ 255	$ -	$ -	$ 34,979	$ 255
State and municipal	38,492	558	4,252	11	42,744	569
Mortgage-backed securities	20,340	229	10,307	144	30,647	373
Asset-backed and other amortizing securities	5,281	43	-	-	5,281	43
	$ 99,092	$ 1,085	$ 14,559	$ 155	$ 113,651	$ 1,240
Held to maturity:						
State and municipal	$ 8,530	$ 36	$ -	$ -	$ 8,530	$ 36

There were 121 securities with an unrealized loss at December 31, 2017. Management does not believe that these losses are other than temporary as there is no intent to sell any of these securities before recovery and it is not probable that we will be required to sell any of these securities before recovery, and credit loss, if any, is not material. Any unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2017, management believes the impairments detailed in the table above are temporary and no impairment loss has been realized in the Company's CFS.

Continued

3. *LOANS*

Loans are summarized by category at year-end as follows (in thousands):

	2017	2016
Commercial real estate	$ 506,894	$ 462,495
Commercial - specialized	329,119	309,279
Commercial - general	410,057	395,949
Consumer	526,163	436,256
Construction	65,922	57,207
	1,838,155	1,661,186
Allowance for loan losses	(21,461)	(21,174)
Loans, net	$ 1,816,694	$ 1,640,012

The Company has certain lending policies, underwriting standards, and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies, underwriting standards, and procedures on a regular basis and makes changes as appropriate. Management receives frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing, and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

<u>*Commercial*</u> – Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably. Underwriting standards have been designed to determine whether the borrower possesses sound business ethics and practices, evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations, as agreed and ensure appropriate collateral is obtained to secure the loan. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as real estate, accounts receivable, or inventory, and include personal guarantees. Owner-occupied real estate is included in commercial loans, as the repayment of these loans is generally dependent on the operations of the commercial borrower's business rather than on income-producing properties or the sale of the properties.

3. *LOANS (Continued)*

Commercial Real Estate – Commercial real estate loans are also subject to underwriting standards and processes similar to commercial loans. These loans are underwritten primarily based on projected cash flows for income-producing properties and collateral values for nonincome-producing properties. The repayment of these loans is generally dependent on the successful operation of the property securing the loans or the sale or refinancing of the property. Real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are diversified by type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

Construction – Loans for residential construction are for single-family properties to developers, builders, or end-users. These loans are underwritten based on estimates of costs and completed value of the project. Funds are advanced based on estimated percentage of completion for the project. Performance of these loans is affected by economic conditions as well as the ability to control costs of the projects.

Consumer – The Company utilizes a computer-based credit scoring analysis to supplement its policies and procedures in underwriting consumer loans. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company's risk. Residential real estate loans are included in consumer loans. The Company generally requires mortgage title insurance and hazard insurance on these loans.

The following table details the activity in the allowance for loan losses during 2017 and 2016 (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Commercial Real Estate	Commercial - Specialized	Commercial - General	Consumer	Construction	Total
2017						
Beginning balance	$ 4,049	$ 3,474	$ 9,589	$ 3,910	$ 152	$ 21,174
Provision for loan losses	(365)	(1,724)	2,653	3,206	196	3,966
Charge-offs	(18)	(173)	(2,658)	(2,757)	-	(5,606)
Recoveries	103	790	567	467	-	1,927
Ending balance	$ 3,769	$ 2,367	$ 10,151	$ 4,826	$ 348	$ 21,461
2016						
Beginning balance	$ 8,457	$ 3,411	$ 9,117	$ 3,086	$ 149	$ 24,220
Provision for loan losses	(5,050)	2,257	2,120	2,509	133	1,969
Charge-offs	(43)	(2,429)	(2,143)	(2,000)	(130)	(6,745)
Recoveries	685	235	495	315	-	1,730
Ending balance	$ 4,049	$ 3,474	$ 9,589	$ 3,910	$ 152	$ 21,174

Continued

3. *LOANS (Continued)*

Impaired loan information at year-end follows (in thousands):

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
2017						
Commercial Real Estate	$ 7,815	$ 7,360	$ -	$ 7,360	$ -	$ 4,982
Commercial - Specialized	6,074	5,367	-	5,367	-	5,244
Commercial - General	7,433	3,659	1,316	4,975	109	4,901
Consumer	3,937	2,888	399	3,287	34	2,795
Construction	-	-	-	-	-	-
Total	$ 25,259	$ 19,274	$ 1,715	$ 20,989	$ 143	$ 17,922
2016						
Commercial Real Estate	$ 3,058	$ 2,603	$ -	$ 2,603	$ -	$ 8,889
Commercial - Specialized	5,828	5,121	-	5,121	-	3,772
Commercial - General	8,306	3,481	1,346	4,827	114	3,751
Consumer	2,721	1,874	428	2,302	53	2,708
Construction	-	-	-	-	-	39
Total	$ 19,913	$ 13,079	$ 1,774	$ 14,853	$ 167	$ 19,159

All impaired loans $250,000 and greater were specifically evaluated for impairment. Interest income recognized using a cash-basis method on impaired loans for 2017 and 2016 was not significant. Additional funds committed to be advanced on impaired loans are not significant.

Continued

3. *LOANS (Continued)*

The table below provides an age analysis on accruing past-due loans and nonaccrual loans at year-end (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual
2017			
Commercial real estate	$ 2,562	$ 52	$ 5,558
Commercial - specialized	519	54	1,587
Commercial - general	1,827	13	3,385
Consumer	4,343	1,078	2,099
Construction	-	-	75
Total	$ 9,251	$ 1,197	$ 12,704
2016			
Commercial real estate	$ 1,179	$ 8	$ 662
Commercial - specialized	568	-	858
Commercial - general	3,454	-	3,249
Consumer	3,695	1,000	1,323
Construction	2,213	-	95
Total	$ 11,109	$ 1,008	$ 6,187

The Company grades its loans on a thirteen-point grading scale. These grades fit in one of the following categories: (i) pass, (ii) special mention, (iii) substandard, (iv) doubtful, or (v) loss. Loans categorized as loss are charged-off immediately. The grading of loans reflect a judgment about the risks of default associated with the loan. The Company reviews the grades on loans as part of our on-going monitoring of the credit quality of our loan portfolio.

Pass loans have financial factors or nature of collateral that are considered reasonable credit risks in the normal course of lending and encompass several grades that are assigned based on varying levels of risk, ranging from credits that are secured by cash or marketable securities, to watch credits which have all the characteristics of an acceptable credit risk but warrant more than the normal level of monitoring.

Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loans at some future date.

Substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize collection and present the distinct possibility that some loss will be sustained if the deficiencies are not corrected. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed. Substandard loans can be accruing or

Continued

3. *LOANS (Continued)*

can be non-accrual depending on the circumstances of the individual loans. Doubtful loans have all the weaknesses inherent in substandard loans with the added characteristics that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. All doubtful loans are on nonaccrual.

The following table summarizes the internal classifications of loans at year-end (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
2017					
Commercial real estate	$ 495,860	$ 1,233	$ 9,801	$ -	$ 506,894
Commercial - specialized	322,424	-	6,695	-	329,119
Commercial - general	397,390	4,037	8,150	480	410,057
Consumer	519,191	-	6,972	-	526,163
Construction	65,847	-	75	-	65,922
Total	$ 1,800,712	$ 5,270	$ 31,693	$ 480	$ 1,838,155
2016					
Commercial real estate	$ 453,334	$ -	$ 9,161	$ -	$ 462,495
Commercial - specialized	298,527	-	10,752	-	309,279
Commercial - general	387,181	-	8,768	-	395,949
Consumer	431,174	-	5,082	-	436,256
Construction	57,112	-	95	-	57,207
Total	$ 1,627,328	$ -	$ 33,858	$ -	$ 1,661,186

Troubled debt restructurings during 2017 and 2016 are summarized in the table below (in thousands):

	2017			2016		
	Number of Contracts	Balance at Restructure Date	Balance at December 31	Number of Contracts	Balance at Restructure Date	Balance at December 31
Commercial real estate	-	$ -	$ -	1	$ 369	$ -
Commercial - specialized	-	-	-	7	7,463	3,958
Commercial - general	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Total	-	$ -	$ -	8	$ 7,832	$ 3,958

Continued

3. *LOANS (Continued)*

The following table summarizes how loans were restructured during 2017 and 2016 (in thousands):

	Extended Maturity	Adjusted Payment and/or Interest Rate	Principal Forgiveness	Combination of Payment/Rate Adjustment and Maturity Extension	Total
2017					
Commercial real estate	$ -	$ -	$ -	$ -	$ -
Commercial - specialized	-	-	-	-	-
Commercial - general	-	-	-	-	-
Consumer	-	-	-	-	-
Construction	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
2016					
Commercial real estate	$ -	$ 369	$ -	$ -	$ 369
Commercial - specialized	3,958	3,505	-	-	7,463
Commercial - general	-	-	-	-	-
Consumer	-	-	-	-	-
Construction	-	-	-	-	-
	$ 3,958	$ 3,874	$ -	$ -	$ 7,832

As of December 31, 2017, there were no defaults on loans restructured during the period.

4. *FORECLOSED ASSETS*

Foreclosed assets activity was as follows (in thousands):

	2017	2016
Beginning balance	$ 7,849	$ 7,681
Additions	1,953	6,468
Sales, net	(6,434)	(5,790)
Current year valuation write-down	(538)	(510)
Ending balance	$ 2,830	$ 7,849

4. *FORECLOSED ASSETS (Continued)*

Activity in the valuation allowance was as follows (in thousands):

	2017	2016
Beginning balance	$ 2,709	$ 7,829
Current year valuation write-down	538	510
Reductions from sales	(1,834)	(5,630)
Ending balance	$ 1,413	$ 2,709

Net expenses related to foreclosed assets include (in thousands):

	2017	2016
Net gain on sales	$ (519)	$ (629)
Current year valuation write-down	538	510
Operating expenses, net of rental income	225	641
Foreclosed assets expense, net	$ 244	$ 522

5. *PREMISES AND EQUIPMENT*

Detail of premises and equipment at year-end follows (in thousands):

	2017	2016
Land	$ 10,121	$ 10,117
Buildings and improvements	60,119	53,174
Furniture and equipment	40,120	37,973
Construction in process	277	1,294
	110,637	102,558
Less accumulated depreciation	(48,750)	(44,237)
Premises and equipment, net	$ 61,887	$ 58,321

Depreciation expense was approximately $5.3 million in 2017 and $5.0 million in 2016.

6. *DEPOSITS*

Time deposits that met or exceeded the FDIC Insurance limit of $250,000 were $147.1 million and $142.2 million at December 31, 2017 and 2016, respectively.

Continued

6. *DEPOSITS (Continued)*

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

2018	$	210,988
2019		35,212
2020		15,953
2021		7,535
2022		61,825
Thereafter		-
	$	331,513

7. *BORROWING ARRANGEMENTS*

Short-term borrowings
The following table summarizes our short-term borrowings at year-end (in thousands):

	2017	2016
Federal funds purchased	$ 15,550	$ 26,240
FHLB advances - short-term	-	-
Total	$ 15,550	$ 26,240

Federal funds purchased are short-term borrowings that generally have one-day maturities.

Lines of credit
The bank subsidiary has a line of credit with FHLB. The amount of the line is determined by FHLB on a quarterly basis. The line can be used to purchase Federal funds or to secure letters of credit to pledge as collateral against certain public deposits. Use and availability of the line at year-end follows (in thousands):

	2017	2016
Federal funds purchased and short-term advances	$ -	$ -
Long-term advances	95,000	95,000
Letters of credit	145,000	145,000
Available funds	456,616	402,570
Total	$ 696,616	$ 642,570

The line is collateralized by a blanket floating lien on all first mortgage loans and commercial real estate loans as well as all FHLB stock.

The bank subsidiary also has a line of credit with the Federal Reserve Bank of Dallas (FRB). The amount of the line is determined on a monthly basis by FRB. The line is collateralized by a blanket floating lien on all agriculture, commercial, and consumer loans. The amount of the line was $466.0 million and $359.0 million at December 31, 2017 and 2016, respectively. This line was not used at December 31, 2017 or 2016.

7. *BORROWING ARRANGEMENTS (Continued)*

The bank subsidiary also has uncollateralized lines of credit with multiple banks. The total amount of the lines was $135.0 and $135.0 million as of December 31, 2017 and 2016, respectively. These lines were not used at December 31, 2017 or 2016.

Notes payable and other borrowings
There was a note for the Company's ESOP to a bank, dated May 2007, payable in ten equal annual principal payments of $677,000, beginning January 2008. The note bore interest at *Wall Street Journal* (*WSJ)* prime minus 0.5% (3.25% at December 31, 2016) payable quarterly, and is secured by unallocated shares of SPFI stock and guaranteed by the Company. The Company repaid the entire December 31, 2016 outstanding balance of $676,000 in 2017.

The Company had a line of credit from a bank. The line of credit was secured by 8,069 shares of City Bank common stock. The line of credit bore interest at *WSJ* prime minus .15%. The line of credit matured in July 2016 and was not renewed. The Company did not fund on this line in 2016.

The bank subsidiary has multiple advances from FHLB. The advances are collateralized through the line of credit with FHLB with interest payable monthly and principal due at maturity. The following table is a detail of the advances as of December 31 (in thousands):

Issue Date	Original Amount of Advance	2017 Balance	2016 Balance	Maturity Date	Interest Rate at December 31, 2017
2013	$ 20,000	$ 20,000	$ 20,000	2020	Fixed; 1.50%
2015	25,000	25,000	25,000	2025	Variable; 1.40%
2015	25,000	25,000	25,000	2025	Variable; 1.40%
2015	25,000	25,000	25,000	2025	Variable; 1.33%
	$ 95,000	$ 95,000	$ 95,000		

Junior subordinated deferrable interest debentures and Trust preferred securities
The Company established grantor trusts (trusts) that issued obligated mandatorily redeemable preferred securities (TPS); the Company issued junior subordinated deferrable interest debentures (debentures) to the trusts. The trusts are not consolidated and the debentures issued by the Company to the trusts are reflected in the Company's consolidated balance sheets. The Company records interest expense on the debentures in its CFS.

Continued

7. *BORROWING ARRANGEMENTS (Continued)*

The common capital securities issued by the trusts ($1.4 million) are included in other assets in the Company's consolidated balance sheets under the equity method of accounting. The amount of the capital securities represents the Company's maximum exposure to loss.

The Company is required by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) to maintain certain levels of capital for bank regulatory purposes. The debentures issued by the trusts to the Company, less the common capital securities of the trusts, continue to qualify as Tier 1 capital, subject to limitation to 25% of Tier 1 capital, under guidance issued by the Federal Reserve Board.

Although the trusts are not consolidated in these CFS, the TPS remain outstanding with terms substantially the same as the debentures. The Company's interest payments on its debentures are the sole source of repayment for the TPS. Additionally, the Company guarantees payment of interest and principal on the TPS.

The terms of the debentures and TPS allow for interest to be deferred for up to five years consecutively. During this time, shareholder dividends are not allowed to be paid.

The following table is a detail of the debentures and TPS at December 31, 2017 (in thousands):

	Issue Date	Amount of TPS	Amount of Debentures	Stated Maturity Date of TPS and Debentures (1)	Interest Rate of TPS and Debentures (2)(3)
South Plains Financial Capital Trust III	2004	$ 10,000	$ 10,310	2034	3-mo. LIBOR + 265bps; 4.01%
South Plains Financial Capital Trust IV	2005	20,000	20,619	2035	3-mo. LIBOR + 139bps; 3.09%
South Plains Financial Capital Trust V	2007	15,000	15,464	2037	3-mo. LIBOR + 150bps; 2.98%
Total		$ 45,000	$ 46,393		

(1) May be redeemed five years from the issue date, the Company has no current plans to redeem; (2) Interest payable quarterly with principal due at maturity; (3) Rate as of last reset date.

Subordinated debt securities

In January 2014, the Company issued $20.9 million in subordinated debt securities. These securities pay interest quarterly and mature January 2024. There was $6.5 million issued at a current rate of 4% and $14.4 million at a current rate of 5%. These rates are fixed for five years and then float at *WSJ* prime, with a floor of 4% and a ceiling of 7.5%. These securities are unsecured and may be called by the Company at any time after January 2019. These securities qualify for Tier 2 capital, subject to regulatory limitations.

Continued

8. *EMPLOYEE BENEFITS*

The Company sponsors the ESOP, an employee stock ownership and 401(k) plan, that covers all employees who have completed one month of service. Under the 401(k) provisions of the ESOP, participants may elect to contribute pre-tax salary deferrals and direct investment of those salary deferrals among investments offered in the ESOP (excluding SPFI stock). Although the ESOP provides for Company contributions under the 401(k) provisions, the Company has not made any contributions of this type and has no plans to do so in the foreseeable future. All Company contributions to date have been allocated to service debt related to employee stock ownership.

The ESOP is leveraged to purchase shares of SPFI stock. Shares are released from collateral and allocated to active employees, in proportion to annual debt service. The Company recognizes the debt of the ESOP as notes payable and the shares pledged as collateral are deducted from the stockholders' equity as unearned ESOP shares in the accompanying consolidated balance sheets. See Note 7: Notes payable and other borrowings.

The Company makes contributions to the ESOP as approved by the Board of Directors on an annual basis. These contributions, plus dividends received, are used to service any ESOP debt and repurchase allocated shares from participants and terminating vested participants. Contributions to the ESOP were $1.7 million and $1.6 million in 2017 and 2016, respectively.

The ESOP participants have a mandatory put option to the Company, which may be assumed by the ESOP (but ESOP assumption cannot be required), whereby the Company must settle any SPFI stock benefits under the ESOP by providing cash to the participant in exchange for SPFI stock that would otherwise be distributed. Therefore, the Company is obligated to repurchase allocated shares, at fair value as determined by independent appraisal, from participants that (a) elect to diversify their holdings as they approach retirement, (b) retire or (c) are vested in all or a portion of their SPFI stock in the ESOP and terminate employment.

SPFI stock held by the ESOP at year-end follows:

	2017	2016
Allocated shares	99,949	97,835
Unearned (unreleased) shares	-	2,114
Total shares	99,949	99,949
Fair value of unearned (unreleased) shares	$ -	$ 880,000

Employee Health Benefits – The Company has a self-insured welfare benefit plan which provides health and dental benefits. For officers of the Company, there is no waiting period to be eligible, while there is a 60-day waiting period for all other employees. In addition, to be eligible, an employee must be scheduled to work on a full-time basis (at least 30 hours per week). The Company periodically evaluates the costs of the plan and determines the amount to be contributed by the Company and the amount, if any, to be contributed by the employee. Welfare benefit expense was approximately $3.8 million and $4.1 million for the years ending December 31, 2017 and 2016, respectively. In addition, benefit obligations have been accrued and include reported claims payable and claims incurred but not reported, for approximately $498,000 and

8. *EMPLOYEE BENEFITS (Continued)*

$458,000 as of December 31, 2017 and 2016, respectively. The Company has limited its risk exposure for these benefits through a stop-loss policy with an independent third party insurer which reimburses benefits paid that exceed $75,000 per participant per year.

Non-Qualified Plans - Certain Company executives, as determined by the Company's Board from time-to-time, are granted stock appreciation rights based on grant date values. The rights have varying vesting provisions. Exercise and payment options for the rights vary and are governed by the program they were issued under as well as the specific award agreement. The Company accrues the liabilities for these rights under the intrinsic value method; approximately $8.1 million and $4.6 million was accrued at December 31, 2017 and 2016, respectively.

Certain Company executives, as determined by the Company's Board from time-to-time, have post-retirement salary continuation agreements under an Executive Salary Continuation Plan. Retirement ages and retirement salary amounts are specified in each agreement. The Company accrues actuarial estimates of the costs of these benefits over the respective service periods; approximately $10.3 million and $9.4 million was accrued at December 31, 2017 and 2016, respectively.

Both of these plans are nonqualified, noncontributory, and unfunded. The charges to income for the plans during 2017 and 2016 were approximately $5.2 million and $2.8 million, respectively.

9. *RELATED-PARTY TRANSACTIONS*

Direct and indirect loans to executive officers, directors, significant stockholders and their related affiliates as of December 31, 2017 and 2016 aggregated approximately $9.4 million and $4.2 million, respectively. There were no charge-offs related to these loans in 2017 or 2016 and advance and repayment activity was routine. Deposits from these related parties in the CFS were not significant.

10. *OFF-BALANCE-SHEET ACTIVITIES, COMMITMENTS AND CONTINGENCIES*

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

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

Financial instruments whose contract amounts represent credit risk outstanding at year-end follow (in thousands):

	2017	2016
Commitments to grant loans and unfunded commitments under lines of credit	$ 290,441	$ 299,023
Standby letters-of-credit	9,255	10,149

Continued

10. OFF-BALANCE-SHEET ACTIVITIES, COMMITMENTS AND CONTINGENCIES (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

Litigation - The Company is a defendant in legal actions arising from time to time in the normal course of business. Management believes that the ultimate liability, if any, arising from these matters will not materially affect the CFS.

Lease Commitments - The Company leases certain office facilities and office equipment under operating leases. Rent expense for all operating leases totaled approximately $2.2 million in 2017 and $2.4 million in 2016. Occupancy expense was reduced by approximately $900,000 and $800,000 for rental income during 2017 and 2016, respectively. Future minimum lease payments due under non-cancelable operating leases as of December 31, 2017 are as follows (in thousands):

2018	$ 1,589
2019	1,063
2020	658
2021	508
2022	458
Thereafter	4,528
	$ 8,804

Continued

11. CAPITAL AND REGULATORY MATTERS

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by its banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and its bank subsidiary's financial statements. Under capital guidelines and the regulatory framework for prompt corrective action, the Company and its bank subsidiary must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In July 2013, the Federal Reserve Board published final rules for the adoption of the Basel III regulatory capital framework (Basel III). Basel III, among other things, (i) introduces a new capital measure called Common Equity Tier 1 (CET1), (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 Capital instruments meeting specified requirements, (iii) defines Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the deductions/adjustments as compared to existing regulations. Basel III became effective for the Company and its bank subsidiary on January 1, 2016 with certain transition provisions fully phased-in on January 1, 2019. Management does not anticipate a material impact on the Company or our bank subsidiary when the provisions are fully phased-in.

Quantitative measures established by regulation to ensure capital adequacy require the Company and its bank subsidiary to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 2017, the bank subsidiary was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since December 31, 2017 that management believes have changed the bank subsidiary's category.

Continued

11. CAPITAL AND REGULATORY MATTERS (Continued)

The Company and its bank subsidiary's actual capital amounts and ratios follow:

	Actual		For Capital Adqequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
			(Dollars in thousands)			
December 31, 2017:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 303,301	15.1%	$ 185,220	9.3%	N/A	N/A
City Bank	276,153	13.8%	184,982	9.3%	$ 199,980	10.0%
Tier I Capital to Risk Weighted Assets:						
Consolidated	260,773	13.0%	145,173	7.3%	N/A	N/A
City Bank	254,512	12.7%	144,986	7.3%	159,984	8.0%
Common Tier 1 (CET1):						
Consolidated	215,773	10.8%	115,137	5.8%	N/A	N/A
City Bank	254,512	12.7%	114,989	5.8%	129,987	6.5%
Tier I Capital to Average Assets:						
Consolidated	260,773	10.1%	103,643	4.0%	N/A	N/A
City Bank	254,512	9.8%	103,484	4.0%	129,355	5.0%
December 31, 2016:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 286,578	15.7%	$ 157,529	8.6%	N/A	N/A
City Bank	266,096	14.6%	157,214	8.6%	$ 182,278	10.0%
Tier I Capital to Risk Weighted Assets:						
Consolidated	244,337	13.4%	121,000	6.6%	N/A	N/A
City Bank	244,742	13.4%	120,759	6.6%	145,822	8.0%
Common Tier 1 (CET1):						
Consolidated	199,337	10.9%	93,604	5.1%	N/A	N/A
City Bank	244,742	13.4%	93,417	5.1%	118,480	6.5%
Tier I Capital to Average Assets:						
Consolidated	244,337	9.6%	102,263	4.0%	N/A	N/A
City Bank	244,742	9.6%	102,104	4.0%	127,630	5.0%

State banking regulations place certain restrictions on dividends paid by banks to their shareholders. Dividends paid by the Company's bank subsidiary would be prohibited if the effect thereof would cause the bank subsidiary's capital to be reduced below applicable minimum capital requirements.

Continued

12. DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset-liability management strategy to help manage its interest-rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

The following table reflects the changes in fair value hedges included in the Consolidated Statements of Comprehensive Income as of December 31 (in thousands):

Interest Rate Contracts	Location	2017	2016
Change in fair value on interest rate swaps hedging fixed rate loans	Interest income	$ 92	$ 99
Change in fair value on fixed rate loans - hedged item	Interest income	$ (79)	$ (65)

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31 (in thousands):

	2017		2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other liabilities:				
Interest rate swaps related to fixed rate loans	$ -	$ -	$ 10,491	$ 33
Included in other assets:				
Interest rate swaps related to fixed rate loans	$ 10,189	$ 59	$ -	$ -

Mortgage banking derivatives

The net gains (losses) relating to free standing derivative instruments used for risk management are summarized below as of December 31 (in thousands):

	Location	2017	2016
Forward contracts related to mortgage loans held for sale	Net gain on sales of loans	$ (335)	$ (104)
Interest rate lock commitments	Net gain on sales of loans	$ 156	$ 753

Continued

12. *DERIVATIVES (Continued)*

The following table reflects the amount and fair value of mortgage banking derivatives in the Consolidated Balance Sheets as of December 31 (in thousands):

	2017		2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Forward contracts related to mortgage loans held for sale	$ 33,227	$ 47	$ 33,998	$ 382
Interest rate lock commitments	23,170	528	24,486	557
Total included in other assets	$ 56,397	$ 575	$ 58,484	$ 939
Included in other liabilities:				
Forward contracts related to mortgage loans held for sale	$ -	$ -	$ -	$ -
Interest rate lock commitments	5,227	105	9,998	290
Total included in other liabilities	$ 5,227	$ 105	$ 9,998	$ 290

13. *FAIR VALUE DISCLOSURES*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Valuation techniques that are consistent with the market approach, the income approach and/or the cost approach are required by GAAP. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in

Continued

13. *FAIR VALUE DISCLOSURES (Continued)*

active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Assets measured at fair value on a recurring basis at December 31, 2017 follow (in thousands):

	Level 1	Level 2	Level 3	Total
Securities available for sale:				
U.S. government and agencies	$ -	$ 10,392	$ -	$ 10,392
State and municipal	-	74,984	-	74,984
Mortgage-backed securities	-	65,783	-	65,783
Asset-backed and other amortizing securities	-	43,020	-	43,020
Total securities available for sale	$ -	$ 194,179	$ -	$ 194,179
Loans held for sale (mandatory)	$ -	$ 25,470	$ -	$ 25,470
Asset derivatives	$ -	$ 634	$ -	$ 634
Liability derivatives	$ -	$ 105	$ -	$ 105

<u>Securities</u> – Fair value is calculated based on market prices of similar securities using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded.

<u>Loans held for sale (mandatory)</u> – Loans held for sale originated for mandatory delivery are reported at fair value. Fair value is determined using quoted prices for similar assets, adjusted for specific attributes of that loan.

<u>Derivatives</u> – Fair value of derivatives is based on valuation models using observable market data as of the measurement date.

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13. FAIR VALUE DISCLOSURES (Continued)

Assets and liabilities measured using fair value at December 31, 2017 include the following:

Impaired loans – Impaired loans are reported at the fair value of the underlying collateral, less estimated disposal costs, if repayment is expected solely from the sale of the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2017, impaired loans with a recorded investment of $21.0 million were reduced by a specific valuation allowance of $143,000 resulting in carrying value of $20.8 million, based on Level 3 inputs.

Foreclosed assets – Foreclosed assets are transferred from loans at the lower of cost or fair value, less estimated costs to sell. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At December 31, 2017, foreclosed assets with a carrying value of $4.2 million were reduced by a specific valuation allowance of $1.4 million resulting in fair value, less costs to sell, of $2.8 million, based on Level 3 inputs.

Loans held for sale (best efforts) – Loans held for sale originated for best efforts delivery are reported at fair value if, on an aggregate basis, the fair value for the loans is less than cost. In determining whether the fair value of loans held for sale is less than cost when quoted market prices are not available, the Company may consider outstanding investor commitments or discounted cash flow analyses with market assumptions. Such fair values are classified within either Level 2 or Level 3 of the fair value hierarchy. At December 31, 2017, the aggregate fair value of loans held for sale exceeded their cost and accordingly, there was no mark down from cost to fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and cash equivalents – The carrying amount of cash and short-term instruments approximates fair value.

Loans – The fair value of loans is estimated by discounting the contractual cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities and subtracting the allowance for loan losses.

Accrued interest – The carrying amounts of accrued interest approximate fair value.

Bank-owned life insurance – Bank-owned life insurance is carried at its cash surrender value.

Deposit liabilities – The fair value of demand deposits, savings accounts, NOW and money market accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Short-term borrowings – The carrying amount of Federal funds purchased and other short-term borrowings maturing within ninety days approximate their fair values.

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13. *FAIR VALUE DISCLOSURES (Continued)*

Notes payable and other borrowings – Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Junior subordinated deferrable interest debentures and subordinated debt securities – Fair value is estimated using a discounted cash flow calculation that applies interest rates being offered on similar borrowings.

Off-balance sheet instruments – The deferred income amounts arising from unrecognized financial instruments are not significant. Also, these financial instruments have contractual interest rates at or above current market rates. Therefore, no fair value disclosure is provided for these items.

The estimated fair values, and related carrying amounts, of the Company's financial instruments at year-end are as follows (in thousands):

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Loans held for sale	$ 29,314	$ 29,420	$ 25,782	$ 25,987
Loans, net	1,816,694	1,805,659	1,640,012	1,633,493
Financial liabilities:				
Deposits	2,154,081	2,134,113	2,090,923	2,092,937
Notes payable & other borrowings	95,000	95,000	95,676	95,676
Junior subordinated deferrable interest debentures	46,393	45,690	46,393	45,568
Subordinated debt securities	20,887	20,887	20,887	20,887