Guaranty Bancorp
Form 10-Q
October 31, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-51556

GUARANTY BANCORP

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	41-2150446 (I.R.S. Employer Identification Number)
1331 Seventeenth St., Suite 200	
Denver, CO (Address of principal executive offices)	80202 (Zip Code)

303-675-1194

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer (Do not check if smaller reporting company)	Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

As of October 27, 2017, there were 29,241,220 shares of the registrant’s common stock outstanding, of which 475,260 shares were in the form of unvested stock awards.

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

GUARANTY BANCORP AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
	(In thousands, except share and per share data)	
Assets		
Cash and due from banks	$ 64,388	$ 50,111
Time deposits with banks	254	254
Securities available for sale, at fair value	298,483	324,228
Securities held to maturity (fair value of $257,571 and $239,404 at September 30, 2017 and December 31, 2016)	258,541	243,979
Bank stocks, at cost	19,435	22,649
Total investments	576,459	590,856
Loans held for sale	314	4,129
Loans, held for investment, net of deferred costs and fees	2,661,552	2,515,009
Less allowance for loan losses	(22,900)	(23,250)
Net loans, held for investment	2,638,652	2,491,759
Premises and equipment, net	63,280	67,390
Other real estate owned and foreclosed assets	-	569
Goodwill	56,404	56,404
Other intangible assets, net	13,348	15,317
Bank-owned life insurance	74,625	65,538
Other assets	22,322	24,100
Total assets	$ 3,510,046	$ 3,366,427
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 924,361	$ 916,632

Interest-bearing demand and NOW	866,309	767,523
Money market	502,400	484,664
Savings	183,366	164,478
Time	421,624	365,787
Total deposits	2,898,060	2,699,084
Securities sold under agreement to repurchase	37,943	36,948
Federal Home Loan Bank line of credit borrowing	51,182	124,691
Federal Home Loan Bank term notes	70,000	72,477
Subordinated debentures, net	65,044	64,981
Interest payable and other liabilities	12,665	15,868
Total liabilities	3,134,894	3,014,049
Stockholders' equity:		
Common stock (1)	31	31
Additional paid-in capital - common stock	834,339	832,067
Accumulated deficit	(348,392)	(367,944)
Accumulated other comprehensive loss	(4,791)	(6,726)
Treasury stock, at cost, 2,402,027 and 2,361,882 shares, respectively	(106,035)	(105,050)
Total stockholders' equity	375,152	352,378
Total liabilities and stockholders' equity	$ 3,510,046	$ 3,366,427

(1) Common stock—$0.001 par value; 40,000,000 shares authorized; 30,803,897 shares issued and 28,401,870 shares outstanding at September 30, 2017 (includes 476,549 shares of unvested restricted stock); 40,000,000 shares authorized; 30,695,886 shares issued and 28,334,004 shares outstanding at December 31, 2016 (includes 513,187 shares of unvested restricted stock).

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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GUARANTY BANCORP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share data)			
Interest income:				
Loans, including costs and fees	$ 30,902	$ 22,295	$ 87,270	$ 60,206
Investment securities:				
Taxable	2,221	1,741	6,892	5,454
Tax-exempt	1,233	971	3,713	2,459
Dividends	275	237	1,011	829
Federal funds sold and other	57	98	76	105
Total interest income	34,688	25,342	98,962	69,053
Interest expense:				
Deposits	1,939	1,228	5,262	3,299
Securities sold under agreement to repurchase	16	13	48	31
Borrowings	531	636	2,079	1,992
Subordinated debentures	868	715	2,568	1,165
Total interest expense	3,354	2,592	9,957	6,487
Net interest income	31,334	22,750	89,005	62,566
Provision for loan losses	497	27	708	53
Net interest income, after provision for loan losses	30,837	22,723	88,297	62,513
Noninterest income:				
Deposit service and other fees	3,580	2,581	10,405	7,042
Investment management and trust	1,478	1,333	4,482	3,889
Increase in cash surrender value of life insurance	674	490	1,884	1,398
Loss on sale of securities	(86)	(66)	(86)	(122)
Gain on sale of SBA loans	143	208	971	472
Other	341	159	1,218	346
Total noninterest income	6,130	4,705	18,874	13,025
Noninterest expense:				
Salaries and employee benefits	11,736	10,984	34,909	28,292
Occupancy expense	1,714	1,417	4,940	4,053
Furniture and equipment	974	750	2,894	2,281
Amortization of intangible assets	672	389	1,969	868
Other real estate owned, net	(20)	20	174	27
Insurance and assessments	642	608	1,995	1,818
Professional fees	929	962	3,155	2,725
Impairment of long-lived assets	-	-	224	-

Other general and administrative	5,160	3,494	12,579	9,486
Total noninterest expense	21,807	18,624	62,839	49,550
Income before income taxes	15,160	8,804	44,332	25,988
Income tax expense	5,106	3,039	14,313	8,682
Net income	$ 10,054	$ 5,765	$ 30,019	$ 17,306
Earnings per common share–basic:	$ 0.36	$ 0.25	$ 1.08	$ 0.80
Earnings per common share–diluted:	0.36	0.25	1.07	0.79
Dividends declared per common share:	0.13	0.12	0.38	0.35
Weighted average common shares outstanding-basic:	27,920,658	22,811,386	27,900,627	21,750,153
Weighted average common shares outstanding-diluted:	28,120,111	22,984,647	28,140,332	21,995,855

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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GUARANTY BANCORP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income	$ 10,054	$ 5,765	$ 30,019	$ 17,306
Change in net unrealized gains (losses) on available for sale securities during the period excluding the change attributable to available for sale securities reclassified to held to maturity	91	645	2,249	3,434
Income tax effect	(35)	(245)	(855)	(1,305)
Change in unamortized loss on available for sale securities reclassified into held to maturity securities	120	105	365	326
Income tax effect	(46)	(41)	(139)	(125)
Reclassification adjustment for net losses (gains) included in net income during the period	86	66	86	122
Income tax effect	(33)	(25)	(33)	(46)
Change in fair value of derivatives during the period	33	379	(187)	(1,554)
Income tax effect	(13)	(144)	71	591
Reclassification adjustment of losses on derivatives during the period	190	259	609	687
Income tax effect	(72)	(98)	(231)	(261)
Other comprehensive income (loss)	321	901	1,935	1,869
Total comprehensive income	$ 10,375	$ 6,666	$ 31,954	$ 19,175

See "Notes to Unaudited Condensed Consolidated Financial Statements”

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GUARANTY BANCORP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except share data)

	Common Stock Shares Outstanding	Common Stock and Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Totals
Balance, January 1, 2016	21,704,852	$ 712,334	$ (103,743)	$ (382,147)	$ (4,805)	$ 221,639
Net income	-	-	-	17,306	-	17,306
Other comprehensive income	-	-	-	-	1,869	1,869
Issuance of common stock for acquisition of Home State Bancorp net of issuance costs	6,533,756	116,468	-	-	-	116,468
Stock compensation awards, net of forfeitures	167,664	-	-	-	-	-
Stock based compensation, net	-	2,304	-	-	-	2,304
Repurchase of common stock	(57,165)	-	(897)	-	-	(897)
Dividends paid	-	-	-	(7,329)	-	(7,329)
Balance, September 30, 2016	28,349,107	$ 831,106	$ (104,640)	$ (372,170)	$ (2,936)	$ 351,360
Balance, January 1, 2017	28,334,004	$ 832,098	$ (105,050)	$ (367,944)	$ (6,726)	$ 352,378
Net income	-	-	-	30,019	-	30,019
Other comprehensive income	-	-	-	-	1,935	1,935
Stock compensation awards, net of forfeitures	108,011	-	-	-	-	-
Stock based compensation, net	-	2,272	-	-	-	2,272
Repurchase of common stock	(40,145)	-	(985)	-	-	(985)
Dividends paid	-	-	-	(10,467)	-	(10,467)
	28,401,870	$ 834,370	$ (106,035)	$ (348,392)	$ (4,791)	$ 375,152

Balance, September 30, 2017

See "Notes to Unaudited Condensed Consolidated Financial Statements."

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GUARANTY BANCORP AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

		Nine Months Ended September 30, 2017		2016
		(In thousands)		
Cash flows from operating activities:				
Net income	$	30,019	$	17,306
Reconciliation of net income to net cash from operating activities:				
Depreciation and amortization		4,178		2,739
Net amortization (accretion) on investment and loan portfolios		(392)		593
Provision for loan losses		708		53
Impairment of long-lived assets		224		-
Stock compensation, net		2,272		2,304
Dividends on bank stocks		(362)		(459)
Increase in cash surrender value of life insurance		(1,587)		(1,121)
Gain on sale of securities and SBA loans		(885)		(350)
Gain on the sale of other assets		(271)		(14)
Origination of SBA loans with intent to sell		(5,413)		(4,510)
Proceeds from the sale of SBA loans originated		10,641		5,613

with intent to sell		
Loss, net, and valuation adjustments on real estate owned	160	104
Net change in:		
Interest receivable and other assets	1,433	817
Net deferred income tax assets	493	150
Interest payable and other liabilities	(2,804)	2,670
Net cash from operating activities	38,414	25,895
Cash flows from investing activities:		
Activity in available for sale securities:		
Sales, maturities, prepayments and calls	83,967	388,820
Purchases	(57,765)	(99,363)
Activity in held to maturity securities and bank stocks:		
Maturities, prepayments and calls	18,431	20,521
Purchases	(30,184)	(46,305)
Loan originations, net of principal collections	(69,615)	(99,766)
Loan purchases	(79,154)	(52,068)
Purchase of bank-owned life insurance contracts	(7,500)	(15,000)
Proceeds from sale of other assets	1,463	2,204
Proceeds from sales of other real estate owned and foreclosed assets	514	-
Proceeds from sale of SBA and other loans transferred to held for sale	3,940	229
Additions to premises and equipment	(879)	(1,142)
Cash paid in acquisition, net of cash received	-	(23,930)
Net cash from investing activities	(136,782)	74,200
Cash flows from financing activities:		
Net change in deposits	199,020	180,564
Repayment of Federal Home Loan Bank term	(2,409)	-

notes				
Net change in borrowings on Federal Home Loan Bank line of credit		(73,509)		(187,899)
Proceeds from Federal Home Loan Bank term advances		-		25,000
Proceeds from issuance of subordinated debt, net of issuance costs		-		39,199
Cash dividends on common stock		(10,467)		(7,329)
Net change in repurchase agreements and federal funds purchased		995		(10,527)
Repurchase of common stock		(985)		(897)
Payment of stock issuance costs related to acquisition		-		(1,009)
Net cash from financing activities		112,645		37,102
Net change in cash and cash equivalents		14,277		137,197
Cash and cash equivalents, beginning of period		50,111		26,711
Cash and cash equivalents, end of period	$	64,388	$	163,908

See "Notes to Unaudited Condensed Consolidated Financial Statements."

GUARANTY BANCORP AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Organization, Operations and Basis of Presentation

Guaranty Bancorp is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and headquartered in Colorado.

The Company's principal business is to serve as a holding company for its bank subsidiary, Guaranty Bank and Trust Company, referred to as the "Bank".

References to "Company," "us," "we," and "our" refer to Guaranty Bancorp on a consolidated basis. References to "Guaranty Bancorp" or to the "holding company" refer to the parent company on a stand-alone basis.

The Bank is a full-service community bank offering an array of banking products and services to the communities it serves along the Front Range of Colorado including: accepting time and demand deposits and originating commercial loans, commercial and residential real estate loans, Small Business Administration ("SBA") guaranteed loans and consumer loans. The Bank, together with its wholly owned subsidiary Private Capital Management, LLC ("PCM"), provides wealth management services, including private banking, investment management and trust services. On April 3, 2017, Cherry Hills Investment Advisors, Inc., a previous wholly owned subsidiary of the Bank, was consolidated into PCM. Substantially all of the Bank's loans are secured by specific items of collateral, including business assets, commercial and residential real estate, which include land or improved land, and consumer assets. Commercial loans are expected to be repaid from cash flow from the operations of businesses that have taken out the loans. There are no significant concentrations of loans to any one industry or customer. On September 8, 2016, the Company completed the acquisition of Home State Bancorp ("Home State"), based in Loveland, Colorado, in exchange for a combination of Company stock and cash. The transaction enhanced the Company's balance sheet liquidity and supports the Company's objective of serving the banking needs of northern Colorado business and consumer customers.

(a)Basis of Presentation

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America. All material intercompany balances and transactions have been eliminated in consolidation. The Company's financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of its financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. Subsequent events have been evaluated through the date of financial statement issuance.

Certain information and note disclosures normally included in consolidated financial statements, prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America, have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The interim operating results presented in these financial statements are not necessarily indicative of operating results for the full year. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

(b)Business Combinations

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair value upon the date of acquisition. Management utilizes various valuation techniques including discounted cash flow analyses to determine the fair values of assets acquired and liabilities assumed. Any excess of purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and liabilities assumed is recorded as goodwill.

(c)Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and income and expense for the periods presented. Actual results could differ significantly from those estimates.

(d)Loans and Loan Commitments

The Company extends commercial, real estate and consumer loans to customers. A substantial portion of the loan portfolio consists of commercial and real estate loans throughout the Front Range of Colorado. The ability of the Company's borrowers to honor their loan contracts is generally dependent upon the real estate and general economic conditions prevailing in Colorado, among other factors.

Loans acquired in a business combination, that on the date of acquisition reflected evidence of credit deterioration since origination and for which collection of all contractually required payments was not probable, were designated as purchased credit impaired or "PCI" loans. In the September 8, 2016 Home State transaction, the Company designated $2,108,000 of loans as PCI. As of September 30, 2017, $809,000 in PCI loans remained in the Company's loan portfolio. Loans not designated as PCI ("Non-PCI" loans) comprise the significant majority of the Company's loan portfolio and consist of internally originated loans in addition to acquired loans. Acquired Non-PCI loans were designated as such as of the date of acquisition for one of or both of the following reasons: (1) management considered the collection of all contractually required payments probable, and (2) the loan demonstrated no evidence of credit deterioration since origination.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances, adjusted for charge-offs, the allowance for loan losses, acquisition-related discounts and any deferred fees or costs. Acquired loans are recorded upon acquisition at fair value, with no associated allowance for loan loss. However, if subsequent to acquisition, the credit quality of an acquired loan deteriorates, an allowance may be required. Accounting for loans is performed consistently across all portfolio segments and classes.

A portfolio segment is defined in accounting guidance as the level at which an entity develops and documents a systematic methodology to determine its allowance for loan losses. A class is defined in accounting guidance as a group of loans having similar initial measurement attributes, risk characteristics and methods for monitoring and assessing risk.

Interest income is accrued on the unpaid principal balance of the Company's loans. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment to the related loan yield using the effective interest method without anticipating prepayments. Purchase discount or premium on acquired Non-PCI loans is recognized as an adjustment to interest income over the contractual life of such loans using the effective interest method, or taken into income when the related loans are paid off or sold. With respect to PCI loans, the “accretable yield”, calculated as the excess of undiscounted expected cash flows at acquisition over the fair value at acquisition, is accreted into income over the term of the loan assuming the amount and timing of cash flows are reasonably estimable.

The accrual of interest on loans is discontinued (and the loan is put on nonaccrual status) at the time the loan is 90 days past due unless the loan is well secured and in process of collection. The time at which a loan enters past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off prior to the date on which they would otherwise enter past due status if collection of principal or interest is considered doubtful. The interest on a nonaccrual loan is accounted for using the cost-recovery or cash-basis method until the loan qualifies for a return to the accrual-basis method. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero, with payments received being applied first to the principal balance of the loan. Under the cash-basis method, interest income is recognized when the payment is received in cash. A loan is returned to accrual status after the delinquent borrower’s financial condition has improved, when all the principal and interest amounts contractually due are brought current, and when the likelihood of the borrower making future timely payments is reasonably assured.

Financial instruments include off balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The face amount of each item represents the Company’s total exposure to loss with respect to the item before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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(e)Allowance for Loan Losses and Allowance for Unfunded Commitments

The allowance for loan losses, or “the allowance”, is a valuation allowance for probable incurred loan losses and is reported as a reduction of outstanding loan balances.

Management evaluates the amount of the allowance on a regular basis based upon its periodic review of the collectability of the Company’s loans. Factors affecting the collectability of the loans include the nature and volume of the loan portfolio, adverse situations that may affect borrowers’ ability to repay, estimated value of any underlying collateral, prevailing economic conditions and historical loss experience. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Management maintains the allowance at a level that it deems appropriate to adequately provide for probable incurred losses in the loan portfolio and other extensions of credit. The Company’s methodology for estimating the allowance is consistent across all portfolio segments and classes of loans.

Loans deemed to be uncollectable are charged-off and deducted from the allowance. The Company’s loan portfolio primarily consists of non-homogeneous commercial and real estate loans where charge-offs are considered on a loan-by-loan basis based on the facts and circumstances, including management’s evaluation of collateral values in comparison to book values on collateral-dependent loans. Charge-offs on smaller balance unsecured homogenous type loans, such as overdrafts and ready reserves are recognized by the time the loan in question is 90 days past due. The provision for loan losses and recoveries on loans previously charged-off are added to the allowance.

The allowance consists of both specific and general components. The specific component relates to loans that are individually classified as impaired. All loans are subject to individual impairment evaluation should the pertinent facts and circumstances suggest that such evaluation is necessary. Factors considered by management in determining impairment include the loan’s payment status and the probability of collecting scheduled principal and interest payments when they become due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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 original underlying loan agreement. 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. If a loan is impaired, a portion, if any, of the allowance is allocated so that the loan is reported at the present value of estimated future cash flows using the loan’s original contractual rate or at the fair value of collateral, less estimated selling costs, if repayment is expected solely from collateral. Troubled debt restructurings (“TDRs”) are separately identified for impairment disclosures. If a TDR is considered to be a collateral-dependent loan, impairment of the loan is measured using the fair value of the collateral, less estimated selling costs. Likewise, if a TDR is not collateral-dependent, impairment is measured using the present value of estimated future cash flows using the loan’s effective rate at inception. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with its accounting policy for the allowance.

The general component of the allowance covers all other loans not specifically identified as impaired and is determined by calculating losses recognized by portfolio segment during the current credit cycle and adjusted based on management's evaluation of various qualitative factors. In performing this calculation, loans are aggregated into one of three portfolio segments: Real Estate, Consumer and Commercial & Other. An assessment of risks impacting loans in each of these portfolio segments is performed and qualitative adjustment factors, which will adjust the historical loss rate, are estimated. These qualitative adjustment factors consider current conditions relative to conditions present throughout the current credit cycle in the following areas: credit quality, loan class concentration levels, economic conditions, loan growth dynamics and organizational conditions. The historical loss experience is adjusted for management's estimate of the impact of these factors based on the risks present for each portfolio segment.

The Company recognizes a liability in relation to unfunded commitments that is intended to represent the estimated future losses on commitments. In calculating the amount of this liability, management considers the amount of the Company's off-balance sheet commitments, estimated utilization factors and loan specific

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risk factors. The Company's liability for unfunded commitments is calculated quarterly and the liability is included under "other liabilities" in the consolidated balance sheet.

(f)Goodwill and Other Intangible Assets

Goodwill was recorded in the Home State transaction and represents the excess of the purchase price over the fair value of acquired tangible assets, identifiable intangible assets and liabilities. Goodwill is assessed at least annually for impairment and any such impairment is recognized in the period identified.

Intangible assets acquired in a business combination are amortized over their estimated useful lives to their estimated residual values and evaluated for impairment whenever changes in circumstances indicate that such an evaluation is necessary.

Core deposit intangible assets ("CDI assets") are recognized at the time of their acquisition based on valuations prepared by independent third parties or other estimates of fair value. In preparing such valuations, management considers variables such as deposit servicing costs, attrition rates and market discount rates. CDI assets are amortized to expense over their useful lives, ranging from 10 years to 15 years.

Customer relationship intangible assets are recognized at the time of their acquisition based upon management's estimate of their fair value. In preparing their valuation, management considers variables such as growth in existing customer base, attrition rates and market discount rates. The customer relationship intangible assets are amortized to expense over their estimated useful life, which has been estimated to be 10 years. The Company has recognized three customer relationship intangible assets as a result of the acquisitions of PCM on July 31, 2012, Cherry Hills Investment Advisers Inc. on July 16, 2014 and Home State on September 8, 2016.

(g)Derivative Instruments

The Company records all derivatives on its consolidated balance sheet at fair value. 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 the derivative's 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"). To date, the Company has entered into cash flow hedges and stand-alone derivative agreements but has not entered into any fair value hedges. 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 impacts earnings. Any portion of the cash flow hedge not deemed highly effective in hedging the changes in 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 noninterest income.

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 derivative contract. This documentation includes linking 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 hedge is highly effective in offsetting changes in cash flows of the hedged items.

(h)Stock Incentive Plan

The Company's Amended and Restated 2005 Stock Incentive Plan (the "Incentive Plan") provided for the grant of equity-based awards representing up to a total of 1,700,000 shares of voting common stock to key employees, nonemployee directors, consultants and prospective employees. The Incentive Plan expired by its terms on April 4, 2015. At the Company's annual meeting of stockholders on May 5, 2015, the Company's stockholders approved the Guaranty Bancorp 2015 Long-Term Incentive Plan (the "2015 Plan"), which had been previously approved by the Company's Board of Directors. The 2015 Plan provides for the grant of stock options, stock awards, stock unit awards, performance stock awards, stock appreciation rights and other equity-based awards representing up to a total of 935,000 shares of voting common stock to key employees,

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nonemployee directors, consultants and prospective employees. All awards issued under the Incentive Plan will remain outstanding in accordance with their terms despite the expiration of the Incentive Plan; however, any awards granted subsequent to the expiration of the Incentive Plan have been, and will continue to be, issued under the 2015 Plan.

As of September 30, 2017, the Company had granted stock awards under both the Incentive Plan and the 2015 Plan. The Company recognizes stock compensation expense for services received in a share-based payment transaction over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The compensation cost of employee and director services received in exchange for stock awards is based on the grant date fair value of the award, as determined by quoted market prices. Stock compensation expense is recognized using an estimated forfeiture rate, adjusted as necessary to reflect actual forfeitures. The Company has issued stock awards that vest based on the passage of time over service periods of one to five years (in some cases vesting in annual installments, in other cases cliff vesting at the end of the service period) and other stock awards that vest contingent upon the satisfaction of certain performance conditions. The last date on which outstanding performance stock awards may vest is February 15, 2020. Compensation cost related to the performance stock awards is recognized based on an evaluation of expected financial performance in comparison to established criteria. Should expectations of the Company’s future financial performance change, expense to be recognized in future periods could be impacted.

(i)Stock Repurchase Plan

On February 7, 2017, the Company’s Board of Directors authorized the extension of the expiration date of the Company’s share repurchase program originally announced in April 2014. Due to previous extensions the program was scheduled to expire on April 2, 2017, however, this most recent extension extends the expiration date of the repurchase program through April 2, 2018. Pursuant to the program, the Company may repurchase up to 1,000,000 shares of its voting common stock, par value $0.001 per share. As of the date of this filing, the Company had not repurchased any shares under the program.

(j)Income Taxes

Income tax expense is the total of the current year’s income tax payable or refundable and the increase or decrease in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that the Company will not realize some portion of or the entire deferred tax asset. At September 30, 2017 and December 31, 2016, the Company had a net deferred tax asset of $2,922,000 and $4,846,000, respectively, which includes the deferred tax asset (liability) associated with the net unrealized loss (gain) on securities and interest rate swaps. After analyzing the composition of, and changes in, the deferred tax assets and liabilities and considering the Company’s forecasted future taxable income and various tax planning strategies, including the intent to hold the securities available for sale that were in a loss position until maturity, management determined that as of September 30, 2017, it was “more likely than not” that the net deferred tax asset would be fully realized. As a result, there was no valuation allowance with respect to the Company’s deferred tax asset as of September 30, 2017 or December 31, 2016.

The Company and the Bank are subject to U.S. federal income tax, State of Colorado income tax and income tax in other states. Generally, the Company is no longer subject to examination by Federal taxing authorities for years before 2014 and is no longer subject to examination by the State of Colorado for years before 2013. The Company recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other noninterest expense. At September 30, 2017 and December 31, 2016, the Company did not have any amounts accrued for interest or penalties.

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(k)Earnings per Common Share

Basic earnings per common share represents the earnings allocable to common stockholders divided by the weighted average number of common shares outstanding during the period. Dilutive common shares that may be issued by the Company represent unvested stock awards subject to a service or performance condition.

Earnings per common share have been computed based on the following calculation of weighted average shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Average common shares outstanding	27,920,658	22,811,386	27,900,627	21,750,153
Effect of dilutive unvested stock grants (1)	199,453	173,261	239,705	245,702
Average shares outstanding for calculated diluted earnings per common share	28,120,111	22,984,647	28,140,332	21,995,855

(1) Unvested stock grants representing 476,549 shares at September 30, 2017 had a dilutive impact of 199,453 and 239,705 shares in the diluted earnings per share calculation for the three and nine months ended September 30, 2017, respectively. Unvested stock grants representing 564,376 shares at September 30, 2016 had a dilutive impact of 173,261 and 245,702 shares in the diluted earnings per share calculation for the three and nine months ended September 30, 2016, respectively.

(l)Recently Issued Accounting Standards

Adoption of New Accounting Standards:

In March 2016, the Financial Accounting Standards Board ("FASB") issued accounting standards update 2016-09 Compensation-Stock Compensation. The purpose of the update was to simplify the accounting for share-based payment transactions, including the income tax consequences of such transactions. Under the provisions of the update, the income tax consequences of excess tax benefits and deficiencies are recognized in income tax expense in the reporting period in which the awards vest. Previously, excess tax benefits or deficiencies impacted stockholder's equity directly to the extent there was a cumulative excess tax benefit. In the event that a tax deficiency had occurred during the reporting period and a cumulative excess tax benefit did not exist, the tax deficiency was recognized in income tax expense under previous GAAP. The update also provides that entities may continue to estimate forfeitures in accounting for stock-based compensation or recognize them as they occur; the Company has elected to continue to estimate forfeitures. The provisions of this update became effective for interim and annual periods beginning after December 15, 2016, however early adoption was permitted beginning in 2016. The Company adopted the provisions of the update in the fourth quarter 2016. During the first nine months of 2017, $582,000 of excess tax benefits related to restricted stock vestings reduced income tax expense. Comparatively, excess tax benefits of $325,000 were retroactively recognized in the first nine months of 2016, upon adoption in the fourth quarter 2016.

Recently Issued but not yet Effective Accounting Standards:

In May 2014, the FASB issued accounting standards update 2014-09 Revenue from Contracts with Customers. The main provisions of the update require the identification of performance obligations within a contract and require the recognition of revenue based on a stand-alone allocation of contract revenue to each performance obligation. Performance obligations may be satisfied and revenue recognized over a period of time if: (i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, or (ii) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. For public business entities, the amendments of this update are effective beginning with interim and annual reporting periods beginning after December 15, 2017. Interest income earned on financial instruments is outside of the scope of the update, and as a result the impact of the update is limited to certain components of noninterest income. The Company's noninterest income is generated by customer transactions or through the passage of time and as a result the pattern or timing of income recognition is not expected to be impacted under the update. The Company has elected to implement this update using modified retrospective application, which requires application to uncompleted contracts at the date of adoption. Under the modified retrospective transition method retrospective revisions to prior periods are not required, however, any difference in timing of revenue recognition on uncompleted contracts at adoption date is recorded in retained earnings as a cumulative adjustment. Management does not expect the requirements of this update to have a material impact on the Company’s financial position, results of operations or cash flows and has concluded that the most significant impact will be the disaggregated disclosure of certain components of noninterest income.

In January 2016, the FASB released accounting standards update 2016-01 Recognition and Measurement of Financial Assets and Liabilities. The main provisions of the update are to eliminate the available for sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update will require that equity securities be carried at fair market value on the balance sheet and any periodic changes in value will be adjustments to the income statement. A practical expedient is provided for equity securities without a readily determinable fair value, such that these securities can be carried at cost less any impairment. The provisions of this update become effective for interim and annual periods beginning after December 15, 2017. The disclosure of fair value of the loan portfolio will be impacted as the fair value will be calculated using an exit price. Management does not expect the requirements of this update to have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2016, the FASB issued accounting standards update 2016-02 Leases. The update requires all leases, with the exception of short-term leases that have contractual terms of no greater than one year, to be recorded on the balance sheet. Under the provisions of the update, leases classified as operating will be reflected on the balance sheet with the recognition of both a right-of-use asset and a lease liability. Under the update, a distinction will exist between finance and operating type leases and the rules for determining which classification a lease will fall into are similar to existing rules. For public business entities, the amendments of this update are effective for interim and annual periods beginning after December 15, 2018. The update requires a modified retrospective transition under which comparative balance sheets from the earliest historical period presented will be revised to reflect what the financials would have looked like were the provisions of the update applied consistently in all prior periods. Management is in the process of evaluating the impacts of the update on the Company’s financial position and does not expect the requirements of the update to have a material impact on the Company’s financial position, results of operations or cash flows. Based on leases outstanding at September 30, 2017, we anticipate total assets and total liabilities will increase between $9,000,000 and $11,000,000 as the result of additional leases being recognized on our balance sheet. Decisions to repurchase, modify, or renew leases prior to the implementation date will impact the results of the Company’s final analysis.

In June 2016, the FASB issued accounting standards update 2016-13 Financial Instruments - Credit Losses, commonly referred to as “CECL”. The provisions of the update eliminate the probable initial recognition threshold under current GAAP which requires reserves to be based on an incurred loss methodology. Under CECL, reserves required for financial assets measured at amortized cost will reflect an organization’s estimate of all expected credit losses over the contractual term of the financial asset and thereby require the use of reasonable and supportable forecasts to estimate future credit losses. Because CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization’s reasonable and supportable estimate of expected credit losses extends to held to maturity (“HTM”) debt securities. Under the provisions of the update, credit losses recognized on available for sale ("AFS") debt securities will be presented as an allowance as opposed to a write-down. In addition, CECL will modify the accounting for purchased loans, with credit deterioration since origination, so that reserves are established at the date of acquisition for purchased loans. Under current GAAP, a purchased loan's contractual balance is adjusted to fair value through a credit discount and no reserve is recorded on the purchased loan upon acquisition. Since reserves will be established for purchased loans at the time of acquisition under CECL, the accounting for purchased loans is made more comparable to the accounting for originated loans. Finally, increased disclosure requirements under CECL require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. The FASB expects that the evaluation of underwriting standards and credit quality trends by financial statement users will be enhanced with the additional vintage disclosures. For public business entities that are SEC filers, the amendments of the update will become effective beginning January 1, 2020. The Company has formed a cross-functional committee that is assessing our data and system needs and has begun working with an external vendor

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regarding the development of a CECL-compliant model and the gathering of the requisite data. Management expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective, but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the Company's financial position, results of operations or cash flows.

In August 2016, the FASB issued accounting standards update 2016-15, Statement of Cash Flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this update are effective for fiscal years and interim periods beginning after December 15, 2017; however early adoption is permitted. The provisions of the update outline the appropriate classification of debt extinguishment costs, repayment of debt instruments with insignificant coupons, contingent consideration payments made subsequent to a business combination, insurance proceeds, premiums and settlements on bank-owned life insurance policies, distributions from equity method investees, beneficial interest in securitizations and the appropriate classification of payments and receipts that contain aspects of multiple classes of cash flows. Management does not expect the update to materially impact the Company's statement of cash flows, although the classification of certain items could shift relative to past presentation. For example, in 2014 the Company classified a $5.5 million prepayment penalty on debt extinguishment in the Operating, section of the statement of cash flows, under the provisions of the update if that penalty were incurred in 2018, it would be included in the Financing section.

In January 2017, the FASB issued accounting standards update 2017-04, Simplifying the Test for Goodwill Impairment. The provisions of the update eliminate the existing second step of the goodwill impairment test which provides for the allocation of reporting unit fair value among existing assets and liabilities, with the net remaining amount representing the implied fair value of goodwill. In replacement of the existing goodwill impairment rule, the update will provide that impairment should be recognized as the excess of any of the reporting unit's carrying value over the fair value of the reporting unit. Under the provisions of this update, the amount of the impairment is limited to the carrying value of the reporting unit's goodwill. For public business entities that are SEC filers, the amendments of the update will become effective in fiscal years beginning after December 15, 2019. Management does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

In March 2017, the FASB issued accounting standards update 2017-08, Premium Amortization on Purchased Callable Debt Securities. The provisions of the update require premiums recognized upon the purchase of callable debt securities to be amortized to the earliest call date in order to avoid losses recognized upon call. For public business entities that are SEC filers, the amendments of the update will become effective in fiscal years beginning after December 15, 2018. Management does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

In August 2017, the FASB issued accounting standards update 2017-12, Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The update is effective for public business entities for fiscal years beginning after December 15, 2018. The update requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. Management has begun assessing potential impacts of the standard, but does not expect the requirements of this update to have a material impact on the Company's financial position, results of operations or cash flows.

(m)Reclassifications

Certain reclassifications of prior year balances have been made to conform to the current year presentation. These reclassifications had no impact on the Company's consolidated financial position, results of operations or cash flows.

(2)Business Combinations

On July 18, 2017, the Company entered into an Agreement and Plan of Reorganization (the "Castle Rock Merger Agreement") with Castle Rock Bank Holding Company ("Castle Rock"), parent company of Castle Rock

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Bank, a Colorado state chartered bank headquartered in Castle Rock, Colorado. The transaction closed on October 27, 2017. Additional information on the Castle Rock transaction is included in footnote 15 -Subsequent Events.

On March 16, 2016, the Company entered into an Agreement and Plan of Reorganization (the “Merger Agreement”) with Home State, parent company of Home State Bank, a Colorado state chartered bank headquartered in Loveland, Colorado, whereby Home State would merge into the Company. The transaction closed on September 8, 2016 with an aggregate transaction value of $152,478,000. The Merger Agreement provided that, subject to certain conditions, Home State shareholders would receive 6,533,756 shares of Company voting common stock valued at $117,477,000 based on the Company’s closing stock price on September 8, 2016 of $17.98, in addition to $35,001,000 in cash.

The Home State transaction enhanced the Company’s balance sheet liquidity and supported the Company’s objective of serving the banking needs of northern Colorado business and consumer customers.

Goodwill of $56,404,000 was recognized in the Home State transaction and represents expected synergies and cost savings resulting from combining the operations of Home State with those of the Company. Due to the tax-free structure of the transaction, the recognized goodwill was not deductible for tax purposes. The estimated fair value of assets acquired and liabilities assumed at acquisition were recorded on the Company’s balance sheet at the date of acquisition and subjected to limited measurement period adjustments in the fourth quarter 2016 as a result of receipt of final valuations. No additional adjustments of acquisition date fair values were recorded in the one-year measurement period following the Home State transaction.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the September 8, 2016 Home State transaction, and reflects all adjustments made to the fair value of the opening balance sheet through September 30, 2017:

Assets acquired:		
		(In thousands)
Cash and cash equivalents	$	11,849
Time deposits with banks		504
Securities available-for-sale		396,450
Securities held-to-maturity		850
Bank stocks		1,477
Net Loans		445,529

Premises and equipment, net	22,950
Other real estate owned	45
Goodwill	56,404
Other intangible assets, net	11,701
Other assets	8,118
Total assets acquired	955,877
Liabilities assumed:	
Deposits	769,709
Securities sold under agreement to repurchase and federal funds purchased	19,985
Federal Home Loan Bank term notes	2,525
Federal Home Loan Bank line of credit borrowing	2,052
Other liabilities	9,128
Total liabilities assumed	803,399
Net Assets Acquired	$ 152,478

Pre-tax merger expenses relating to the Castle Rock acquisition were $268,000 for the three and nine months ended September 30, 2017. No merger expenses relating to the Home State acquisition were incurred in the first nine months of 2017. Pre-tax merger expenses of $2,205,000 and $3,227,000 were included in the Company’s results of operations in the three and nine months ended September 30, 2016, respectively.

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(3)Securities

The fair value of available for sale debt securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) (“AOCI”) were as follows at the dates presented:

	September 30, 2017			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
	(In thousands)			
Securities available for sale:				
State and municipal	$ 75,199	$ 256	$ (1,328)	$ 76,271
Mortgage-backed - agency / residential	119,162	250	(2,434)	121,346
Corporate	88,299	556	(1,250)	88,993
Collateralized loan obligations	15,823	13	(40)	15,850
Total securities available for sale	$ 298,483	$ 1,075	$ (5,052)	$ 302,460

	December 31, 2016			
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
	(In thousands)			
Securities available for sale:				
State and municipal	$ 81,608	$ 91	$ (2,542)	$ 84,059
Mortgage-backed - agency / residential	129,832	347	(3,117)	132,602
Mortgage-backed - private / residential	265	-	(6)	271
Corporate	86,246	288	(1,357)	87,315
Collateralized loan obligations	26,277	50	(66)	26,293
Total securities available for sale	$ 324,228	$ 776	$ (7,088)	$ 330,540

The carrying amount, unrecognized gains/losses and fair value of securities held to maturity were as follows at the dates presented:

	Fair Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Amortized Cost
	(In thousands)			
September 30, 2017:				
State and municipal	$ 137,706	$ 1,305	$ (1,212)	$ 137,613
Mortgage-backed - agency / residential	101,916	616	(1,744)	103,044
Asset-backed	16,749	102	(37)	16,684
Other	1,200	-	-	1,200
	$ 257,571	$ 2,023	$ (2,993)	$ 258,541
December 31, 2016:				
State and municipal	$ 118,734	$ 745	$ (3,120)	$ 121,109
Mortgage-backed - agency / residential	100,565	507	(2,590)	102,648
Asset-backed	18,905	9	(126)	19,022
Other	1,200	-	-	1,200
	$ 239,404	$ 1,261	$ (5,836)	$ 243,979

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The proceeds from sales and calls of securities and the associated gains are listed below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Proceeds	$ 48,320	$ 317,630	$ 48,320	$ 370,111
Gross gains	254	1,434	254	2,486
Gross losses	(340)	(1,500)	(340)	(2,608)
Net tax (benefit) expense related to gains (losses) on sale	(33)	(25)	(33)	(46)

The amortized cost and estimated fair value of available for sale and held to maturity debt securities by contractual maturity at September 30, 2017 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties. Securities not due at a single maturity date are presented separately.

	Available for Sale	
	Fair Value	Amortized Cost
	(In thousands)	
Securities available for sale:		
Due in one year or less	$ 5,083	$ 5,047
Due after one year through five years	11,797	11,676
Due after five years through ten years	94,754	96,272
Due after ten years	51,864	52,269
Total AFS, excluding mortgage-backed (MBS) and collateralized loan obligations	163,498	165,264
Mortgage-backed and collateralized loan obligations	134,985	137,196
Total securities available for sale	$ 298,483	$ 302,460

	Held to Maturity	
	Fair Value	Amortized Cost
	(In thousands)	
Securities held to maturity:		
Due in one year or less	$ 150	$ 150
Due after one year through five years	13,139	12,948
Due after five years through ten years	76,546	76,660
Due after ten years	49,071	49,055
Total HTM, excluding MBS and asset-backed	138,906	138,813
Mortgage-backed and asset-backed	118,665	119,728
Total securities held to maturity	$ 257,571	$ 258,541

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The following tables present the fair value and the unrealized loss on securities that were temporarily impaired as of September 30, 2017 and December 31, 2016, aggregated by major security type and length of time in a continuous unrealized loss position:

September 30, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Description of securities:						
Available for sale:						
State and municipal	$ 23,546	$ (247)	$ 32,002	$ (1,081)	$ 55,548	$ (1,328)
Mortgage-backed - agency / residential	57,323	(1,086)	35,532	(1,348)	92,855	(2,434)
Corporate	38,940	(821)	10,762	(429)	49,702	(1,250)
Collateralized loan obligations	10,570	(40)	-	-	10,570	(40)
Held to maturity:						
State and municipal	23,722	(382)	63,138	(1,556)	86,860	(1,938)
Mortgage-backed - agency / residential	35,539	(1,312)	49,796	(1,006)	85,335	(2,318)
Asset-backed	-	-	16,749	(348)	16,749	(348)
Total temporarily impaired	$ 189,640	$ (3,888)	$ 207,979	$ (5,768)	$ 397,619	$ (9,656)

December 31, 2016	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Description of securities:						
Available for sale:						
State and municipal	$ 47,434	$ (2,542)	$ -	$ -	$ 47,434	$ (2,542)
Mortgage-backed - agency / residential	93,909	(2,782)	9,526	(335)	103,435	(3,117)

Mortgage-backed - private / residential	265	(6)	-	-	265	(6)
Corporate	49,964	(1,042)	5,685	(315)	55,649	(1,357)
Collateralized loan obligations	9,077	(17)	5,488	(49)	14,565	(66)
Held to maturity:						
State and municipal	90,959	(3,804)	596	(259)	91,555	(4,063)
Mortgage-backed - agency / residential	99,920	(3,442)	-	-	99,920	(3,442)
Asset-backed	15,690	(542)	3,216	(98)	18,906	(640)
Total temporarily impaired	$ 407,218	$ (14,177)	$ 24,511	$ (1,056)	$ 431,729	$ (15,233)

The table above presents unrealized losses on held to maturity securities since the date of each security’s purchase, independent of the impact associated with changes in cost basis upon transfer from available for sale to held to maturity.

In determining whether or not there is an other-than-temporary-impairment (“OTTI”) for a security, management considers many factors, including: (i) the length of time for which and the extent to which the security’s fair value has been less than cost, (ii) the financial condition and near-term prospects of the security’s issuer, (iii) whether the decline in the security’s value was affected by macroeconomic conditions, and (iv) whether the Company intends to sell the security and whether it is more likely than not that the Company will be required to sell the security before a recovery in its fair value. The assessment of whether an OTTI exists involves a high degree of subjectivity and judgment and is based on the information available to management at a particular point in time. There were no accumulated credit losses on any of the Company’s securities as of September 30, 2017 or December 31, 2016.

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At September 30, 2017, there were 236 individual securities in an unrealized loss position, including 162 individual securities that had been in a continuous unrealized loss position for 12 months or longer. Management has evaluated these securities, in addition to the remaining 74 securities in an unrealized loss position, and has determined that the decline in value since their purchase dates was primarily attributable to fluctuations in market interest rates and does not reflect a decline in the underlying issuers' ability to repay. At December 31, 2016, there were 271 individual securities in an unrealized loss position, including 10 individual securities that had been in a continuous unrealized loss position for 12 months or longer. The total number of securities in an unrealized loss position decreased from 271 individual securities at December 31, 2016 to 236 securities at September 30, 2017, primarily as a result of fluctuation in market interest rates. At September 30, 2017, the Company did not intend to sell, and did not consider it likely that it would be required to sell, any of these securities prior to recovery in their fair value.

The Company's unrated and rated municipal bond securities, along with the Company's other rated investment securities, are subject to an annual internal review process that management has historically performed in the fourth quarter. The review process includes a review of the securities' issuers' most recent financial statements, including an evaluation of the expected sufficiency of the issuers' cash flows relative to their debt service requirements. In addition, management considers any interim information made available to it that would prompt the need for more frequent review. At September 30, 2017 and December 31, 2016, the Company's unrated municipal bonds comprised approximately 4.6% and 16.9%, respectively, of the carrying value of the Company's entire municipal bond portfolio. The decrease in the percentage of unrated municipal bonds in the Company's municipal bond portfolio during the first nine months of 2017 was primarily attributable to the sale of a $24,115,000 unrated revenue bond in the third quarter 2017.

Securities with carrying values of $231,634,000 and $237,036,000 were pledged at September 30, 2017 and December 31, 2016, respectively, as collateral for various lines of credit, public deposits and for other purposes as required or permitted by law. Certain mortgage backed securities with an aggregate market value of approximately $41,124,000 and $42,486,000 were pledged to secure overnight repurchase agreement borrowings as of September 30, 2017 and December 31, 2016, respectively. Fluctuations in the fair value of these securities, and/or the fluctuation in the balance of customer repurchase agreements and or public deposits, may result in the need to pledge additional securities against these sources of funding. Management monitors the Bank's collateral position with respect to repurchase agreement borrowings on a daily basis.

(4)Loans

A summary of net loans held for investment by loan type at the dates indicated is as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Commercial and residential real estate	$ 1,892,828	$ 1,768,424
Construction	81,826	88,451
Commercial	449,450	432,083
Agricultural	15,824	16,690
Consumer	124,625	125,264
SBA	45,935	52,380
Other	51,004	31,778
Total gross loans	2,661,492	2,515,070
Deferred costs and (fees)	60	(61)
Loans, held for investment, net	2,661,552	2,515,009
Less allowance for loan losses	(22,900)	(23,250)
Net loans, held for investment	$ 2,638,652	$ 2,491,759

In the first nine months of 2017, the Company purchased $79.2 million of performing loans included in commercial and residential real estate, commercial and consumer loans in the above table. During 2016, excluding the Home State transaction, the Company purchased $109.5 million in performing loans included in commercial and residential real estate and consumer loans in the above table. The Company recognized a $271,000 gain on the sale of its $2.0 million credit card loan portfolio during the first quarter 2017.

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Activity in the allowance for loan losses for the period indicated is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
Balance, beginning of period	$ 23,125	$ 23,050	$ 23,250	$ 23,000
Provision for loan losses	497	27	708	53
Loans charged-off	(970)	(72)	(1,433)	(431)
Recoveries on loans previously charged-off	248	295	375	678
Balance, end of period	$ 22,900	$ 23,300	$ 22,900	$ 23,300

The Company’s additional disclosures relating to loans and the allowance for loan losses are broken out into two subsets, portfolio segment and class. The portfolio segment level is defined as the level where financing receivables are aggregated in developing the Company’s systematic method for calculating its allowance for loan losses. The class level is the second level at which credit information is presented and represents the categorization of financing related receivables at a slightly less aggregated level than the portfolio segment level. Because data presented according to class is dependent upon the underlying purpose of the loan, whereas loan data organized by portfolio segment is determined by the loan’s underlying collateral, disclosures broken out by portfolio segment versus class may not be in agreement. The disclosures in this footnote include both Non-PCI and PCI loans. As of September 30, 2017, PCI loans acquired in the Home State transaction are not considered material and as a result separate PCI disclosures are not included.

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The following tables provide detail for the ending balances in the Company's allowance for loan losses and loans held for investment, broken down by portfolio segment as of the dates indicated. In addition, the tables also provide a roll-forward by portfolio segment of the allowance for loan losses for the three and nine months ended September 30, 2017 and September 30, 2016. The detail provided for the amount of the allowance for loan losses and loans individually versus collectively evaluated for impairment (i.e., the specific component versus the general component of the allowance for loan losses) corresponds to the Company's systematic methodology for estimating its allowance for loan losses.

	Real Estate (In thousands)	Consumer and Installment	Commercial and Other	Total
Allowance for Loan Losses				
Balance as of January 1, 2017	$ 20,082	$ 105	$ 3,063	$ 23,250
Charge-offs	(383)	(92)	(958)	(1,433)
Recoveries	86	11	278	375
Provision (credit)	(915)	159	1,464	708
Balance as of September 30, 2017	$ 18,870	$ 183	$ 3,847	$ 22,900
Balance as of July 1, 2017	$ 19,400	$ 193	$ 3,532	$ 23,125
Charge-offs	(250)	(75)	(645)	(970)
Recoveries	21	4	223	248
Provision (credit)	(301)	61	737	497
Balance as of September 30, 2017	$ 18,870	$ 183	$ 3,847	$ 22,900

Balances at September 30, 2017:				
Allowance for Loan Losses				
Individually evaluated	$ 27	$ -	$ 671	$ 698
Collectively evaluated	18,843	183	3,176	22,202
Total	$ 18,870	$ 183	$ 3,847	$ 22,900
Loans				
Individually evaluated	$ 10,155	$ 1	$ 5,577	$ 15,733
Collectively evaluated	2,129,684	60,482	455,653	2,645,819
Total	$ 2,139,839	$ 60,483	$ 461,230	$ 2,661,552

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	Real Estate	Consumer and Installment	Commercial and Other	Total
	(In thousands)			
Allowance for Loan Losses				
Balance as of January 1, 2016	$ 20,306	$ 71	$ 2,623	$ 23,000
Charge-offs	(213)	(12)	(206)	(431)
Recoveries	235	13	430	678
Provision (credit)	(143)	(15)	211	53
Balance as of September 30, 2016	$ 20,185	$ 57	$ 3,058	$ 23,300

Allowance for Loan Losses				
Balance as of July 1, 2016	$ 20,171	$ 75	$ 2,804	$ 23,050
Charge-offs	(9)	(5)	(58)	(72)
Recoveries	150	2	143	295
Provision (credit)	(127)	(15)	169	27
Balance as of September 30, 2016	$ 20,185	$ 57	$ 3,058	$ 23,300

Balances at December 31, 2016:				
Allowance for Loan Losses				
Individually evaluated	$ 29	$ -	$ 193	$ 222
Collectively evaluated	20,053	105	2,870	23,028
Total	$ 20,082	$ 105	$ 3,063	$ 23,250
Loans				
Individually evaluated	$ 22,728	$ 2	$ 7,645	$ 30,375
Collectively evaluated	2,024,524	55,182	404,928	2,484,634
Total	$ 2,047,252	$ 55,184	$ 412,573	$ 2,515,009

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The following tables provide additional detail with respect to impaired loans broken out according to class as of the dates indicated. The recorded investment included in the following table represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs. The unpaid balance represents the recorded balance prior to any partial charge-offs. Interest income recognized year-to-date may exclude an immaterial amount of interest income on matured loans that are 90 days or more past due, but that are in the process of being renewed and thus are still accruing.

September 30, 2017	Recorded Investment (In thousands)	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial and residential real estate	$ 9,974	$ 10,479	$ -	$ 17,713	$ 1,967
Construction	-	-	-	-	-
Commercial	843	1,336	-	856	126
Consumer	17	19	-	18	-
Other	571	1,412	-	775	18
Total	$ 11,405	$ 13,246	$ -	$ 19,362	$ 2,111
Impaired loans with a related allowance:					
Commercial and residential real estate	$ 27	$ 135	$ 1	$ 962	$ -
Construction	-	-	-	-	-
Commercial	2,186	2,262	69	4,126	54
Consumer	579	665	8	366	16
Other	1,536	1,591	620	793	4
Total	$ 4,328	$ 4,653	$ 698	$ 6,247	$ 74
Total impaired loans:					
Commercial and residential real estate	$ 10,001	$ 10,614	$ 1	$ 18,675	$ 1,967
Construction	-	-	-	-	-
Commercial	3,029	3,598	69	4,982	180
Consumer	596	684	8	384	16
Other	2,107	3,003	620	1,568	22
Total impaired loans	$ 15,733	$ 17,899	$ 698	$ 25,609	$ 2,185

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December 31, 2016	Recorded Investment (In thousands)	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
Impaired loans with no related allowance:					
Commercial and residential real estate	$ 20,477	$ 21,140	$ -	$ 13,875	$ 1,911
Construction	-	-	-	592	-
Commercial	222	229	-	243	16
Consumer	18	19	-	117	2
Other	817	1,625	-	493	-
Total	$ 21,534	$ 23,013	$ -	$ 15,320	$ 1,929
Impaired loans with a related allowance:					
Commercial and residential real estate	$ 1,767	$ 1,890	$ 19	$ 8,590	$ 44
Construction	-	-	-	-	-
Commercial	6,371	6,423	155	2,937	309
Consumer	306	383	9	389	9
Other	397	444	39	348	-
Total	$ 8,841	$ 9,140	$ 222	$ 12,264	$ 362
Total impaired loans:					
Commercial and residential real estate	$ 22,244	$ 23,030	$ 19	$ 22,465	$ 1,955
Construction	-	-	-	592	-
Commercial	6,593	6,652	155	3,180	325
Consumer	324	402	9	506	11
Other	1,214	2,069	39	841	-
Total impaired loans	$ 30,375	$ 32,153	$ 222	$ 27,584	$ 2,291

The gross year-to-date interest income that would have been recorded had the nonaccrual loans been current in accordance with their original terms was $173,000 for the nine months ended September 30, 2017 and $209,000 for the nine months ended September 30, 2016. The gross quarter-to-date interest income that would have been recorded had the nonaccrual loans been current in accordance with their original terms was $24,000 for the third quarter 2017 and $77,000 for the third quarter 2016. During the three and nine months ended September 30, 2016, approximately $83,000 and $332,000, respectively, in cash-basis interest income was recognized on the Company’s largest nonaccrual loan. This loan was moved into accruing status in September 2016 and was paid off in the third quarter 2017. As a result of the payoff of this nonaccrual loan in the third quarter 2017, $892,000 in interest income was recognized as a result of the previous application of payments to principal while on nonaccrual. No cash-basis interest income was recognized in the first nine months of 2017.

The following tables summarize, by class, loans classified as past due in excess of 30 days or more, in addition to those loans classified as nonaccrual:

September 30, 2017	30-89 Days Past Due	90 Days + Past Due and Still Accruing	Nonaccrual	Total Nonaccrual and Past Due	Total Loans, Held for Investment
	(In thousands)				
Commercial and residential real estate	$ 113	$ -	$ 1,722	$ 1,835	$ 1,892,870
Construction	-	-	-	-	81,828
Commercial	8,879	-	844	9,723	449,460
Consumer	137	-	264	401	124,628
Other	-	-	1,914	1,914	112,766
Total	$ 9,129	$ -	$ 4,744	$ 13,873	$ 2,661,552

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December 31, 2016	30-89 Days Past Due	90 Days + Past Due and Still Accruing	Nonaccrual	Total Nonaccrual and Past Due	Total Loans, Held for Investment
	(In thousands)				
Commercial and residential real estate	$ 1,258	$ -	$ 2,835	$ 4,093	$ 1,768,381
Construction	-	-	-	-	88,449
Commercial	37	-	1,094	1,131	432,072
Consumer	42	-	201	243	125,261
Other	-	-	1,117	1,117	100,846
Total	$ 1,337	$ -	$ 5,247	$ 6,584	$ 2,515,009

The Company categorizes loans into risk categories based on relevant information about the ability of a particular borrower to service its debt, such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral, if any, pledged to secure the loan. Loans so classified have a well-defined weakness or weaknesses that jeopardize the collection of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above are considered to be non-classified loans.

The following tables provide detail for the risk categories of loans, by class of loans, based on the most recent credit analysis performed as of the dates indicated:

September 30, 2017	Commercial & Residential Real Estate	Construction	Commercial	Consumer	Other	Total
	(In thousands)					
Non-classified	$ 1,880,451	$ 81,826	$ 438,512	$ 124,248	$ 108,269	$ 2,633,306
Substandard	12,377	-	10,938	377	4,494	28,186
Doubtful	-	-	-	-	-	-
Subtotal	1,892,828	81,826	449,450	124,625	112,763	2,661,492
Deferred costs and fees	42	2	10	3	3	60
Loans, held for investment, net	$ 1,892,870	$ 81,828	$ 449,460	$ 124,628	$ 112,766	$ 2,661,552

December 31, 2016	Commercial & Residential Real Estate	Construction	Commercial	Consumer	Other	Total
	(In thousands)					
Non-classified	$ 1,742,974	$ 88,451	$ 427,278	$ 124,932	$ 98,561	$ 2,482,196
Substandard	25,450	-	4,805	332	2,287	32,874
Doubtful	-	-	-	-	-	-
Subtotal	1,768,424	88,451	432,083	125,264	100,848	2,515,070
Deferred fees and costs	(43)	(2)	(11)	(3)	(2)	(61)
Loans, held for investment, net	$ 1,768,381	$ 88,449	$ 432,072	$ 125,261	$ 100,846	$ 2,515,009

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The book balance of TDRs at September 30, 2017 and December 31, 2016, was $12,405,000 and $25,219,000, respectively. Management established approximately $141,000 and $74,000 in specific reserves for these loans as of September 30, 2017 and December 31, 2016, respectively. The Company had an additional $3,101,000 and $2,238,000 committed on loans classified as TDRs at September 30, 2017 and December 31, 2016, respectively.

During the nine months ended September 30, 2017, the terms of 23 loans totaling $4,543,000, were modified in troubled debt restructurings. The modification of the terms of such loans included 12 restructurings of payment terms and 11 loan renewals with terms more favorable to the borrowers than would otherwise be available based on the borrower's financial strength. During the three months ended September 30, 2017, the terms of four loans totaling $475,000, were modified in troubled debt restructurings. The modification of the terms of such loans included two restructurings of payment terms and two loan renewals with terms more favorable to the borrowers than would otherwise be available based on the borrower's financial strength.

During the nine months ended September 30, 2016, the terms of three loans totaling $4,765,000 were modified in troubled debt restructurings. The modification of the terms of such loans included two restructurings of payment terms and one renewal of a loan with a stated interest rate below market. During the three months ended September 30, 2016, the terms of a single loan with a balance of $2,900,000 were modified in troubled debt restructurings. There were no material charge-offs or provisions recorded during the three and nine months ended September 30, 2017 or September 30, 2016 on loans designated as TDRs.

For reporting purposes, a loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no defaults on TDRs during the nine months ended September 30, 2017 or September 30, 2016.

(5)Goodwill and Other Intangible Assets

The Company recognized $56,404,000 in goodwill as a result of the Home State transaction on September 8, 2016. Subsequent changes to estimates of acquisition date fair value would impact the amount recognized as goodwill. As outlined in footnote 2 – Business Combinations, limited measurement period adjustments were recognized in the fourth quarter 2016 as a result of receipt of final valuations related to the Home State transaction. No other measurement period adjustments were made in the one-year measurement period following the Home State transaction.

Other intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual values. As of September 30, 2017, the Company had intangible assets comprised of its core deposit intangible assets and customer relationship intangible assets.

The following table presents the gross amounts of core deposit intangible assets and customer relationship intangible assets and the related accumulated amortization at the dates indicated:

	Useful Life	September 30, 2017	December 31, 2016
		(In thousands)	
Core deposit intangible assets	10 - 15 years	$ 74,087	$ 74,087
Core deposit intangible assets accumulated amortization		(64,642)	(63,112)
Core deposit intangible assets, net		$ 9,445	$ 10,975
Customer relationship intangible assets	10 years	6,243	6,243
Customer relationship intangible assets accumulated amortization		(2,340)	(1,901)
Customer relationship intangible assets, net		$ 3,903	$ 4,342
Total other intangible assets, net		$ 13,348	$ 15,317

(6)Borrowings

At September 30, 2017, the Company’s outstanding borrowings were $121,182,000 as compared to $197,168,000 at December 31, 2016. These borrowings at September 30, 2017 consisted of $70,000,000 in term notes and $51,182,000 of advances on our line of credit, both with the Federal Home Loan Bank (the “FHLB”). At

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December 31, 2016, outstanding borrowings consisted of $72,477,000 of term notes and $124,691,000 in advances on our line of credit, both with the FHLB.

The interest rate on the FHLB line of credit varies with the federal funds rate and was 1.28% at September 30, 2017. The Company has three term notes with the FHLB. The first is a fixed interest rate $20,000,000 term note at 2.52% that is payable at its maturity date of January 23, 2018, with a prepayment penalty if paid prior to maturity; it is convertible to floating rate on predetermined conversion dates at the discretion of the FHLB. If the note is converted by the FHLB, the Bank has the option to prepay the note without penalty. If the note is not converted by the FHLB, the note continues to be convertible quarterly thereafter, with the option to convert to floating rate at the discretion of the FHLB. Additionally, the Company had two $25,000,000 variable rate term notes that mature on March 7, 2018 and August 3, 2018 and carry an interest rate that resets quarterly. As of September 30, 2017, the rates on our variable rate term notes were set at 1.28% and 1.37%, respectively.

The Company has an advance, pledge and security agreement with the FHLB and had pledged qualifying loans in the amount of $986,585,000 at September 30, 2017 and $854,057,000 at December 31, 2016. Total borrowing capacity with the FHLB resulting from the pledged loans was $690,755,000 at September 30, 2017 and $597,202,000 at December 31, 2016. The maximum credit allowance for future borrowings, including term notes and advances on the line of credit, was $568,240,000 at September 30, 2017 and $400,102,000 at December 31, 2016.

In April 2017, the holding company renewed its agreement for a $10,000,000 secured line of credit with Wells Fargo Bank, National Association. The holding company's stock in the Bank is pledged as collateral to the line of credit. The line of credit matures on March 16, 2018. Under the credit agreement, the Company elects a fixed or floating interest rate on each advance. As of September 30, 2017, no amounts had been borrowed on the Wells Fargo line of credit.

(7)Subordinated Debentures and Trust Preferred Securities

At September 30, 2017, the Company's outstanding subordinated debentures (the "Debentures") consisted of $65,774,000 in debt, partially offset by $730,000 in debt issuance costs. At December 31, 2016, the Company's outstanding Debentures consisted of $65,774,000 in debt, partially offset by $793,000 in debt issuance costs. As of September 30, 2017, the Company's Debentures bore a weighted average cost of funds of 5.12%.

The Company's Debentures were issued in three separate series. The first two issuances have maturities of 30 years from the date of issuance. These two issuances of Debentures were issued to trusts established by the Company, which in turn issued $25,000,000 of trust preferred securities ("TruPS"). Generally, and with certain limitations, the Company is permitted to call the Debentures subsequent to the first five or ten years, as applicable, after issuance, if certain conditions are met, or at any time upon the occurrence and continuation of certain changes in either the tax treatment or the capital treatment of the trusts, the Debentures or the preferred securities. The Guaranty Capital Trust III TruPS became callable at each quarterly interest payment date starting on July 7, 2008. The CenBank Trust III TruPS became callable at each quarterly interest payment date starting on April 15, 2009.

The third issuance was executed on July 18, 2016 in anticipation of the Home State transaction, in order to fund the cash consideration to be paid to Home State shareholders in conjunction with the transaction. The issuance was comprised of $40,000,000 of 5.75% Fixed-to-Floating Rate Subordinated Notes (the “Notes”) due July 20, 2026. The Notes initially bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears. On July 20, 2021, and, thereafter, the interest on the Notes will be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined by the applicable quarterly period, plus 4.73%.

As of September 30, 2017, the Company was in compliance with all financial covenants of the Debentures.

The Company had accrued, unpaid interest on its Debentures of approximately $726,000 at September 30, 2017 and approximately $1,286,000 at December 31, 2016. Interest payable on Debentures is included in interest payable and other liabilities on the consolidated balance sheets.

The Company is not considered the primary beneficiary of the trusts that issued the TruPS (variable interest entities); therefore, the trusts are not consolidated in the Company’s financial statements and the Debentures are shown as liabilities. The Company’s investment in the common stock of each trust is included in other assets in the Company’s consolidated balance sheets.

Although the securities issued by each of the trusts are not included as a component of stockholders' equity in the consolidated balance sheets, they are treated as capital for regulatory purposes. Specifically, under applicable regulatory guidelines, the $25,000,000 of TruPS issued by the trusts qualify as Tier 1 capital, up to a maximum of 25% of capital on an aggregate basis. Any amount that exceeds 25% qualifies as Tier 2 capital. At September 30, 2017, the full $25,000,000 of the TruPS qualified as Tier 1 capital. The $40,000,000 issuance from July 2016 qualifies for inclusion in Tier 2 capital.

Under the Dodd-Frank Act and a joint rule from the Federal Reserve Board, the Office of the Comptroller of the Currency, and the FDIC, certain TruPS are no longer eligible to be included as Tier 1 capital for regulatory purposes. However, an exception to this statutory prohibition applies to securities issued prior to May 19, 2010 by bank holding companies with less than $15 billion of total assets. As we have less than $15 billion in total assets and issued all of our TruPS prior to May 19, 2010, we expect that our TruPS will continue to be eligible to be treated as Tier 1 capital, subject to other rules and limitations.

The following table summarizes the terms of each outstanding subordinated debenture issuance at September 30, 2017 (dollars in thousands):

	Date Issued	Amount	Maturity Date	Call Date *	Fixed or Variable	Rate Adjuster		Current Rate		Next Rate Reset Date**
CenBank Trust III	4/8/2004	15,464	4/15/2034	1/15/2018	Variable	LIBOR + 2.65	%	3.95	%	1/15/2018
Guaranty Capital Trust III	6/30/2003	10,310	7/7/2033	1/7/2018	Variable	LIBOR + 3.10	%	4.40	%	1/7/2018
Subordinated Note	7/18/2016	40,000	7/20/2026	N/A	Fixed	LIBOR + 4.73	%	5.75	%	7/20/2021

* Call date represents the earliest or next date the Company can call the debentures.

** On October 7, 2017, the rate on the Guaranty Capital Trust III subordinated debentures reset to 4.46%. On October 15, 2017, the rate on the CenBank Trust III subordinated debentures reset to 4.01%. The subordinated notes issued July 18, 2016 are fixed at 5.75% until July 20, 2021 at which point the notes convert to floating rate at three-month LIBOR plus 4.73%.

(8)Commitments

The Bank enters into credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments, including obtaining collateral, if necessary, as it does for on-balance sheet instruments.

At the dates indicated, the following financial instruments were outstanding whose contract amounts represented credit risk:

	September 30, 2017	December 31, 2016
	(In thousands)	
Commitments to extend credit:		
Variable	$ 470,152	$ 436,546
Fixed	105,198	95,607
Total commitments to extend credit	$ 575,350	$ 532,153
Standby letters of credit	$ 12,694	$ 10,292

At September 30, 2017, the rates on the fixed rate commitments to extend credit ranged from 2.90% to 6.75%.

A commitment to extend credit is an agreement to lend to a customer as long as there is no violation of any condition established in the underlying contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments may expire without being fully drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated.

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A commitment to extend credit under an overdraft protection agreement is a commitment for a possible future extension of credit to an existing deposit customer. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. A majority of 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 Bank holds collateral supporting those commitments if deemed necessary.

(9)Fair Value Measurements and Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.

Level 3 - Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Transfers of financial instruments between levels within the fair value hierarchy are recognized on the date management determines that the underlying circumstances or assumptions have changed.

Fair values of our securities are determined through the utilization of evaluated pricing models that vary by asset class and incorporate available market information (Level 2). The evaluated pricing models apply available information, as applicable, through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. These models assess interest rate impact, develop prepayment scenarios and take into account market conventions. For securities where routine valuation techniques are not used, management utilizes a discounted cash flow model with market-adjusted discount rates or other unobservable inputs to estimate fair value. Due to the lack of ratings available on these securities, management determined that a relationship to other benchmark quoted securities was unobservable, and as a result, these securities should be classified as Level 3 (Level 3 inputs). The valuation of the Company's Level 3 bonds is highly sensitive to changes in unobservable inputs.

Currently, the Company uses interest rate swaps to help manage interest rate risk. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves (Level 2 inputs). The Company considers the value of the swaps to be sensitive to fluctuations in interest rates.

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Financial Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets/(Liabilities) at September 30, 2017				
State and municipal securities	$ -	$ 67,798	$ 7,401	$ 75,199
Mortgage-backed securities – agency / residential	-	119,162	-	119,162
Corporate securities	-	88,299	-	88,299
Collateralized loan obligations	-	15,823		15,823
Interest rate swaps - cash flow hedge	-	(1,507)	-	(1,507)
Assets/(Liabilities) at December 31, 2016				
State and municipal securities	$ -	$ 49,856	$ 31,752	$ 81,608
Mortgage-backed securities – agency / residential	-	129,832	-	129,832
Mortgage-backed securities – private / residential	-	265	-	265
Corporate securities	-	86,246	-	86,246
Collateralized loan obligations	-	26,277		26,277
Interest rate swaps - cash flow hedge	-	(1,929)	-	(1,929)

There were no transfers of financial assets and liabilities among Level 1, Level 2 and Level 3 during the nine months ended September 30, 2017.

The tables below present a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2017 and September 30, 2016:

	State and Municipal Securities	
	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	(In thousands)	
Beginning balance	$ 31,595	$ 31,752
Total unrealized gains (losses) included in:		
Net income	1	5
Other comprehensive income (loss)	-	-
Sales, calls and prepayments	(24,195)	(24,356)
Transfers in and (out) of Level 3	-	-
Balance end of period	$ 7,401	$ 7,401

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	State and Municipal Securities	
	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
	(In thousands)	
Beginning balance	$ 31,909	$ 32,040
Total unrealized gains (losses) included in:		
Net income	2	5
Other comprehensive income (loss)	-	-
Sales, calls and prepayments	(81)	(215)
Acquisition of Level 3 security	131	131
Transfers in and (out) of Level 3	-	-
Balance end of period	$ 31,961	$ 31,961

For the three and nine months ended September 30, 2017 and September 30, 2016, there was no other comprehensive income or loss for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as a result of consistent mark-to-market valuation. For the three and nine months ended September 30, 2017 and September 30, 2016, the amounts included in net income in the above tables include accretion of any discount on these Level 3 bonds.

The following tables present quantitative information about Level 3 fair value measurements on the Company's state and municipal securities at September 30, 2017 and December 31, 2016:

September 30, 2017	Fair Value	Valuation Technique	Unobservable Inputs	Range
	(In thousands)			
State and municipal securities	$ 7,401	discounted cash flow	discount rate	2.25%-2.75%
Total	$ 7,401			

December 31, 2016	Fair Value	Valuation Technique	Unobservable Inputs	Range

	(In thousands)			
State and municipal securities	$ 31,752	discounted cash flow	discount rate	2.29%-4.75%
Total	$ 31,752			

Financial Assets and Liabilities Measured on a Nonrecurring Basis

Financial assets and liabilities measured at fair value on a nonrecurring basis were not material as of September 30, 2017 and December 31, 2016.

Nonfinancial Assets and Liabilities Measured on a Nonrecurring Basis

Nonfinancial assets and liabilities measured at fair value on a nonrecurring basis were not material as of September 30, 2017 and December 31, 2016.

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Fair Value of Financial Instruments

The estimated fair values, and related carrying amounts, of the Company's financial instruments are as follows:

	Carrying Amount (In thousands)	Fair Value Measurements at September 30, 2017: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	$ 64,388	$ 64,388	$ -	$ -	$ 64,388
Time deposits with banks	254	254	-	-	254
Securities available for sale	298,483	-	291,082	7,401	298,483
Securities held to maturity	258,541	-	255,012	2,559	257,571
Bank stocks	19,435	n/a	n/a	n/a	n/a
Loans held for sale	314	345	-	-	345
Loans held for investment, net	2,638,652	-	-	2,615,217	2,615,217
Accrued interest receivable	10,868	-	10,868	-	10,868
Financial liabilities:					
Deposits	$ 2,898,060	$ -	$ 2,895,570	$ -	$ 2,895,570
Federal funds purchased and sold under agreements to repurchase	37,943	-	37,943	-	37,943
Short-term borrowings	51,182	-	51,182	-	51,182
Subordinated debentures	65,044	-	-	61,004	61,004
Long-term borrowings	70,000	-	70,008	-	70,008
Accrued interest payable	1,194	-	1,194	-	1,194
Interest rate swap - cash flow hedge	1,507	-	1,507	-	1,507

	Carrying Amount	Fair Value Measurements at December 31, 2016: Level 1	Level 2	Level 3	Total

	(In thousands)				
Financial assets:					
Cash and cash equivalents	$ 50,111	$ 50,111	$ -	$ -	$ 50,111
Time deposits with banks	254	254	-	-	254
Securities available for sale	324,228	-	292,476	31,752	324,228
Securities held to maturity	243,979	-	236,857	2,547	239,404
Bank stocks	22,649	n/a	n/a	n/a	n/a
Loans held for sale	4,129	4,542	-	-	4,542
Loans held for investment, net	2,491,759	-	-	2,504,144	2,504,144
Accrued interest receivable	9,825	-	9,825	-	9,825
Financial liabilities:					
Deposits	$ 2,699,084	$ -	$ 2,696,766	$ -	$ 2,696,766
Federal funds purchased and sold under agreements to repurchase	36,948	-	36,948	-	36,948
Short-term borrowings	124,691	-	124,691	-	124,691
Subordinated debentures	64,981	-	-	60,048	60,048
Long-term borrowings	72,477	-	72,769	-	72,769
Accrued interest payable	1,661	-	1,661	-	1,661
Interest rate swap - cash flow hedge	1,929	-	1,929	-	1,929

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of

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future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements. Therefore, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions are used by the Company in estimating fair value disclosures for financial instruments:

(a) Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values (Level 1).

(b) Securities and Bank Stocks

Fair values for securities available for sale and held to maturity are generally determined through the utilization of evaluated pricing models that vary by asset class and incorporate available market information (Level 2). The evaluated pricing models apply available information, as applicable, through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. These models assess interest rate impact, develop prepayment scenarios and take into account market conventions. For positions that are not traded in active markets or are subject to transfer restrictions (i.e., bonds valued with Level 3 inputs), management uses a combination of reviews of the underlying financial statements, appraisals and management’s judgment regarding credit quality and intent to sell in order to determine the value of the bond.

It is not practical to determine the fair value of bank stocks due to restrictions placed on the transferability of FHLB stock, Federal Reserve Bank stock and Bankers’ Bank of the West stock. These three stocks comprise the majority of the balance of the Company’s bank stocks.

(c) Loans Held for Investment

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values (Level 3). Fair values for other loans (e.g., commercial real estate and investment property mortgage loans and commercial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality (Level 3). Impaired loans are valued at the lower of cost or fair value when specific reserves are attributed to these loans because the present value of expected cash flows or the net realizable value of collateral is less than the impaired loan's recorded investment. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value, with fair value determined by the sales price agreed upon in negotiation with the purchaser (Level 1).

(e) Deposits

The fair values of demand deposits (e.g., interest and non-interest checking, passbook savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) (Level 2). The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date (Level 2). Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits (Level 2).

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(f) Short-term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values (Level 2).

(g) Long-term Borrowings

The fair values of the Company’s long-term borrowings are estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements (Level 2).

(h) Subordinated Debentures

The fair values of the Company’s subordinated debentures are estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements (Level 3).

(i) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value (Level 2).

(j) Interest Rate Swaps, net

The fair value of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves (Level 2).

(k) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. The fair value of commitments is not material.

(10)Derivatives and Hedging Activities

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company utilizes derivative financial instruments to assist in the management of interest rate risk, primarily helping to secure long-term borrowing rates. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment or receipt of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash payments or receipts principally related to certain variable-rate borrowings. The Company does not use derivatives for trading or speculative purposes.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheet as of September 30, 2017 and December 31, 2016:

	Balance Sheet Location	Fair Value September 30, 2017	December 31, 2016
		(In thousands)	
Derivatives designated as hedging instruments			
Assets:			
Interest rate swaps	Other assets	$ -	$ -
Liabilities:			
Interest rate swaps	Other liabilities	$ 1,507	$ 1,929

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The Company's objectives in using interest rate derivatives are to add stability and predictability to interest expense and to manage the Company's exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. For hedges of the Company's variable-rate borrowings, interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed payments. As of September 30, 2017, the Company had two forward-starting interest rate swaps with an aggregate notional amount of $50,000,000 that were each designated as cash flow hedges associated with the Company's forecasted variable-rate borrowings. The first $25,000,000 swap became effective in June 2015 at a fixed rate of 2.46% and matures in June 2020. The second $25,000,000 swap became effective in March 2016 at a fixed rate of 3.00% and matures in March 2021.

Summary information about the interest-rate swaps designated as cash flow hedges as of September 30, 2017 and December 31, 2016 is included in the table below:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Notional amounts	$ 50,000	$ 50,000
Weighted average pay rates	2.73 %	2.73 %
Weighted average receive rates	3 month LIBOR	3 month LIBOR
Weighted average maturity	3.1 years	3.9 years
Unrealized gains (losses)	$ (1,507)	$ (1,929)

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. The Company's cash flow hedges are used to hedge the forecasted variable cash outflows associated with forecasted issuances of FHLB advances. During the nine months ended September 30, 2017 and September 30, 2016, the income statement effect of hedge ineffectiveness was not material.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate liabilities. Management expects that, during the next 12 months, approximately $598,000 will be reclassified from AOCI into interest expense.

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with another third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. The impact of these customer interest rate swaps on the Company's financial statements was immaterial for the periods covered by this report.

The table below presents the effect of the Company's derivative financial instruments on both comprehensive income and net income for the three and nine months ended September 30, 2017 and September 30, 2016:

Interest Rate Swaps with Hedge Designation	Income Statement Location	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
		(In thousands)			
Gain or (loss) recognized in OCI on derivative - net of tax	Not applicable	$ 20	$ 235	$ (116)	$ (963)
(Gain) or loss reclassified from accumulated OCI into income (effective portion) - net of tax	Interest expense	118	161	378	426

The Company has agreements with its derivative counterparties that contain a cross-default provision whereby if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

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The Company has minimum collateral posting thresholds with certain of its derivative counterparties and as of September 30, 2017 had posted $3,814,000 against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2017, it could have been required to settle its obligations under the agreements at the termination value.

(11)Accumulated Other Comprehensive Income

The following table summarizes the changes within each classification of accumulated other comprehensive income (loss) ("AOCI") net of tax for the three and nine months ended September 30, 2017 and September 30, 2016:

	Unrealized Gains and Losses on Available for Sale Securities	Unrealized Gains and Losses on Held to Maturity Securities	Unrealized Gains and Losses on Cash Flow Hedges	Total
	(In thousands)			
Balance, July 1, 2016	$ (39)	$ (1,340)	$ (2,458)	$ (3,837)
Other comprehensive income (loss) before reclassifications, net of tax	400	-	235	635
Net unrealized losses on securities transferred from available for sale, to held to maturity net of tax	-	-	-	-
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	41	64	161	266
Net other comprehensive income (loss)	441	64	396	901
Balance, September 30, 2016	$ 402	$ (1,276)	$ (2,062)	$ (2,936)
Balance, January 1, 2016	$ (1,803)	$ (1,477)	$ (1,525)	$ (4,805)
Other comprehensive income (loss) before reclassifications, net of tax	2,129	-	(963)	1,166

Net unrealized losses on securities transferred from available for sale, to held to maturity net of tax	-	-	-	-
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	76	201	426	703
Net other comprehensive income (loss)	2,205	201	(537)	1,869
Balance, September 30, 2016	$ 402	$ (1,276)	$ (2,062)	$ (2,936)
Balance, July 1, 2017	$ (2,575)	$ (1,526)	$ (1,011)	$ (5,112)
Other comprehensive income (loss) before reclassifications, net of tax	56	-	20	76
Net unrealized losses on securities transferred from available for sale, to held to maturity net of tax	-	-	-	-
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	53	74	118	245
Net other comprehensive income (loss)	109	74	138	321
Balance, September 30, 2017	$ (2,466)	$ (1,452)	$ (873)	$ (4,791)
Balance, January 1, 2017	$ (3,913)	$ (1,678)	$ (1,135)	$ (6,726)
Other comprehensive income (loss) before reclassifications, net of tax	1,394	-	(116)	1,278
Net unrealized losses on securities transferred from available for sale, to held to maturity net of tax	-	-	-	-
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	53	226	378	657
Net other comprehensive income (loss)	1,447	226	262	1,935
Balance, September 30, 2017	$ (2,466)	$ (1,452)	$ (873)	$ (4,791)

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The following table summarizes the significant amounts reclassified out of each component of AOCI for the three and nine months ended September 30, 2017 and September 30, 2016:

Details about AOCI Components	Amount Reclassified from AOCI				Affected Income Statement Line Item
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2017	2016	2017	2016	
	(In thousands)				
Unrealized gains and losses on available for sale securities	$ 86	$ 66	$ 86	$ 122	(Gain) loss on the sale of securities
	(33)	(25)	(33)	(46)	Income tax effect
	$ 53	$ 41	$ 53	$ 76	Net income
Unrealized gains and losses on held to maturity securities	$ 120	$ 105	$ 365	$ 326	Interest income
	(46)	(41)	(139)	(125)	Income tax effect
	$ 74	$ 64	$ 226	$ 201	Net income
Unrealized gains and losses on cash flow hedges	$ 190	$ 259	$ 609	$ 687	Interest expense
	(72)	(98)	(231)	(261)	Income tax effect
	$ 118	$ 161	$ 378	$ 426	Net income
Total reclassifications for the period	$ 245	$ 266	$ 657	$ 703	Net income

(12)Stock-Based Compensation

Under the Company's Incentive Plan, which expired by its terms on April 4, 2015, the Company's Board of Directors had the authority to grant stock-based compensation awards prior to the plan's expiration. Under the 2015 Plan, which was approved by the Company's stockholders at the May 5, 2015 annual meeting, the Company's Board of Directors maintains the authority to grant stock-based compensation awards to nonemployee directors, key employees, consultants and prospective employees.

Stock-based compensation awards issuable under the 2015 Plan include, and that were issuable under the Incentive Plan, included, the grant of stock-based compensation awards in the form of options, restricted stock awards, restricted stock unit awards, performance stock awards, stock appreciation rights and other equity based awards. Likewise, the Incentive Plan provided for, and the 2015 Plan provides, that eligible participants may be granted shares of Company common stock that are subject to forfeiture until the grantee vests in the stock award based on the established conditions, which may include service conditions, established performance measures or both.

Prior to the vesting of stock awards that are subject to a service vesting condition, each grantee has the rights of a stockholder with respect to voting the shares of stock represented by the award. The grantee is not entitled to dividend rights with respect to the shares of stock until vesting occurs. Prior to vesting of the stock awards with performance vesting conditions, each grantee has the rights of a stockholder with respect to voting of the shares of stock represented by the award. The recipient is generally not entitled to dividend rights with respect to unvested shares. Other than the stock awards with service and performance-based vesting conditions, no other grants have been made under the Incentive Plan or the 2015 Plan.

Under the provisions of the 2015 Plan and the Incentive Plan, grants of stock-based compensation awards of 935,000 and 1,700,000 shares, respectively, were authorized, subject to adjustments upon the occurrence of certain events. As of September 30, 2017, there were 253,180 and 223,369 outstanding awards under the 2015 Plan and the Incentive Plan, respectively. As of September 30, 2017, there were 618,765 shares remaining available for grant under the 2015 Plan.

Of the 476,549 shares represented by unvested awards at September 30, 2017, approximately 461,000 shares are expected to vest. At September 30, 2017, there were 290,368 shares of restricted stock outstanding that were subject to a performance condition. As of September 30, 2017, management expects that approximately 282,000 of these shares will vest and that the remaining shares will expire unvested. The performance shares that are expected

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to vest relate to awards granted to various key employees from March 2014 through May 2017. The vesting of these performance shares is contingent upon meeting certain return on average asset performance measures. The performance-based shares awarded in 2014, 2015, 2016 and 2017 each include a “threshold” and “target” performance level, with vesting determined based on where actual performance falls in relation to the numeric range represented by these performance criteria. As of September 30, 2017, management expected that all of the performance awards made in 2014, 2015, 2016 and 2017 not forfeited from a failure by the grantee to provide the requisite service will vest, which is consistent with the level of expense currently being recognized over the vesting period. Should this expectation change, the recognition of compensation expense in future periods could be impacted.

A summary of the status of unearned stock awards and the change during the nine months ended September 30, 2017 is presented in the table below:

	Shares		Weighted Average Fair Value on Award Date
Unearned at January 1, 2017	513,187	$	14.39
Awarded	114,302		24.89
Forfeited	(6,291)		18.66
Vested	(144,649)		14.07
Unearned at September 30, 2017	476,549	$	16.95

The Company recognized $2,272,000 and $2,304,000 in stock-based compensation expense for services rendered for the nine months ended September 30, 2017 and September 30, 2016, respectively. The income tax benefit recognized on share-based compensation recorded during the nine months ended September 30, 2017 and September 30, 2016, was $864,000 and $876,000, respectively. The income tax benefit recognized on share-based compensation recorded during the three months ended September 30, 2017 and September 30, 2016, was $293,000 and $281,000, respectively. In addition to the tax benefit on recorded share-based compensation expense, the Company recognized an excess tax benefit of $582,000 and $325,000 during the nine months ended September 30, 2017 and September 30, 2016, respectively. Likewise, the excess tax benefit recognized during the third quarter 2017 and 2016 was $22,000 and $5,000, respectively. The excess tax benefit represents the tax effect of the appreciation of the stock price on vested restricted stock between the grant date and the vesting date multiplied by the number of shares vested during the period. The grant date fair value of restricted stock awards granted in the nine months ended September 30, 2017 and September 30, 2016 was $2,845,000 and $2,963,000, respectively. The fair value of awards that vested in the nine months ended September 30, 2017 and September 30, 2016 was approximately $3,567,000 and $3,053,000, respectively. At September 30, 2017, compensation cost of $4,185,000 related to unvested awards not yet recognized is expected to be recognized over a weighted-average period of 1.3 years.

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(13)Capital Ratios

The following table provides the capital ratios of the Company and Bank as of the dates presented, along with the applicable regulatory capital requirements:

	Ratio at September 30, 2017		Ratio at December 31, 2016		Minimum Requirement for “Adequately Capitalized” Institution plus fully phased in Capital Conservation Buffer		Minimum Requirement for "Well-Capitalized" Institution	
Common Equity Tier 1 Risk-Based Capital Ratio								
Consolidated	10.56	%	10.46	%	7.00	%	N/A	
Guaranty Bank and Trust Company	12.23	%	12.43	%	7.00	%	6.50	%
Tier 1 Risk-Based Capital Ratio								
Consolidated	11.40	%	11.34	%	8.50	%	N/A	
Guaranty Bank and Trust Company	12.23	%	12.43	%	8.50	%	8.00	%
Total Risk-Based Capital Ratio								
Consolidated	13.50	%	13.58	%	10.50	%	N/A	
Guaranty Bank and Trust Company	13.00	%	13.26	%	10.50	%	10.00	%
Leverage Ratio								
Consolidated	10.15	%	9.81	%	4.00	%	N/A	
Guaranty Bank and Trust Company	10.89	%	10.76	%	4.00	%	5.00	%

(14)Legal Contingencies

The Company and the Bank are defendants, from time to time, in legal actions at various points of the legal process, including appeals, arising from transactions conducted in the ordinary course of business. Management believes, after consultation with legal counsel, that it is not probable that the outcome of current legal actions will result in a liability that has a material adverse effect on the Company's consolidated financial position, results of operations, comprehensive income or cash flows. In the event that such legal action results in an unfavorable outcome, the resulting liability could have a material adverse effect on the Company's consolidated financial position, results of operations, comprehensive income or cash flows.

In the third quarter 2017, the Company incurred a $1,600,000 charge for a litigation settlement. The settlement related to a commercial borrower who filed counterclaims immediately after the Bank began collection efforts on its defaulted loan. The Company successfully defended all initial counterclaims, but at the onset of the initial trial, one new claim was raised and resulted in a hung jury. After a successful appeals process, the final claim was scheduled for a retrial in the third quarter of 2017. Prior to this retrial, the former borrower requested a conference to settle this remaining issue and after negotiation, the Company agreed to settle with the borrower to eliminate the expected significant costs of continued litigation.

(15)Subsequent Events

On July 18, 2017, the Company entered into an Agreement and Plan of Reorganization (the "Castle Rock Merger Agreement") with Castle Rock, parent company of Castle Rock Bank, a Colorado state chartered bank headquartered in Castle Rock, Colorado. As of September 30, 2017, Castle Rock had consolidated total assets of $145.0 million and deposits of $127.6 million, while the pro forma combined Company would have had approximately $3.7 billion in total assets and $3.0 billion in total deposits. The Castle Rock transaction adds a deposit franchise with excess liquidity to the Company's existing presence in Douglas County, Colorado.

The transaction closed on October 27, 2017, with an aggregate transaction value of $24,421,000, based on the $29.05 closing price of the Company's common stock on that date. In accordance with the terms of the Castle Rock Merger Agreement, in an all-stock transaction, Castle Rock shareholders received 840,639 shares of Company voting common stock in exchange for 100% of the outstanding shares of Castle Rock. Pre-tax merger-related expenses of $268,000 were included in the Company's results of operations for both the three and nine months

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ended September 30, 2017. The entire $268,000 in merger-related expense is included in other general and administrative expense.

The transaction will be accounted for using the acquisition method of accounting which requires the assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. As of the date of this filing, such valuations have not yet been completed.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements and Factors That Could Affect Future Results

Certain statements contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified as such. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "targeted", "projected", "continue", "remain", "will" "could", "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements and the lack of such an identifying word does not necessarily indicate the absence of a forward-looking statement.

Forward-looking statements are based on assumptions and involve risks and uncertainties, many of which are beyond our control, which may cause actual results to differ materially from those discussed in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on us and our customers, and our assessment of that impact on our estimates including, but not limited to, the allowance for loan losses.
- The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board.
- Requirements imposed by regulatory agencies to increase our capital to a level greater than the current level required for well-capitalized financial institutions (including the impact of the joint rule by the Federal Reserve Board, the OCC, and the FDIC to revise the regulatory capital rules, including the implementation of the Basel III standards), the failure to maintain capital above the level required to be well-capitalized under the regulatory capital adequacy guidelines, the availability of capital from private or government sources, or the failure to raise additional capital as needed.
- Changes in the level of nonperforming assets and charge-offs and the deterioration of other credit quality measures, and their impact on the adequacy of the allowance for loan losses and provision for loan losses.
- Changes in sources and uses of funds, including loans, deposits and borrowings, including the ability of the Bank to retain and grow core deposits, to purchase brokered deposits and to maintain unsecured federal funds lines and secured lines of credit with correspondent banks.
- Failure, interruption or breach in security of our electronic communications, information systems and computer systems.

- The effects of inflation and interest rate, securities market and monetary supply fluctuations.
- Political instability, acts of war or terrorism and natural disasters.
- Our ability to develop and promote customer acceptance of new products and services in a timely manner and customers' perceived overall value of these products and services.
- Changes in consumer spending, borrowings and savings habits.
- Competition for loans and deposits and failure to attract or retain loans and deposits.
- Changes in the financial performance or condition of the Bank's borrowers and the ability of the Bank's borrowers to perform under the terms of their loans and the terms of other credit agreements.
- Our ability to receive regulatory approval for the Bank to declare and pay dividends to the holding company.
- Our ability to acquire, operate and maintain cost effective and efficient systems.

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- The timing, impact and other uncertainties of any future acquisitions, including our ability to consummate such acquisitions, our ability to identify suitable future acquisition candidates, success or failure in the integration of their operations, the ability to raise capital or debt to fund acquisitions and the ability to enter new markets successfully and capitalize on growth opportunities.
- Our ability to successfully implement changes in accounting policies and practices, adopted by regulatory agencies, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board (the "FASB") and other accounting standard setters.
- The loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels.
- The costs and other effects resulting from changes in laws and regulations and of other legal and regulatory developments, including, but not limited to, increases in FDIC insurance premiums, the commencement of legal proceedings or regulatory or other governmental inquiries, and our ability to successfully undergo regulatory examinations, reviews and other inquiries.
- Other risks and uncertainties listed from time to time in the Company's reports and documents filed with the Securities and Exchange Commission (the "SEC").

Forward-looking statements speak only as of the date on which such statements are made. We do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited condensed consolidated financial statements and unaudited statistical information included elsewhere in this Report, Part II, Item 1A of this Report and Items 1, 1A, 7, 7A and 8 of our 2016 Annual Report on Form 10-K.

Overview

Guaranty Bancorp is a bank holding company with its principal business to serve as the holding company for its Colorado-based bank subsidiary, Guaranty Bank and Trust Company (the "Bank"). The Bank is the sole member of several limited liability companies that hold real estate as well as the sole owner of an investment management firm, Private Capital Management LLC ("PCM"). On April 3, 2017, Cherry Hills Investment Advisors Inc., a previously wholly owned subsidiary of the Bank, was consolidated into PCM. References to "Company", "us", "we" and "our" refer to Guaranty Bancorp on a consolidated basis. References to "Guaranty Bancorp" or to the "holding company" refer to the parent company on a stand-alone basis.

On March 16, 2016, the Company entered into a merger agreement with Home State Bancorp ("Home State"), parent company of Home State Bank, a Colorado state chartered bank headquartered in Loveland, Colorado. The transaction closed on September 8, 2016 and substantially all integration activities were completed on November 7, 2016.

On July 18, 2017, the Company entered into a merger agreement with Castle Rock Bank Holding Company ("Castle Rock"), parent company of Castle Rock Bank, a Colorado state chartered bank headquartered in Castle Rock, Colorado. The transaction closed on October 27, 2017 and substantially all integration activities are planned to be completed in December 2017.

Through the Bank, we provide banking and other financial services throughout our targeted Colorado markets to small to medium-sized businesses, including the owners and employees of those businesses, and consumers. Our banking products and services include accepting demand and time deposits and originating commercial loans, real estate loans (including construction loans), SBA guaranteed loans and consumer loans. The Bank and PCM also provide wealth management solutions, including trust and investment management services. We derive our income primarily from interest (including loan origination fees) received on loans and, to a lesser extent, interest on investment securities and other fees received in connection with servicing loan and deposit accounts, trust and investment management services. Our major operating expenses include the interest we pay on deposits and borrowings and general operating expenses. We rely primarily on locally generated deposits to provide us with funds for making loans.

In addition to building growth organically through our existing branches, we seek opportunities to acquire small to medium-sized banks or specialty finance companies that will allow us to expand our franchise in a manner

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consistent with our community-banking focus. Ideally, the financial institutions we seek to acquire will be in or contiguous to our existing footprint, which would allow us to use the acquisition to consolidate duplicative costs and administrative functions and to rationalize operating expenses. We believe that by streamlining the administrative and operational functions of an acquired financial institution, we are able to substantially lower operating costs, operate more efficiently and integrate the acquired financial institution while maintaining the stability of our existing business. In certain circumstances, we may seek to acquire financial institutions that may be located outside of our existing footprint. We also seek opportunities which will allow us to further diversify our noninterest income base, including adding to our wealth management platform.

We are subject to competition from other financial institutions and our operating results, like those of other financial institutions operating exclusively or primarily in Colorado, are significantly influenced by economic conditions in Colorado, including the strength of the Colorado real estate market. In addition, the fiscal, monetary and regulatory policies of the federal government and regulatory authorities that govern financial institutions and market interest rates impact our financial condition, results of operations and cash flows.

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Earnings Summary

The following table summarizes certain key financial results for the periods indicated:

Table 1

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change Favorable (Unfavorable)	2017	2016	Change Favorable (Unfavorable)
	(In thousands, except for share data and ratios)					
Results of Operations:						
Interest income	$ 34,688	$ 25,342	$ 9,346	$ 98,962	$ 69,053	$ 29,909
Interest expense	3,354	2,592	(762)	9,957	6,487	(3,470)
Net interest income	31,334	22,750	8,584	89,005	62,566	26,439
Provision for loan losses	497	27	(470)	708	53	(655)
Net interest income after provision for loan losses	30,837	22,723	8,114	88,297	62,513	25,784
Noninterest income	6,130	4,705	1,425	18,874	13,025	5,849
Noninterest expense	21,807	18,624	(3,183)	62,839	49,550	(13,289)
Income before income taxes	15,160	8,804	6,356	44,332	25,988	18,344
Income tax expense	5,106	3,039	(2,067)	14,313	8,682	(5,631)
Net income	$ 10,054	$ 5,765	$ 4,289	$ 30,019	$ 17,306	$ 12,713
Common Share Data:						

Earnings per common share–basic	$ 0.36		$ 0.25		$ 0.11		$ 1.08		$ 0.80		$ 0.28	
Earnings per common share–diluted	$ 0.36		$ 0.25		$ 0.11		$ 1.07		$ 0.79		$ 0.28	
Weighted average common shares outstanding–basic	27,920,658		22,811,386		5,109,272		27,900,627		21,750,153		6,150,474	
Weighted average common shares outstanding–diluted	28,120,111		22,984,647		5,135,464		28,140,332		21,995,855		6,144,477	
Average equity to average assets	10.89	%	9.70	%	1.19	%	10.73	%	9.63	%	1.10	%
Return on average equity	10.70	%	9.04	%	1.66	%	10.99	%	9.82	%	1.17	%
Return on average assets	1.17	%	0.88	%	0.29	%	1.18	%	0.95	%	0.23	%
Dividend payout ratio	34.71	%	42.41	%	(7.70)	%	34.87	%	42.35	%	(7.48)	%

	September 30, 2017		September 30, 2016		Change	
Selected Balance Sheet Ratios:						
Total risk-based capital to risk-weighted assets	13.50	%	14.07	%	(0.57)	%
Leverage ratio	10.15	%	12.40	%	(2.25)	%
Loans(1), net of deferred costs and fees to deposits	91.84	%	87.68	%	4.16	%
Allowance for loan losses to loans (1), net of deferred costs and fees	0.86	%	0.97	%	(0.11)	%
Allowance for loan losses to nonperforming loans	482.72	%	398.84	%	83.88	%
Classified assets to allowance and Tier 1 capital (2)	7.57	%	10.69	%	(3.12)	%
Noninterest bearing deposits to total deposits	31.90	%	31.14	%	0.76	%
Time deposits to total deposits	14.55	%	13.73	%	0.82	%

(1) Loans held for investment
(2) Based on Bank only Tier 1 capital

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Third Quarter 2017 Compared to Second Quarter 2017

Net income for the third quarter 2017 was $10.1 million, or $0.36 per diluted common share, compared to net income for the second quarter 2017 of $10.1 million, or $0.36 per diluted common share. Although third quarter 2017 net income was consistent with second quarter 2017 net income, net interest income increased $1.8 million, partially offset by a $1.3 million increase in noninterest expense and a $0.3 million increase in provision for loan losses. The $1.8 million increase in net interest income was due to a $16.5 million increase in average earning assets and a $0.9 million interest recovery on an impaired loan that paid off in the third quarter 2017. The $1.3 million increase in noninterest expense was due to a $1.3 million increase in other general and administrative expense, primarily due to a $1.6 million settlement of a commercial real estate litigation matter, and a $0.5 million increase in salaries and employee benefits, primarily due to an increase in the cost of the Company’s partially self-funded medical plan. These increases in noninterest expense were partially offset by a $0.3 million decline in professional fees, mostly related to legal expenses. The $0.3 million increase in provision for loan losses was primarily due to loan growth and an increase in specific reserves.

Third Quarter 2017 Compared to Third Quarter 2016

Net income for the third quarter 2017 was $10.1 million, or $0.36 per diluted common share, compared to net income for the third quarter 2016 of $5.8 million, or $0.25 per common share. The acquisition of Home State late September 2016 significantly contributed to the increase in net income for the three months ended September 30, 2017. The $4.3 million increase in net income was comprised of an $8.6 million increase in net interest income and a $1.4 million increase in noninterest income, partially offset by a $3.2 million increase in noninterest expense, a $2.1 million increase in income tax expense and a $0.5 million increase in provision for loan losses. The $8.6 million increase in net interest income was primarily due to a $709.0 million increase in average earning assets, $0.7 million increase in accretion of the discount on loans acquired in the Home State transaction, and a $0.9 million interest recovery on an impaired loan, described above. The increase in net interest income was partially offset by a $498.6 million increase in average interest-bearing liabilities. The $1.4 million increase in noninterest income was primarily due to an increase in deposit service fees, mostly due to deposits acquired in the Home State transaction. The $3.2 million increase in noninterest expense was mostly due to operating expenses related to the increased number of employees and branch locations following the Home State transaction and a charge for the settlement of commercial real estate litigation during the third quarter 2017, partially offset by lower merger-related expenses. The $2.1 million increase in income tax expense was due to an increase in pretax income. The $0.5 million increase in provision for loan losses was primarily due to the increase in loans over the same period.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017, net income was $30.0 million, or $1.07 per diluted common share, compared to $17.3 million, or $0.79 per diluted common share for the same period in 2016. The acquisition of Home State in September 2016 significantly contributed to the increase in net income. The $12.7 million increase in net income was primarily the result of a $26.4 million increase in net interest income and a $5.8 million increase in noninterest income, partially offset by a $13.3 million increase in noninterest expense, a $5.6 million increase in income tax expense and a $0.7 million increase in provision for loan losses. The $26.4 million increase in net interest income was primarily due to an $845.6 million increase in average earning assets and $2.8 million increase in accretion of discount on loans acquired in the Home State transaction, partially offset by a $589.6 million increase in average interest bearing liabilities. The $5.8 million increase in noninterest income was primarily due to a $3.4 million increase in deposit service and other fees, a $0.9 million increase in other noninterest income, a $0.6 million increase in investment management and trust income, a $0.5 million increase in gain on sale of SBA loans and a $0.5 million increase in earnings on bank-owned life insurance (BOLI). The $13.3 million increase in noninterest expense consisted of a $6.6 million increase in salaries and employee benefits, a $3.1 million increase in general and administrative expense, a $1.1 million increase in amortization of intangible assets, a $0.9 million increase in occupancy expense, a $0.6 million increase in furniture and equipment expense and a $0.4 million increase in professional fees. The $5.6 million increase in income tax expense was due to an increase in pretax income. The $0.7 million increase in provision for loan losses was primarily due to the increase in loans over the same period.

Net Interest Income and Net Interest Margin

Net interest income, which is our primary source of income, represents the difference between interest earned on assets and interest paid on liabilities. The interest rate spread is the difference between the yield on our interest-

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bearing assets and liabilities. Net interest margin is net interest income expressed as a percentage of average interest-earning assets.

The following table summarizes the Company's net interest income and related spread and margin for the quarter ended September 30, 2017 and the prior four quarters:

Table 2

	Three Months Ended September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	(Dollars in thousands)				
Net interest income	$ 31,334	$ 29,499	$ 28,172	$ 27,822	$ 22,750
Interest rate spread	3.71 %	3.53 %	3.45 %	3.38 %	3.45 %
Net interest margin	3.91 %	3.74 %	3.65 %	3.58 %	3.66 %
Net interest margin, fully tax equivalent	4.02 %	3.85 %	3.76 %	3.68 %	3.75 %
Loan yield	4.73 %	4.50 %	4.37 %	4.44 %	4.41 %
Average cost of interest-bearing liabilities (including noninterest-bearing deposits)	0.44 %	0.46 %	0.43 %	0.40 %	0.44 %
Average cost of deposits (including noninterest-bearing deposits)	0.27 %	0.26 %	0.23 %	0.22 %	0.23 %

The following table summarizes the Company's net interest income and related spread and margin for the nine months ended September 30, 2017 and September 30, 2016:

Table 3

	Nine Months Ended September 30, 2017		September 30, 2016	
	(Dollars in thousands)			
Net interest income	$ 89,005		$ 62,566	
Interest rate spread	3.57	%	3.43	%
Net interest margin	3.77	%	3.61	%
Net interest margin, fully tax equivalent	3.88	%	3.69	%
Loan yield	4.54	%	4.25	%
Average cost of interest-bearing liabilities (including noninterest-bearing deposits)	0.44	%	0.39	%
Average cost of deposits (including noninterest-bearing deposits)	0.25	%	0.23	%

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The following tables present, for the periods indicated, average assets, liabilities and stockholders' equity, as well as interest income from average interest-earning assets, interest expense from average interest-bearing liabilities and the resultant annualized yields and costs expressed in percentages. Nonaccrual loans are included in the calculation of average loans and leases while interest thereon is excluded from the computation of yield earned.

Table 4

	Three Months Ended											
	September 30, 2017						September 30, 2016					
	Average Balance		Interest Income or Expense		Average Yield or Cost			Average Balance		Interest Income or Expense	Average Yield or Cost	
	(Dollars in thousands)											
ASSETS:												
Interest-earning assets:												
Gross loans, net of deferred costs and fees (1)(3)	$	2,593,667	$	30,902	4.73	%	$	2,010,622	$	22,295	4.41	%
Investment securities (1)												
Taxable		339,671		2,221	2.59	%		276,227		1,741	2.51	%
Tax-exempt		210,363		1,233	2.33	%		130,270		971	2.97	%
Bank Stocks (4)		19,993		275	5.46	%		17,636		237	5.35	%
Other earning assets		18,060		57	1.25	%		38,012		98	1.03	%
Total interest-earning assets		3,181,754		34,688	4.33	%		2,472,767		25,342	4.08	%
Non-earning assets:												
Cash and due from banks		35,426						29,266				
Other assets		206,044						111,100				
Total assets	$	3,423,224					$	2,613,133				
LIABILITIES AND STOCKHOLDERS' EQUITY:												
Interest-bearing liabilities:												
Deposits:												
Interest-bearing demand and NOW	$	850,670	$	380	0.18	%	$	506,179	$	170	0.13	%
Money market		493,433		459	0.37	%		431,994		297	0.27	%

Savings	182,190	51	0.11	%	154,156	43	0.11	%
Time certificates of deposit	420,102	1,049	0.99	%	307,113	718	0.93	%
Total interest-bearing deposits	1,946,395	1,939	0.40	%	1,399,442	1,228	0.35	%
Borrowings:								
Repurchase agreements	33,958	16	0.19	%	23,533	13	0.22	%
Federal funds purchased	1	-	1.46	%	1	-	0.98	%
Subordinated debentures	65,035	868	5.30	%	57,844	715	4.92	%
Borrowings	91,087	531	2.31	%	157,058	636	1.61	%
Total interest-bearing liabilities	2,136,476	3,354	0.62	%	1,637,878	2,592	0.63	%
Noninterest bearing liabilities:								
Demand deposits	898,262				707,283			
Other liabilities	15,739				14,402			
Total liabilities	3,050,477				2,359,563			
Stockholders' Equity	372,747				253,570			
Total liabilities and stockholders' equity	$ 3,423,224				$ 2,613,133			
Net interest income		$ 31,334				$ 22,750		
Net interest margin			3.91	%			3.66	%
Net interest margin, fully tax equivalent (2)			4.02	%			3.75	%

(1) Yields on loans and securities have not been adjusted to a tax-equivalent basis.

(2) The tax-equivalent basis was computed by calculating the deemed interest on municipal bonds and tax-exempt loans that would have been earned on a fully taxable basis to yield the same after-tax income, net of the interest expense disallowance under Internal Revenue Code Sections 265 and 291, using a combined federal and state marginal tax rate of 38.01%.

(3) The loan average balances and rates include nonaccrual loans.

(4) Includes Bankers’ Bank of the West stock, Federal Reserve Bank stock, Federal Home Loan Bank stock and Pacific Coast Bankers’ Bank stock.

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Table 4 (continued)

	Nine Months Ended													
	September 30, 2017							September 30, 2016						
		Average Balance		Interest Income or Expense	Average Yield or Cost				Average Balance		Interest Income or Expense	Average Yield or Cost		
	(Dollars in thousands)													
ASSETS:														
Interest-earning assets:														
Gross loans, net of deferred costs and fees (1)(3)	$	2,571,906	$	87,270	4.54	%		$	1,891,756	$	60,206	4.25	%	
Investment securities (1)														
Taxable		351,818		6,892	2.62	%			283,215		5,454	2.57	%	
Tax-exempt		204,814		3,713	2.42	%			105,290		2,459	3.12	%	
Bank Stocks (4)		22,572		1,011	5.99	%			19,560		829	5.66	%	
Other earning assets		8,953		76	1.13	%			14,634		105	0.96	%	
Total interest-earning assets		3,160,063		98,962	4.19	%			2,314,455		69,053	3.99	%	
Non-earning assets:														
Cash and due from banks		35,224							26,345					
Other assets		205,373							102,907					
Total assets	$	3,400,660						$	2,443,707					
LIABILITIES AND STOCKHOLDERS' EQUITY:														
Interest-bearing liabilities:														
Deposits:														
Interest-bearing demand and NOW	$	810,763	$	1,091	0.18	%		$	421,109	$	356	0.11	%	
Money market		487,635		1,194	0.33	%			410,815		823	0.27	%	
Savings		177,968		147	0.11	%			152,843		127	0.11	%	
Time certificates of deposit		403,068		2,830	0.94	%			288,620		1,993	0.92	%	
Total interest-bearing deposits		1,879,434		5,262	0.37	%			1,273,387		3,299	0.35	%	
Borrowings:														
		34,063		48	0.19	%			21,324		31	0.19	%	

Repurchase agreements								
Federal funds purchased	1	-	1.46	%	2	-	0.98	%
Subordinated debentures	65,014	2,568	5.28	%	36,542	1,165	4.26	%
Borrowings	161,023	2,079	1.73	%	218,677	1,992	1.22	%
Total interest-bearing liabilities	2,139,535	9,957	0.62	%	1,549,932	6,487	0.56	%
Noninterest bearing liabilities:								
Demand deposits	881,017				645,249			
Other liabilities	15,053				13,189			
Total liabilities	3,035,605				2,208,370			
Stockholders' Equity	365,055				235,337			
Total liabilities and stockholders' equity	$ 3,400,660				$ 2,443,707			
Net interest income		$ 89,005				$ 62,566		
Net interest margin			3.77	%			3.61	%
Net interest margin, fully tax equivalent (2)			3.88	%			3.69	%

(1) Yields on loans and securities have not been adjusted to a tax-equivalent basis.

(2) The tax-equivalent basis was computed by calculating the deemed interest on municipal bonds and tax-exempt loans that would have been earned on a fully taxable basis to yield the same after-tax income, net of the interest expense disallowance under Internal Revenue Code Sections 265 and 291, using a combined federal and state marginal tax rate of 38.01%.

(3) The loan average balances and rates include nonaccrual loans.

(4) Includes Bankers’ Bank of the West stock, Federal Reserve Bank stock, Federal Home Loan Bank stock and Pacific Coast Bankers’ Bank stock.

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The following table presents the dollar amount of changes in interest income and interest expense for the major categories of our interest-earning assets and interest-bearing liabilities. Information is provided for each category of interest-earning assets and interest-bearing liabilities with respect to (i) changes attributable to volume (i.e., changes in average balances multiplied by the prior-period average rate) and (ii) changes attributable to rate (i.e., changes in average rate multiplied by prior-period average balances). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

Table 5

	Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016			Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016		
	Net Change	Rate	Volume	Net Change	Rate	Volume
	(In thousands)					
Interest income:						
Gross Loans, net of deferred costs and fees	$ 8,607	$ 1,759	$ 6,848	$ 27,064	$ 4,208	$ 22,856
Investment Securities						
Taxable	480	67	413	1,438	96	1,342
Tax-exempt	262	(140)	402	1,254	(389)	1,643
Bank Stocks	38	6	32	182	49	133
Other earning assets	(41)	31	(72)	(29)	26	(55)
Total interest income	9,346	1,723	7,623	29,909	3,990	25,919
Interest expense:						
Deposits:						
Interest-bearing demand and NOW	210	69	141	735	287	448
Money market	162	115	47	371	201	170
Savings	8	-	8	20	(1)	21
Time certificates of deposit	331	52	279	837	34	803
Repurchase agreements	3	(1)	4	17	(1)	18
Subordinated debentures	153	60	93	1,403	329	1,074
Borrowings	(105)	280	(385)	87	236	(149)
Total interest expense	762	575	187	3,470	1,085	2,385
Net interest income	$ 8,584	$ 1,148	$ 7,436	$ 26,439	$ 2,905	$ 23,534

Third Quarter 2017 Compared to Second Quarter 2017

Net interest income increased to $31.3 million for the third quarter 2017 compared to $29.5 million in the second quarter 2017. The $1.8 million increase in net interest income was mostly due to an increase in interest income driven by a $16.5 million increase in average earning assets and a $0.9 million interest recovery on the payoff of an impaired loan during the third quarter 2017. During the third quarter 2017, our net interest margin increased to 3.91%, compared to 3.74% for the second quarter 2017 and the yield on average earnings assets increased to 4.33% from 4.17%. The cost of interest bearing liabilities declined to 0.62% from 0.64%, primarily due to the decline in average, higher-cost borrowings.

Third Quarter 2017 Compared to Third Quarter 2016

Net interest income increased $8.6 million in the third quarter 2017 compared to the same quarter in 2016.

The Company acquired $445.5 million in loans and assumed $769.7 million in deposits in the September 2016 acquisition of Home State, which contributed to the increase in net interest income. During the third quarter 2017, our net interest margin increased to 3.91% compared to 3.66% and the yield on earning assets increased to 4.33% from 4.08%. The net interest margin and loan yield were favorably impacted by the accretion of the discount on loans acquired in the Home State transaction. Accretion on acquired loans increased to $1.0 million in the third quarter 2017, compared to $0.3 million in the third quarter 2016. Third quarter 2017, included a $0.9 million interest recovery on the payoff of an impaired loan, mentioned above, unrelated to the Home State acquisition. The cost of interest-bearing liabilities declined to 0.62% from 0.63%, primarily due to the decline in average, higher-cost borrowings.

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Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017, net interest income increased $26.4 million, compared to the same period in 2016, primarily due to an $845.6 million, or 36.5% increase in average earning assets, partially offset by a $589.6 million, or 38.0% increase in average interest bearing liabilities. Accretion of discount on acquired loans was $3.0 million compared to $0.3 million during 2016. The cost of interest-bearing liabilities increased to 0.62% from 0.56%, primarily due to the July 2016 issuance of $40.0 million of unsecured fixed-to-floating rate subordinated notes, bearing an initial interest rate of 5.75% through July 2021.

Provision for Loan Losses

The provision for loan losses is a charge against earnings and represents management's estimate of the amount required to maintain the allowance for loan losses at a level that, in our judgment, is adequate to absorb probable incurred loan losses in the loan portfolio. The provision for loan losses is based on our allowance methodology and reflects our judgment about the adequacy of the allowance for loan losses. In determining the amount of the provision, we consider certain quantitative and qualitative factors, including our historical loan loss experience, the volume and type of lending we conduct, the results of our credit review process, the amounts and severity of classified, criticized and nonperforming assets, regulatory policies, general economic conditions, underlying collateral values and other factors regarding collectability and impairment. The estimated amount of expected loss in our loan portfolio is influenced by the collateral value associated with our loans. Loans with greater collateral values, as a percentage of the outstanding loan balance, reduce our exposure to loan loss provision.

In the third quarter 2017, we recorded a $0.5 million provision for loan losses, compared to a $0.2 million provision for loan losses in the second quarter 2017 and an immaterial provision for loan losses in the third quarter 2016. Management considered several factors in its calculation of the adequacy of the allowance for loan losses and resulting provision required to absorb the probable incurred losses inherent in the loan portfolio as of September 30, 2017.

Net charge-offs in the third quarter 2017 were $0.7 million, compared to net charge-offs of $0.3 million in the second quarter 2017 and $0.2 million of net recoveries in the third quarter 2016.

For further discussion of the methodology and factors impacting management's estimate of the allowance for loan losses, see "Balance Sheet Analysis — Allowance for Loan Losses" below. For a discussion of impaired loans and associated collateral values, see "Balance Sheet Analysis — Nonperforming Assets and Other Impaired Loans" below.

Noninterest Income

The following table presents the major categories of noninterest income for the current quarter and prior four quarters:

Table 6

	Three Months Ended September 30, 2017 (In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Noninterest income:					
Deposit service and other fees	$ 3,580	$ 3,545	$ 3,280	$ 3,405	$ 2,581
Investment management and trust	1,478	1,483	1,521	1,563	1,333
Increase in cash surrender value of life insurance	674	615	595	607	490
Gain (loss) on sale of securities	(86)	-	-	49	(66)
Gain on sale of SBA loans	143	447	381	401	208
Other	341	252	625	207	159
Total noninterest income	$ 6,130	$ 6,342	$ 6,402	$ 6,232	$ 4,705

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Third Quarter 2017 Compared to Second Quarter 2017

Noninterest income decreased $0.2 million during the third quarter 2017, compared to the second quarter 2017, primarily due to a reduction in the gain on the sale of SBA loans.

Third Quarter 2017 Compared to Third Quarter 2016

Noninterest income increased $1.4 million during the third quarter 2017, compared to the same quarter in 2016. The acquisition of Home State in September 2016 favorably impacted deposit service and other fees, investment management and trust income and merchant income, which is included in “Other” in the table above.

The following table presents the major categories of noninterest income for the year-to-date periods presented:

Table 7

	Nine Months Ended	
	September 30, 2017	September 30, 2016
	(In thousands)	
Noninterest income:		
Deposit service and other fees	$ 10,405	$ 7,042
Investment management and trust	4,482	3,889
Increase in cash surrender value of life insurance	1,884	1,398
Loss on sale of securities	(86)	(122)
Gain on sale of SBA loans	971	472
Other	1,218	346
Total noninterest income	$ 18,874	$ 13,025

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017, noninterest income increased $5.8 million, or 44.9%, compared to the same period in 2016. In addition to the impact of the Home State transaction, gain on sale of SBA loans increased $0.5 million, bank-owned life insurance increased $0.5 million, investment referral fees increased $0.3 million, and interest rate swap income increased $0.2 million. The Company recorded a $0.3 million gain on the sale of its $2.0 million credit card loan portfolio, included in other noninterest income in the table above, in the first quarter 2017.

Noninterest Expense

The following table presents the major categories of noninterest expense for the current quarter and prior four quarters:

Table 8

	Three Months Ended				
	September 30, 2017 (In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Noninterest expense:					
Salaries and employee benefits	$ 11,736	$ 11,247	$ 11,926	$ 12,654	$ 10,984
Occupancy expense	1,714	1,674	1,552	1,834	1,417
Furniture and equipment	974	975	945	789	750
Amortization of intangible assets	672	648	649	689	389
Other real estate owned, net	(20)	126	68	4	20
Insurance and assessments	642	647	706	496	608
Professional fees	929	1,252	974	914	962
Impairment of long-lived assets	-	34	190	185	-
Other general and administrative	5,160	3,900	3,519	5,672	3,494
Total noninterest expense	$ 21,807	$ 20,503	$ 20,529	$ 23,237	$ 18,624

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Third Quarter 2017 Compared to Second Quarter 2017

Noninterest expense increased $1.3 million for the third quarter 2017 compared to the second quarter 2017, primarily due to a $1.3 million increase in other general and administrative expense and a $0.5 million increase in salaries and employee benefits, partially offset by a $0.3 million decline in professional fees. The increase in other general and administrative expense was primarily due to a $1.6 million settlement related to a commercial real estate litigation in the third quarter 2017 and $0.3 million in merger-related expenses incurred in the pending acquisition of Castle Rock Bank Holding Company. The $0.5 million increase in salaries and employee benefits was mostly due to an increase in expense related to our partially self-funded medical plan.

The litigation described above began after a commercial borrower filed counterclaims immediately after the Bank began collection efforts on its defaulted loan. We successfully defended all initial counterclaims, but at the onset of the initial trial, one new claim was raised and resulted in a hung jury. After a successful appeals process, the final claim was scheduled for a retrial in the third quarter of 2017. Prior to this retrial, the former borrower requested a conference to settle this remaining issue and after negotiation, we agreed to settle with the borrower to eliminate the expected significant costs of continued litigation.

Third Quarter 2017 Compared to Third Quarter 2016

Noninterest expense increased $3.2 million during the third quarter 2017 compared to the same quarter in 2016, primarily due to the acquisition of Home State in September 2016. Salaries and employee benefits increased $0.8 million primarily due to a $0.2 million increase in base salaries and a $0.5 million increase in our partially self-funded medical plan. During the third quarter 2016, salaries and employee benefits included $1.4 million in merger-related expenses incurred in the Home State transaction. Other general and administrative expense increased $1.7 million primarily due to the settlement of litigation during the third quarter 2017, mentioned above and a $0.2 million increase in data processing expense. The increase in other general and administrative expense was partially offset by a $0.5 million decrease in merger-related expense.

The following table presents the major categories of noninterest expense for the year-to-date periods presented:

Table 9

	Nine Months Ended September 30, 2017	September 30, 2016
	(In thousands)	
Noninterest expense:		
Salaries and employee benefits	$ 34,909	$ 28,292
Occupancy expense	4,940	4,053
Furniture and equipment	2,894	2,281
Amortization of intangible assets	1,969	868
Other real estate owned, net	174	27
Insurance and assessment	1,995	1,818
Professional fees	3,155	2,725
Impairment of long-lived assets	224	-
Other general and administrative	12,579	9,486
Total noninterest expense	$ 62,839	$ 49,550

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The increase in noninterest expense for the nine months ended September 30, 2017, compared to the same period in 2016 was due primarily to the acquisition of Home State in September 2016. The nine months ended September 30, 2017 included three full quarters of expenses related to the 2016 acquisition, resulting in higher overall expenses in 2017 compared to the same period in 2016; however noninterest expense as a percentage of average assets declined from 2.7% in 2016 to 2.5% in 2017.

For the nine months ended September 30, 2017, salaries and employee benefits increased $6.6 million, compared to the same period in 2016, primarily due to a $4.0 million increase in base salary expense and a $1.8 million increase in our partially self-funded medical plan. Average full-time equivalent employees increased from 384 for the nine months ended September 30, 2016 to 494 for the nine months ended September 30, 2017, primarily due to the acquisition of Home State. Other general and administrative expense increased $3.1 million for

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the nine months ended September 30, 2017, compared to the same period in 2016, primarily as a result of the $1.6 million settlement of a litigation claim described above, a $1.2 million increase in data processing expense, a $0.5 million increase in debit card interchange expense and a $0.4 million increase in communication expense. These increases in other general and administrative expense were partially offset by a $1.6 million decrease in merger-related expense. Amortization of intangible assets increased $1.1 million for the nine months ended September 30, 2017, compared to the same period in 2016, due to the amortization of intangible assets recorded in the Home State transaction. Occupancy expense increased $0.9 million for the nine months ended September 30, 2017, compared to the same period in 2016, due to increases in real estate taxes and building maintenance. As a result of the Home State transaction, we acquired eleven branches and closed five branches at the end of 2016.

Income Taxes

Income tax expense was $5.1 million for the third quarter 2017, compared to $5.0 million for the second quarter 2017 and $3.0 million for the third quarter 2016. The increase in taxes for the third quarter 2017, compared to the same quarter in 2016, was primarily a result of the impact of the increase in pretax income, partially offset by a decrease in our effective tax rate. During the third quarter 2017, our effective tax rate was 33.7%, compared to 34.5% for the same period in 2016. The decrease in the effective tax rate was mostly due to an increase in tax exempt income as a percentage of total income.

BALANCE SHEET ANALYSIS

The following sets forth certain key consolidated balance sheet data:

Table 10

	September 30, 2017 (In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Cash and cash equivalents	$ 64,388	$ 46,582	$ 40,513	$ 50,111	$ 163,908
Time deposits with banks	254	254	254	254	504
Total investments	576,459	569,812	584,746	590,856	562,091

Total loans	2,661,866	2,578,472	2,570,750	2,519,138	2,412,999
Total assets	3,510,046	3,403,852	3,399,651	3,366,427	3,346,265
Earning assets	3,266,698	3,152,417	3,160,129	3,115,613	3,095,217
Deposits	2,898,060	2,763,623	2,765,630	2,699,084	2,752,112
FHLB Borrowings	121,182	162,672	162,832	197,168	122,521

At September 30, 2017, the Company had total assets of $3.5 billion, reflecting an increase of $143.6 million compared to December 31, 2016 and an increase of $163.8 million compared to September 30, 2016. The increase in total assets compared to December 31, 2016 was primarily due to a $142.7 million increase in loans. The increase in total assets compared to September 30, 2016 was primarily due to a $248.9 million increase in loans and a $14.4 million increase in investments, partially offset by a $99.5 million decrease in cash. The increase in total assets compared to December 31, 2016 was funded by a $199.0 million increase in deposits. Compared to September 30, 2016, the increase in total assets was funded by a $145.9 million increase in deposits and the decrease in cash, previously described.

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The following table sets forth the amount of our loans outstanding at the dates indicated:

Table 11

	September 30, 2017 (In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Loans held for sale	$ 314	$ 887	$ 951	$ 4,129	$ -
Commercial and residential real estate	1,892,828	1,799,114	1,800,194	1,768,424	1,752,113
Construction	81,826	99,632	103,682	88,451	75,603
Commercial	449,450	451,701	451,708	432,083	400,281
Consumer	124,625	122,994	120,231	125,264	81,766
Other	112,763	103,990	93,979	100,848	102,887
Total gross loans	2,661,806	2,578,318	2,570,745	2,519,199	2,412,650
Deferred costs and (fees)	60	154	5	(61)	349
Loans, net	2,661,866	2,578,472	2,570,750	2,519,138	2,412,999
Less allowance for loan losses	(22,900)	(23,125)	(23,175)	(23,250)	(23,300)
Net loans	$ 2,638,966	$ 2,555,347	$ 2,547,575	$ 2,495,888	$ 2,389,699

The following table presents the changes in our loan balances (including loans held for sale) at the dates indicated:

Table 12

	September 30, 2017 (In thousands)	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Beginning balance	$ 2,578,318	$ 2,570,745	$ 2,519,199	$ 2,412,650	$ 1,898,142

New credit extended	192,774	132,420	139,185	232,499	129,064
Acquisition of Home State Bank	-	-	-	-	445,529
Net existing credit advanced	59,275	73,298	111,821	142,448	153,390
Net pay-downs and maturities	(165,520)	(196,511)	(195,678)	(272,326)	(214,089)
Other	(3,041)	(1,634)	(3,782)	3,928	614
Gross loans	2,661,806	2,578,318	2,570,745	2,519,199	2,412,650
Deferred costs and (fees)	60	154	5	(61)	349
Loans, net	$ 2,661,866	$ 2,578,472	$ 2,570,750	$ 2,519,138	$ 2,412,999
Net change - loans outstanding	$ 83,394	$ 7,722	$ 51,612	$ 106,139	$ 514,456

During the third quarter 2017, loans net of deferred costs and fees increased $83.4 million, or 12.8% annualized, despite $165.5 million in pay-downs and maturities during the quarter. In addition to contractual loan principal payments and maturities, the third quarter 2017 included $34.2 million in early payoffs related to our borrowers selling their assets, $14.7 million in loan payoffs related to classified loans, $9.2 million in loan pay-downs related to fluctuations in loan balances to existing customers and $4.3 million due to our strategic decision to not match certain financing terms offered by competitors.

During the twelve months ended September 30, 2017, loans net of deferred costs and fees increased by $248.9 million, or 10.3%, despite $830.0 million in pay-downs and maturities during this period.

At September 30, 2017, our commercial and residential real estate portfolio included $458.0 million of 1-4 family residential loans. The utilization rate on commercial lines of credit was 38.2% at September 30, 2017, compared to 43.1% at December 31, 2016 and 45.1% as of September 30, 2016.

Under joint guidance from the FDIC, the Federal Reserve and the Office of the Comptroller of the Currency (the "OCC") on sound risk management practices for financial institutions with concentrations in commercial real estate lending, a financial institution may have elevated concentration risk if it has, among other factors, (i) total reported loans for construction, land development, and other land representing 100% or more of capital (CRE 1), or (ii) total reported loans secured by multifamily and non-farm residential properties, loans for construction, land development and other land and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, representing 300% or more of total capital (CRE 2) and an increase in its commercial real estate loan portfolio of 50% or more during the preceding 36 months. For the Bank, total loans for construction, land development and land represented 38% of capital at September 30, 2017, compared to 40% at December 31, 2016 and 39% at September 30, 2016. For the Bank, total commercial real estate loans represented 337% of capital at September 30, 2017, compared to 319% at December 31, 2016 and 314% at September 30, 2016. Including $445.5 million in loans acquired in the Home State transaction, the Bank's commercial real estate loan portfolio increased by 67.5% during the preceding 36 months. Excluding loans acquired in the Home State transaction, the balance of commercial real estate loans increased by 45.4% during the preceding 36 months. Management employs heightened risk management practices with respect to commercial real estate lending, including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. Loans secured by commercial real estate are recorded on the balance sheet as either a commercial real estate loan or commercial loan depending on the purpose of the loan, regardless of the underlying collateral.

With respect to concentrations, most of our business activity is with customers in the state of Colorado. At September 30, 2017, we did not have any significant concentrations in any particular industry.

Nonperforming Assets and Other Impaired Loans

Credit risk related to nonperforming assets is inherent in lending activities. To manage this risk, we utilize routine monitoring procedures and take prompt corrective action when necessary. We employ a risk rating system that identifies the potential risk associated with loans in our loan portfolio. This monitoring and rating system is designed to help management identify current and potential problems so that corrective actions can be taken promptly.

Loans are placed on nonaccrual or charged-off prior to the date on which they would otherwise enter past due status if collection of principal or interest is considered doubtful. The interest on a nonaccrual loan is accounted for using the cost recovery or cash-basis method until the loan qualifies for a return to the accrual basis method. Generally, payments received on a nonaccrual loan are applied first to the principal balance of the loan, and then to interest, and only to the extent that the remaining recorded investment in the loan is determined to be fully collectible. A loan is returned to accrual status after the delinquent borrower's financial condition has improved, when all the principal and interest amounts contractually due are brought current and when the likelihood of the borrower making future timely payments is reasonably assured.

A loan is impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments when due according to the contractual terms of the underlying loan agreement. Impaired loans consist of our nonaccrual loans, loans that are 90 days or more past due and other loans for which we determine that noncompliance with contractual terms of the loan agreement is probable. Losses on individually identified impaired loans that are not collateral dependent are measured based on the present value of expected future cash flows discounted at the original effective interest rate of each loan. For loans that are collateral dependent, impairment is measured based on the fair value of the collateral less estimated selling costs.

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The following table summarizes the loans for which the accrual of interest has been discontinued, loans with payments more than 90 days past due and still accruing interest and OREO. For reporting purposes, OREO consists of real estate, owned or controlled by us, acquired through foreclosure.

Table 13

	Quarter Ended September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	(Dollars in thousands)				
Originated nonaccrual loans	$ 3,935	$ 3,332	$ 3,387	$ 3,345	$ 3,399
Purchased credit impaired loans	809	1,290	1,715	1,902	2,108
Accruing loans past due 90 days or more (1)	-	-	-	-	335
Total nonperforming loans	$ 4,744	$ 4,622	$ 5,102	$ 5,247	$ 5,842
Other real estate owned and foreclosed assets	-	113	257	569	637
Total nonperforming assets	$ 4,744	$ 4,735	$ 5,359	$ 5,816	$ 6,479
Total classified assets	$ 28,186	$ 29,188	$ 30,201	$ 33,443	$ 34,675
Nonperforming troubled debt restructurings	$ 1,416	$ 803	$ 359	$ 91	$ 78
Other nonperforming loans	3,328	3,819	4,743	5,156	5,764
Performing troubled debt restructurings	10,989	23,408	23,195	25,128	24,353
Allocated allowance for loan losses	(698)	(444)	(178)	(222)	(575)
Net carrying amount of impaired loans	$ 15,035	$ 27,586	$ 28,119	$ 30,153	$ 29,620
Accruing loans past due 30-89 days (1)	$ 9,129	$ 957	$ 3,858	$ 1,337	$ 2,157
Allowance for loan losses	$ 22,900	$ 23,125	$ 23,175	$ 23,250	$ 23,300
Unaccreted loan discount (2)	$ 11,654	$ 12,665	$ 13,896	$ 14,682	$ 15,721

For the Three Months Ended:					
Loans charged-off	$ (970)	$ (338)	$ (125)	$ (290)	$ (72)
Recoveries	248	82	45	150	295
Net (charge-offs) recoveries	$ (722)	$ (256)	$ (80)	$ (140)	$ 223
Provision for loan losses	$ 497	$ 206	$ 5	$ 90	$ 27
Loan Portfolio Ratios:					
Allowance for loan losses to loans, net of deferred costs and fees (3)	0.86 %	0.90 %	0.90 %	0.92 %	0.97 %
Allowance for loan losses to NPLs	482.72 %	500.32 %	454.23 %	443.11 %	398.84 %
Annualized net charge-offs (recoveries) to average loans	0.11 %	0.04 %	0.01 %	0.02 %	(0.04) %
Nonperforming assets to total assets	0.14 %	0.14 %	0.16 %	0.17 %	0.19 %
Nonperforming loans to loans, net of deferred costs and fees (3)	0.18 %	0.18 %	0.20 %	0.21 %	0.24 %
Loans 30-89 days past due to loans, net of deferred costs and fees (3)	0.34 %	0.04 %	0.15 %	0.05 %	0.09 %
Texas ratio (4)	1.22 %	1.26 %	1.39 %	1.55 %	1.77 %
Classified asset ratio (5)	7.57 %	8.08 %	8.24 %	9.79 %	10.69 %

(1) Past due loans include both loans that are past due with respect to payments and loans that are past due because the loan has matured, and is in the process of renewal, but continues to be current with respect to payments.
(2) Related to loans acquired in the Home State transaction.
(3) Loans, net of deferred costs, exclude loans held for sale.
(4) Texas ratio defined as total NPAs divided by subsidiary bank only Tier 1 Capital plus allowance for loan losses.
(5) Classified asset ratio defined as total classified assets to subsidiary bank only Tier 1 Capital plus allowance for loan losses.

As of September 30, 2017, nonperforming loans decreased by $0.5 million, compared to December 31, 2016 and decreased by $1.1 million compared to September 30, 2016. As of September 30, 2017, no additional funds were committed to be advanced in connection with non-performing loans. As of September 30, 2017, accruing loans 30-89 days past due increased $7.8 million compared to December 31, 2016 and increased $7.0 million compared to September 30, 2016, primarily due to a single commercial loan relationship moving into this category at September 30, 2017.

Net charge-offs of $0.7 million were recognized during the third quarter 2017 compared to $0.3 million in the second quarter 2017 and $0.2 million net recoveries during in the third quarter 2016.

We categorize loans into risk categories of “pass”, “pass-watch”, “special mention”, “substandard”, “doubtful” and “loss”. The internal categories are based on the definitions in the Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts issued by the OCC, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System. In particular, we consider loans that we have internally rated as substandard, doubtful or loss as adversely classified loans. The amount of accruing loans that we have internally considered to be adversely classified was $23.4 million at September 30, 2017, compared to $27.6 million at December 31, 2016 and $28.5 million at September 30, 2016.

At September 30, 2017, classified assets represented 7.6% of bank level capital and allowance for loan losses, compared to 9.8% as of December 31, 2016 and 10.7% as of September 30, 2016.

In addition to adversely classified loans, we have loans that are considered to be “special mention” and “pass-watch” loans. Each internal risk rating is ultimately subjective, but is based on both objective and subjective factors and criteria. The internal risk ratings focus on an evaluation of the borrowers’ ability to meet future debt service and performance to plan and considers potential adverse market or economic conditions. As described below under “Allowance for Loan Losses”, we adjust the general component of our allowance for loan losses for trends in the volume and severity of adversely classified, “special mention” and “pass-watch” loans, which encompasses any loan with a classification of “pass-watch” or worse.

At September 30, 2017, the Company had no other real estate owned (OREO) compared to $0.6 million at December 31, 2016 and at September 30, 2016. The balance of OREO at December 31, 2016 and September 30, 2016 was comprised of two properties each consisting of vacant land.

At September 30, 2017, we had $12.4 million of loans with terms that were modified in troubled debt restructurings (TDRs) with a total allocated allowance for loan loss of $0.1 million. At December 31, 2016, we had $25.2 million of loans with terms that were modified in TDRs with a total allocated allowance for loan loss of $0.1 million. The decline in TDRs from December 31, 2016 to September 30, 2017 was primarily due to the pay-off of a $9.4 million TDR in the third quarter 2017. At September 30, 2017, we had $3.1 million of unfunded commitments to borrowers whose loans were classified as TDRs.

The following table provides the allowance for loan losses allocated to TDRs for the current quarter and the prior four quarters:

Table 14

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
	(In thousands)				
Troubled Debt Restructurings (TDRs):					
Performing TDRs	$ 10,989	$ 23,408	$ 23,195	$ 25,128	$ 24,353
Allocated allowance for loan losses on performing TDRs	(16)	(26)	(49)	(72)	(309)
Net investment in performing TDRs	$ 10,973	$ 23,382	$ 23,146	$ 25,056	$ 24,044
Nonperforming TDRs	$ 1,416	$ 803	$ 359	$ 91	$ 78
Allocated allowance for loan losses on nonperforming TDRs	(125)	-	(1)	(2)	(1)
Net investment in nonperforming TDRs	$ 1,291	$ 803	$ 358	$ 89	$ 77

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The following provides a rollforward of TDRs for the nine month periods ended September 30, 2017 and September 30, 2016:

Table 15

Troubled Debt Restructuring Rollforward:	Performing TDRs	Nonperforming TDRs	Total
	(In thousands)		
Balance at January 1, 2016	$ 11,679	$ 10,712	$ 22,391
Principal repayments / advances	(1,335)	(1,126)	(2,461)
Charge-offs, net	-	-	-
New modifications	4,765	-	4,765
Loans removed from TDR Status	(164)	(100)	(264)
Transfers	9,408	(9,408)	-
Balance at September 30, 2016	$ 24,353	$ 78	$ 24,431
Balance at January 1, 2017	$ 25,128	$ 91	$ 25,219
Principal repayments / advances	(16,272)	(46)	(16,318)
Charge-offs, net	-	(32)	(32)
New modifications	4,091	452	4,543
Loans removed from TDR Status	(1,007)	-	(1,007)
Transfers	(951)	951	-
Balance at September 30, 2017	$ 10,989	$ 1,416	$ 12,405

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that, in our judgment, is adequate to absorb probable incurred loan losses in the loan portfolio. The amount of the allowance is based on management’s evaluation of the collectability of the loan portfolio, historical loss experience and other significant factors affecting loan portfolio collectability including the level and trends in delinquent, nonaccrual and adversely classified loans, trends in volume and terms of loans, levels and trends in credit concentrations, effects of changes in underwriting standards, policies, procedures and practices, national and local economic trends and conditions, changes in capabilities and experience of lending management and staff and other external factors including industry conditions, competition and regulatory requirements. Purchased loans are recorded at fair value upon acquisition, which includes an adjustment related to expected credit losses; as a result, no allowance is recorded on these loans upon acquisition. Subsequent deterioration in the credit of purchased loans may result in provision for loan losses if the discount created upon acquisition is insufficient to absorb the impairment on a purchased loan and additional reserves are required.

The ratio of allowance for loan losses to total loans was 0.86% at September 30, 2017 compared to 0.92% at December 31, 2016 and 0.97% at September 30, 2016.

Our methodology for evaluating the adequacy of the allowance for loan losses has two basic elements: first, the specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified; and second, estimating a nonspecific allowance for probable losses on all other loans.

The specific allowance for impaired loans and the allowance calculated for probable incurred losses on other loans are combined to determine the required allowance for loan losses. The amount calculated is compared to the recorded allowance at each quarter end and any shortfall is recorded as provision, conversely any excess is recorded as a credit provision. For further discussion of the provision for loan losses, see “Provision for Loan Losses” above.

In estimating the allowance for probable incurred losses on other loans, we group the balance of the loan portfolio into portfolio segments that have common characteristics, such as loan type or risk rating. For each nonspecific allowance portfolio segment, we apply loss factors to calculate the required allowance based upon actual historical loss rates over a time period that we have determined represents the current credit cycle, adjusted for qualitative factors affecting loan portfolio collectability, as described above. We also look at risk ratings of loans and compute a qualitative adjustment based on our credit quality in consideration of credit quality during the historical loss period. We also consider other qualitative factors that may warrant adjustment of the computed historical loss rate, including loan growth, loan concentrations, economic considerations and organizational factors.

During the third quarter 2017, we recorded a $0.5 million provision for loan losses, compared to a $0.2 million provision for loan losses in the second quarter 2017 and an immaterial provision for loan losses in the third quarter

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2016. Management considered net loan charge-offs, the level of nonperforming loans, loan portfolio composition and loan growth in its calculation of the adequacy of the allowance for loan losses and resulting provision required to absorb the probable incurred losses inherent in the loan portfolio as of September 30, 2017. For further discussion of the provision for loan losses, see “Provision for Loan Losses” above.

Approximately $0.7 million, or 3.1%, of the $22.9 million allowance for loan losses at September 30, 2017 relates to specific reserve allocations. This compares to a specific reserve of $0.2 million, or 1.0%, of the total allowance for loan losses at December 31, 2016.

The general component of the allowance as a percentage of overall loans, net of unearned costs and fees, was 0.83% at September 30, 2017, compared to 0.92% at December 31, 2016 and 0.94% at September 30, 2016. The decrease in the general reserve as a percentage of loans between September 30, 2016 and September 30, 2017 was primarily due to the impact of lower historical net charge-offs.

We monitor the allowance for loan losses closely and adjust the allowance when necessary, based on our analysis, which includes an ongoing evaluation of substandard loans and their collateral positions.

The following table provides a summary of the activity within the allowance for loan losses account for the periods presented:

Table 16

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Balance, beginning of period	$ 23,250	$ 23,000
Loan charge-offs:		
Commercial and residential real estate	(383)	(10)
Construction	-	(203)
Commercial	(582)	(63)
Consumer	(92)	(12)
Other	(376)	(143)

Total loan charge-offs	(1,433)	(431)
Loan recoveries:		
Commercial and residential real estate	55	141
Construction	31	94
Commercial	20	169
Consumer	11	13
Other	258	261
Total loan recoveries	375	678
Net loan recoveries (charge-offs)	(1,058)	247
Provision for loan losses	708	53
Balance, end of period	$ 22,900	$ 23,300

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Securities

We manage our investment portfolio principally to provide liquidity, balance our overall interest rate risk and to provide collateral for public deposits and customer repurchase agreements.

The carrying value of our portfolio of investment securities at the dates indicated were as follows:

Table 17

	September 30, 2017 (In thousands)	December 31, 2016	Increase (Decrease)	Percent Change
Securities available for sale:				
State and municipal	$ 75,199	$ 81,608	$ (6,409)	(7.9) %
Mortgage-backed - agency / residential	119,162	129,832	(10,670)	(8.2) %
Mortgage-backed - private / residential	-	265	(265)	(100.0) %
Corporate	88,299	86,246	2,053	2.4 %
Collateralized loan obligations	15,823	26,277	(10,454)	(39.8) %
Total securities available for sale	$ 298,483	$ 324,228	$ (25,745)	(7.9) %
Securities held to maturity:				
State and municipal	137,613	121,109	16,504	13.6 %
Mortgage-backed - agency / residential	103,044	102,648	396	0.4 %
Asset-backed	16,684	19,022	(2,338)	(12.3) %
Other	1,200	1,200	-	- %
Total securities held to maturity	$ 258,541	$ 243,979	$ 14,562	6.0 %

The carrying value of our available for sale investment securities at September 30, 2017 was $298.5 million compared to the December 31, 2016 carrying value of $324.2 million. The $25.7 million decrease in available for sale securities from December 31, 2016 was primarily a result of net maturities, sales and pay-downs.

The carrying value of our held to maturity securities at September 30, 2017 was $258.5 million compared to $244.0 million at December 31, 2016.

At September 30, 2017 and December 31, 2016, our investment securities portfolio had an average effective duration of approximately 4.7 years and 5.3 years, respectively.

The fair values of our securities are determined through the utilization of evaluated pricing models that vary by asset class and incorporate available market information. The evaluated pricing models apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. These models assess interest rate impact, develop prepayment scenarios and take into account market conventions. Standard inputs into these models include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

At September 30, 2017, there were 236 individual securities in an unrealized loss position, including 162 individual securities that had been in a continuous unrealized loss position for 12 months or longer. We evaluated these securities, in addition to the remaining 74 securities in an unrealized loss position, and determined that the decline in value since their purchase dates was primarily attributable to fluctuations in market interest rates. At September 30, 2017, we did not intend to sell, and did not consider it likely that we would be required to sell, any of these securities prior to recovery of their fair value, which may be upon maturity.

At September 30, 2017 and December 31, 2016, we held $19.4 million and $22.6 million, respectively, of other equity securities consisting primarily of bank stocks with no maturity date, which are not reflected in Table 17 above. Bank stocks are comprised of stock of the Federal Reserve Bank of Kansas City, the Federal Home Loan Bank of Topeka, Bankers' Bank of the West and Pacific Coast Bankers' Bank. These stocks have restrictions placed on their transferability as only members of the entities can own the stock. We review the equity securities quarterly for potential impairment. No impairment has been recognized on these equity securities.

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Deposits

The following table sets forth the amounts of our deposits outstanding at the dates indicated:

Table 18

	At September 30, 2017		At December 31, 2016	
	Balance	% of Total	Balance	% of Total
	(Dollars in thousands)			
Noninterest-bearing demand	$ 924,361	31.90 %	$ 916,632	33.96 %
Interest-bearing demand and NOW	866,309	29.88 %	767,523	28.44 %
Money market	502,400	17.34 %	484,664	17.96 %
Savings	183,366	6.33 %	164,478	6.09 %
Time	421,624	14.55 %	365,787	13.55 %
Total deposits	$ 2,898,060	100.00 %	$ 2,699,084	100.00 %

Total deposits increased $199.0 million at September 30, 2017, compared to December 31, 2016. The increase in total deposits at September 30, 2017, compared to December 31, 2016 included a $143.1 million increase in non-maturing deposits and a $55.8 million increase in time deposits. The increase in non-maturing deposits was primarily due to increases in balances of several large commercial customers. The increase in time deposits was comprised of a $6.0 million increase in brokered time deposits and a $49.8 million increase in in-market time deposits.

Noninterest-bearing deposits as a percentage of total deposits were approximately 31.9% at September 30, 2017, compared to 34.0% at December 31, 2016. Noninterest-bearing deposits help reduce overall funding costs; however, due to the low rate environment, the impact of noninterest-bearing deposits on the overall cost of funds is currently less significant than in a higher rate environment.

Time deposit balances comprised 14.6% of total deposits at September 30, 2017. The majority of the time deposit balance represented deposits of local customers, with $100.3 million representing brokered deposits, compared to $94.3 million at December 31, 2016. We monitor time deposit maturities and renewals on a daily basis and will raise rates on local time deposits if necessary to grow such deposits.

Securities Sold under Agreement to Repurchase

At September 30, 2017, securities sold under agreements to repurchase were $37.9 million, compared to $36.9 million at December 31, 2016, and $35.9 million at September 30, 2016.

Borrowings and Subordinated Debentures

At September 30, 2017, our FHLB borrowings were $121.2 million compared to $197.2 million at December 31, 2016 and $122.5 million at September 30, 2016. At September 30, 2017, borrowings consisted of $70.0 million in term notes and $51.2 million in line of credit advances. At December 31, 2016, our FHLB borrowings consisted of $72.5 million in term notes and $124.7 million in line of credit advances. The total FHLB commitment, including balances outstanding, at September 30, 2017 and December 31, 2016 was $690.8 million and $597.2 million, respectively.

Under an advance, pledge and security agreement with the FHLB, the Bank had additional borrowing capacity of approximately $568.2 million at September 30, 2017 which can be utilized for term and/or line of credit advances.

The FHLB term borrowings at September 30, 2017 consisted of one fixed-rate term note and two variable-rate term notes. The fixed-rate term note is a $20.0 million note maturing on January 23, 2018 with an interest rate of 2.52% and is convertible on a quarterly basis by the FHLB to a variable rate note. If the note is converted by the FHLB, we have the option to prepay the advance without penalty. The two variable-rate term notes of $25.0 million each bore interest rates of 1.28% and 1.37% at September 30, 2017. These notes mature on March 7, 2018 and August 3, 2018 and will be renewed annually for the next three to four years under our five year forward starting balance sheet swaps initiated in March 2014 and June 2013. The interest rate on our FHLB line of credit borrowing is variable and was 1.28% at September 30, 2017.

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At September 30, 2017, the balance of the Company's outstanding subordinated debentures (the "Debentures") was $65.0 million, comprised of $65.8 million in debt, partially offset by $0.8 million in debt issuance costs. At December 31, 2016, the balance of the Company's Debentures was $65.0 million. As of September 30, 2017, the Company's Debentures bore a weighted average rate of 5.12%.

The Company's Debentures were issued in three separate series. The first two issuances have maturities of 30 years from the date of issuance. These two issuances of Debentures were issued to trusts established by the Company, which in turn issued $25.0 million of trust preferred securities ("TruPS"). Generally, and with certain limitations, the Company is permitted to call the Debentures subsequent to the first five or ten years, as applicable after issuance, if certain conditions are met, or at any time upon the occurrence and continuation of certain changes in either the tax treatment or the capital treatment of the trusts, the Debentures or the preferred securities. The Guaranty Capital Trust III TruPS became callable at each quarterly interest payment date starting on July 7, 2008. The CenBank Trust III TruPS became callable at each quarterly interest payment date starting on April 15, 2009.

The third series was issued in July 2016 in order to fund the cash consideration to be paid to Home State shareholders in conjunction with the transaction. The issuance was comprised of $40.0 million of 5.75% Fixed-to-Floating Rate Subordinated Notes (the "Notes") due July 20, 2026. The Notes bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears. On July 20, 2021 and thereafter, the interest on the Notes will be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined by the applicable quarterly period, plus 4.73%.

In April 2017, we renewed our credit agreement for a $10.0 million holding company line of credit with Wells Fargo Bank, National Association. This line of credit is secured by the holding company's stock in the Bank. The line of credit matures on March 16, 2018. Under the credit agreement, we can elect a fixed or floating interest rate on each advance. As of September 30, 2017, no amounts had been borrowed on this line of credit.

Capital Resources

Current risk-based regulatory capital standards generally require banks and bank holding companies to maintain a ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.50%, a ratio of Tier 1 capital to risk-weighted assets of at least 6.00%, a ratio of Tier 1 capital to average total assets (leverage ratio) of at least 4.00% and a ratio of total capital (which includes Tier 1 capital plus certain forms of subordinated debt, a portion of the allowance for loan and lease losses, and preferred stock) to risk-weighted assets of at least 8.00%. However, under the final rule on Enhanced Regulatory Capital Standards, commonly referred to as Basel III, which became effective in the first quarter 2015, a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1, was established above the regulatory minimum capital requirement. The capital conservation buffer phase-in period began January 1, 2016 and will become fully effective on January 1, 2019. A fully phased-in capital conservation buffer is included in the table below.

The Bank made the one-time accumulated other comprehensive income (loss) (“AOCI”) opt-out election on its March 31, 2015 Call Report, which allowed community banks under $250 billion in total assets, who made the one-time opt-out election, to remove the impact of certain unrealized gains and losses from the calculation of regulatory capital. There is no opportunity to change methodology in future periods.

Risk-weighted assets are calculated by multiplying the balance in each category of assets by a risk factor, which ranges from zero for cash assets and certain government obligations to 150% for some loans, and adding the products together.

For regulatory purposes, we maintain capital above the minimum core standards. We actively monitor our regulatory capital ratios to ensure that the Company and the Bank are more than “well capitalized” under the applicable regulatory framework. Under these regulations, a bank is considered “well capitalized” if the institution has a Common Equity Tier 1 risk-based capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a total risk-based capital ratio of 10.0% or greater and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. The Bank is required to maintain similar capital levels under capital adequacy guidelines. At September 30, 2017, each of the Bank’s capital ratios was above the regulatory capital threshold of “well capitalized”.

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The following table provides the capital ratios of the Company and the Bank as of the dates presented, along with the applicable regulatory capital requirements.

Table 19

	Ratio at September 30, 2017		Ratio at December 31, 2016		Ratio at September 30, 2016		Minimum Requirement for "Adequately Capitalized" Institution plus fully phased in Capital Conservation Buffer		Minimum Requirement for "Well-Capitalized" Institution	
Common Equity Tier 1 Risk-Based Capital Ratio										
Consolidated	10.56	%	10.46	%	10.79	%	7.00	%	N/A	
Guaranty Bank and Trust Company	12.23	%	12.43	%	12.74	%	7.00	%	6.50	%
Tier 1 Risk-Based Capital Ratio										
Consolidated	11.40	%	11.34	%	11.72	%	8.50	%	N/A	
Guaranty Bank and Trust Company	12.23	%	12.43	%	12.74	%	8.50	%	8.00	%
Total Risk-Based Capital Ratio										
Consolidated	13.50	%	13.58	%	14.07	%	10.50	%	N/A	
Guaranty Bank and Trust Company	13.00	%	13.26	%	13.61	%	10.50	%	10.00	%
Leverage Ratio										
Consolidated	10.15	%	9.81	%	12.40	%	4.00	%	N/A	
Guaranty Bank and Trust Company	10.89	%	10.76	%	13.48	%	4.00	%	5.00	%

At September 30, 2017, all of our regulatory capital ratios remain well above minimum requirements for a "well-capitalized" institution. Our consolidated total risk-based capital ratio decreased compared to December 31, 2016, primarily due to an increase in risk-weighted assets during the nine months ended September 30, 2017. At September 30, 2017, most of our bank-level capital ratios had declined compared to December 31, 2016, primarily due to the $18.7 million dividend paid to the Company in the second quarter 2017 to fund stockholder dividends and debt servicing during 2017.

Dividends

Holders of voting common stock are entitled to dividends out of funds legally available for such dividends, when and if declared by the Board of Directors. Beginning in May 2013, we paid cash dividends of 2.5 cents per share to stockholders on a quarterly basis through November 2013. In February 2014, we increased the quarterly cash dividend to 5 cents per share and paid quarterly cash dividends at this level through the fourth quarter 2014. In February 2015, we increased the quarterly cash dividend to 10 cents per share and paid quarterly dividends at this level through the fourth quarter 2015. In February 2016, we increased the quarterly cash dividend to 11.5 cents per share and paid quarterly cash dividends at this level through the fourth quarter of 2016. In February 2017, we increased the quarterly cash dividend to 12.5 cents per share.

Our ability to pay dividends is subject to the restrictions of Delaware General Corporation Law. Because we are a bank holding company with no significant assets other than our bank subsidiary, we currently depend upon dividends from our bank subsidiary for the majority of our revenues. Various banking laws applicable to the Bank limit the payment of dividends, management fees and other distributions by the Bank to the holding company, and may therefore limit our ability to pay dividends on our common stock. Under these laws, the Bank is currently required to request permission from the Federal Reserve prior to payment of a dividend to the holding company.

Under the terms of each of our two outstanding trust preferred financings, including our related subordinated debentures, which occurred on June 30, 2003 and April 8, 2004, respectively, we cannot declare or pay any dividends or distributions (other than stock dividends) on, or redeem, purchase, acquire or make a liquidation payment with respect to, any shares of our capital stock if (1) an event of default under any of the subordinated debenture agreements has occurred and is continuing, or (2) we defer payment of interest on the TruPS for a period of up to 60 consecutive months as long as we are in compliance with all covenants of the agreement. At September 30, 2017, interest payments on our two trust preferred financings were current.

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Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend upon a number of factors, including general business conditions, our financial results, our future business prospects, capital requirements, contractual, legal, and regulatory restrictions on the payment of dividends by us to our stockholders or by the Bank to the holding company, and such other factors as our Board of Directors may deem relevant.

Contractual Obligations and Off-Balance Sheet Arrangements

The Bank is a party to credit-related financial instruments with off-balance sheet risk entered into in the normal course of business to meet the financing needs of the Bank's customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

Our exposure to credit loss is represented by the contractual amount of these commitments. We follow the same credit policies in making commitments as we do for on-balance sheet instruments.

At the dates indicated, the following commitments were outstanding:

Table 20

		September 30, 2017		December 31, 2016
		(In thousands)		
Commitments to extend credit:				
Variable	$	470,152	$	436,546
Fixed		105,198		95,607
Total commitments to extend credit	$	575,350	$	532,153

Standby letters of credit	$ 12,694	$ 10,292

Liquidity

The Bank relies upon deposits as its principal source of funds and therefore must be in a position to service depositors' needs as they arise. Fluctuations in the account balances of a few large depositors may cause temporary increases and decreases in liquidity from time to time. We deal with such fluctuations by using other sources of liquidity, as discussed below.

The Bank's initial sources of liquidity are its liquid assets. At September 30, 2017, the Company had $323.3 million in unencumbered securities, $64.4 million in cash and cash equivalents and $8.1 million in excess pledging related to customer accounts that required collateral.

When the level of our liquid assets does not meet our liquidity needs, other available sources of liquidity, including the purchase of federal funds, sales of loans, including jumbo mortgage loans, brokered and internet certificates of deposit, one-way purchases of certificates of deposit through the Certificates of Deposit Account Registry Service, discount window borrowings from the Federal Reserve and our lines of credit with the FHLB and other correspondent banks, are employed to meet current and presently anticipated funding needs. At September 30, 2017, the Bank had $568.2 million of availability on its FHLB line, $50.8 million of availability on its secured and unsecured federal funds lines with correspondent banks and $2.2 million of availability with the Federal Reserve discount window.

At September 30, 2017, the Bank had $125.3 million of brokered deposits, of which $25.0 million were money market accounts, $5.0 million will mature in the fourth quarter 2017, $24.2 million will mature in the first quarter 2018, $37.9 million will mature during the remainder of 2018 and $33.2 million will mature during 2019 and 2020. As of December 31, 2016, the Bank maintained $109.3 million in brokered deposits. We continue to evaluate new brokered deposits as a source of low-cost, longer-term funding.

The holding company relies primarily on cash flow from the Bank as its source of liquidity. The holding company requires liquidity for the payment of interest on the subordinated debentures, for operating expenses, principally salaries and benefits, for repurchases of our common stock, and, if declared by our Board of Directors,

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for the payment of dividends to our stockholders. The Bank pays a management fee for its share of expenses paid by the holding company as well as for services provided by the holding company. As discussed in the “Capital Resources” section above, various banking laws applicable to the Bank limit the payment of dividends by the Bank to the holding company and may therefore limit our ability to pay dividends on our common stock. Under these laws, the Bank is currently required to request permission from the Federal Reserve prior to payment of a dividend to the Company. Under the terms of our TruPS financings, we may defer payment of interest on the subordinated debentures and related TruPS for a period of up to 60 consecutive months as long as we are in compliance with all covenants of the agreement.

As of September 30, 2017, the holding company had approximately $16.2 million of cash on hand. On April 17, 2017, after receiving regulatory approval, the Bank’s Board of Directors approved an $18.7 million dividend to the holding company. We expect that this dividend will be sufficient to fund holding company operations and projected quarterly external stockholder dividends at the current rate through the remainder of 2017. In April 2017, the holding company renewed its credit agreement with Wells Fargo Bank, National Association for a $10.0 million secured line of credit. The line of credit is secured with the holding company’s stock in the Bank. At September 30, 2017, there were no funds drawn on the line of credit.

Application of Critical Accounting Policies and Accounting Estimates

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses the Company’s condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the rules and regulations of the SEC. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates on an ongoing basis its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances, the results of which have formed the basis for making such judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the recorded estimates under different assumptions or conditions. A summary of critical accounting policies and estimates are listed in the "Management’s Discussion and Analysis of Financial Condition and Results of Operations" section of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016. There have been no changes during 2017 to the critical accounting policies listed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending, investing and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure. We have not entered into any market risk sensitive instruments for trading purposes. We manage our interest rate sensitivity by matching the repricing opportunities on our earning assets to those on our funding liabilities. In order to manage the repricing characteristics of our assets and liabilities, we use various strategies designed to ensure that our exposure to interest rate fluctuations is limited in accordance with our guidelines of acceptable levels of risk-taking. Balance sheet hedging strategies, including monitoring the terms and pricing of loans and deposits and managing the deployment of our securities, are used to reduce mismatches in interest rate repricing between our portfolio of assets and their funding sources.

Net Interest Income Modeling

Our Asset Liability Management Committee, or ALCO, oversees our exposure to and mitigation of interest rate risk and, along with our Board of Directors, reviews our exposure to interest rate risk at least quarterly. The committee is composed of members of our senior management. The ALCO monitors interest rate risk by analyzing the potential impact on the net portfolio value and net interest income from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. The ALCO manages our balance sheet in part to minimize the potential impact of changes in interest rates on net portfolio value and net interest income.

Interest rate risk exposure is measured using interest rate sensitivity analysis to evaluate fluctuations in net portfolio value and net interest income in the event of hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income from hypothetical interest rate changes are not within the limits approved by the Board of Directors, the Board may direct management to adjust the Bank’s mix of assets and liabilities to bring interest rate risk within these limits.

We monitor and evaluate our interest rate risk position on at least a quarterly basis using net interest income simulation analysis under 100, 200 and 300 basis point change scenarios (see below). Each of these analyses measures different interest rate risk factors inherent in the financial statements.

Our primary interest rate risk measurement tool, the “Net Interest Income Simulation Analysis”, measures interest rate risk and the effect of hypothetical interest rate changes on net interest income. This analysis incorporates all of our assets and liabilities together with forecasted changes in the balance sheet and assumptions that reflect the current interest rate environment. Through these simulations, we estimate the impact on net interest income of an immediate change in market rates of 100, 200 and 300 basis points upward or downward, over a one year period. Assumptions are made to project rates for new loans and deposits based on historical analysis, our outlook and repricing strategies. Asset prepayments and other market risks are developed from industry estimates of prepayment speeds and other market changes. Since the results of these simulations can be significantly influenced by the assumptions on which the simulations rely, we also evaluate the sensitivity of simulation results to changes in underlying assumptions.

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The following table shows the projected net interest income increase or decrease over the 12 months following September 30, 2017 and September 30, 2016:

Table 21

Market Risk:

	Annualized Net Interest Income September 30, 2017 Amount of Change (In thousands)	September 30, 2016 Amount of Change
Rates in Basis Points		
300	$ 5,612	$ 2,752
200	3,559	3,284
100	1,714	1,691
Static	-	-
(100)	(7,404)	(1,512)
(200)	(7,814)	(876)
(300)	N/M	N/M

N/M = not meaningful

Overall, we believe our balance sheet is asset sensitive; i.e. that a change in interest rates would have a greater impact on our assets than on our liabilities. At September 30, 2017, we are positioned to have a short-term favorable impact to net interest income in the event of an immediate 300, 200 or 100 basis point increase in market interest rates. Our asset sensitivity is mostly due to the amount of variable rate loans on the books and is partially mitigated by interest rate floors, or minimum rates: as rates rise, the loan rate may continue to be at the minimum rate. At September 30, 2017, we have approximately $579.4 million in loans that are expected to reprice within thirty days of a change in the prime lending rate. For purposes of modeling interest rate risk, we assume that there is a simultaneous parallel shift in all interest rate curves increasing yields on all new loans. We also assume that deposit rates, other than time deposit rates, would increase immediately in a rising rate environment, but at a reduced magnitude of 11% to 65% depending upon the type of deposit. Further, the interest rates paid on our FHLB line of credit advances would increase immediately as well. In addition to performing net interest income modeling, we also monitor the impact an instantaneous change in interest rates would have on our economic value of equity. We anticipate a 2.6% reduction in the economic value of equity in the event of a 100 basis point rate increase as the reduction in the value of our fixed rate earning assets would outweigh the corresponding increase in value of our low cost deposits.

We estimate that our net interest income would decline in a 100 or 200 basis point falling rate environment. This is consistent with our belief that our balance sheet is asset sensitive. At September 30, 2017, it is not possible for the majority of our deposit rates to fall 100 to 300 basis points since most deposit rates were already below 100 basis points. At September 30, 2017, the loss of gross interest income in a falling interest rate environment is expected to exceed the corresponding reduction in interest expense in a falling rate environment. Our interest rate risk modeling assumes that the prime rate would continue to be set at a rate of 300 basis points over the target federal funds rate; therefore, a 200 basis point decline in overall rates would result in a smaller decline in both target federal funds rate and the prime rate. Further, other rates that are currently below 1% or 2% (e.g. short-term U.S. Treasuries and LIBOR) are modeled to not fall below 0% with an overall 100 or 200 basis point decrease in rates. Many of our variable rate loans are set to an index tied to the prime rate, the target federal funds rate or LIBOR, therefore, a further decrease in rates would likely not have a substantial impact on loan yields.

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ITEM 4. Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended [the “Exchange Act”]) as of September 30, 2017. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective at September 30, 2017.

The Company’s disclosure controls and procedures were designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

There have been no changes in the Company’s internal control over financial reporting (as defined in Rule 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company and the Bank are defendants, from time-to-time, in legal actions at various points of the legal process arising from transactions conducted in the ordinary course of business. Management believes that, after consultation with legal counsel, it is not probable that the outcome of current legal actions will result in a liability that would have a material adverse effect on the Company's consolidated financial position, results of operations, comprehensive income or cash flows. In the event that such a legal action results in an unfavorable outcome, the resulting liability could have a material adverse effect on the Company's consolidated financial position, results of operations, comprehensive income or cash flows.

ITEM 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act), of our voting common stock during the third quarter 2017.

	Shares Purchased	Remaining

	Total Shares Purchased (1)	Average Price Paid per Share	under Publicly Announced Repurchase Plan	Repurchase Authority in Shares
July 1 to July 31	258	$ 26.84	-	1,000,000
August 1 to August 31	-	-	-	1,000,000
September 1 to September 30	960	25.42	-	1,000,000
____________________	1,218	$ 25.72	-	1,000,000

(1) These shares relate to the net settlement by employees related to vested, restricted stock awards and do not impact the 1,000,000 shares available for repurchase under the repurchase plan originally announced on April 3, 2014, which is scheduled to expire April 2, 2018. Net settlements represent instances where employees elect to satisfy their income tax liability related to the vesting of restricted stock through the surrender of a proportionate number of the vested shares to the Company.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosure

Not applicable.

ITEM 5. Other Information

Not applicable.

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ITEM 6. Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Reorganization dated March 16, 2016 (incorporated by reference to Exhibit 2.1 to the Registrant's form 8-K filed on March 16, 2016).
2.2	Agreement and Plan of Reorganization dated July 18, 2017 (incorporated by reference to Exhibit 2.1 to the Registrant's form 8-K filed on July 19, 2017).
3.1	Second Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on August 12, 2009).
3.2	Certificate of Amendment to the Registrant's Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on October 3, 2011).
3.3	Certificate of Amendment to the Registrant's Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q filed on July 31, 2013).
3.4	Certificate of Amendment to the Registrant's Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2016).
3.5	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Form 8-K filed on May 7, 2008).
31.1*	Section 302 Certification of Chief Executive Officer.
31.2*	Section 302 Certification of Chief Financial Officer.
32.1*	Section 906 Certification of Chief Executive Officer.
32.2*	Section 906 Certification of Chief Financial Officer.
101.INS	XBRL Interactive Data File**
101.SCH	XBRL Interactive Data File**
101.CAL	XBRL Interactive Data File**
101.LAB	XBRL Interactive Data File**
101.PRE	XBRL Interactive Data File**

101.DEF XBRL Interactive Data File**

* Filed with this Quarterly Report on Form 10-Q.

** This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Dated: October 31, 2017	GUARANTY BANCORP
	/s/ CHRISTOPHER G. TREECE Christopher G. Treece Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)