

Section 1: 10-Q (10-Q)

[Table of Contents](#)

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, 2018

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 every Interactive Data File required to be submitted 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 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
Non-accelerated Filer

Accelerated Filer
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 29, 2018, there were 29,301,662 shares of the registrant's common stock outstanding, of which 428,331 shares were in the form of unvested stock awards.



	<u>Page</u>
PART I—FINANCIAL INFORMATION	3
ITEM 1. Unaudited Condensed Consolidated Financial Statements	3
Unaudited Condensed Consolidated Balance Sheets	3
Unaudited Condensed Consolidated Statements of Income	4
Unaudited Condensed Consolidated Statements of Comprehensive Income	5
Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity	6
Unaudited Condensed Consolidated Statements of Cash Flows	7
Notes to Unaudited Condensed Consolidated Financial Statements	8
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	45
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	69
ITEM 4. Controls and Procedures	71
PART II—OTHER INFORMATION	72
ITEM 1. Legal Proceedings	72
ITEM 1A. Risk Factors	72
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	73
ITEM 3. Defaults Upon Senior Securities	74
ITEM 4. Mine Safety Disclosure	74
ITEM 5. Other Information	74
ITEM 6. Exhibits	75
	2

Item 1. Unaudited Condensed Consolidated Financial Statements

GUARANTY BANCORP AND SUBSIDIARIES
Unaudited Condensed Consolidated Balance Sheets

	September 30, 2018	December 31, 2017
(In thousands, except share and per share data)		
Assets		
Cash and due from banks	\$ 39,188	\$ 51,553
Time deposits with banks	254	254
Securities available for sale, at fair value	335,025	329,977
Securities held to maturity (fair value of \$241,636 and \$257,665 at September 30, 2018 and December 31, 2017)	251,188	259,916
Bank stocks, at cost	26,021	24,419
Total investments	612,234	614,312
Loans held for sale	2,228	1,725
Loans, held for investment, net of deferred costs and fees	2,929,415	2,805,663
Less allowance for loan losses	(23,750)	(23,250)
Net loans, held for investment	2,905,665	2,782,413
Premises and equipment, net	63,030	65,874
Other real estate owned and foreclosed assets	596	761
Goodwill	67,917	65,106
Other intangible assets, net	15,814	14,441
Bank-owned life insurance	80,277	78,573
Other assets	23,324	23,878
Total assets	\$ 3,810,527	\$ 3,698,890
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 960,931	\$ 939,550
Interest-bearing demand and NOW	850,848	813,882
Money market	570,995	527,621
Savings	211,996	201,687
Time	465,177	458,887
Total deposits	3,059,947	2,941,627
Securities sold under agreement to repurchase	8,622	44,746
Federal Home Loan Bank line of credit borrowing	183,060	157,444
Federal Home Loan Bank term notes	50,000	70,000
Subordinated debentures, net	65,127	65,065
Interest payable and other liabilities	15,532	15,109
Total liabilities	3,382,288	3,293,991
Stockholders' equity:		
Common stock ⁽¹⁾	32	32
Additional paid-in capital - common stock	862,094	859,509
Accumulated deficit	(314,678)	(343,383)
Accumulated other comprehensive loss	(11,517)	(4,694)
Treasury stock, at cost, 2,461,802 and 2,421,208 shares, respectively	(107,692)	(106,565)
Total stockholders' equity	428,239	404,899
Total liabilities and stockholders' equity	\$ 3,810,527	\$ 3,698,890

(1) Common stock—\$0.001 par value; 40,000,000 shares authorized; 31,765,316 shares issued and 29,303,514 shares outstanding at September 30, 2018 (includes 430,501 shares of unvested restricted stock); 40,000,000 shares authorized; 31,643,472 shares issued and 29,222,264 shares outstanding at December 31, 2017 (includes 434,149 shares of unvested restricted stock).

GUARANTY BANCORP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
(In thousands, except share and per share data)				
Interest income:				
Loans, including costs and fees	\$ 33,825	\$ 30,902	\$ 99,489	\$ 87,270
Investment securities:				
Taxable	2,652	2,221	7,763	6,892
Tax-exempt	1,206	1,233	3,659	3,713
Dividends	406	275	1,220	1,011
Federal funds sold and other	26	57	83	76
Total interest income	<u>38,115</u>	<u>34,688</u>	<u>112,214</u>	<u>98,962</u>
Interest expense:				
Deposits	3,186	1,939	8,234	5,262
Securities sold under agreement to repurchase	23	16	71	48
Federal funds purchased	33	-	56	-
Borrowings	1,146	531	3,333	2,079
Subordinated debentures	937	868	2,759	2,568
Total interest expense	<u>5,325</u>	<u>3,354</u>	<u>14,453</u>	<u>9,957</u>
Net interest income	32,790	31,334	97,761	89,005
Provision for loan losses	206	497	924	708
Net interest income, after provision for loan losses	32,584	30,837	96,837	88,297
Noninterest income:				
Deposit service and other fees	3,571	3,580	10,538	10,405
Investment management and trust	2,750	1,478	7,514	4,482
Increase in cash surrender value of life insurance	670	674	2,001	1,884
Gain (loss) on sale of securities	-	(86)	16	(86)
Gain on sale of SBA loans	430	143	916	971
Other	851	341	1,612	1,218
Total noninterest income	<u>8,272</u>	<u>6,130</u>	<u>22,597</u>	<u>18,874</u>
Noninterest expense:				
Salaries and employee benefits	12,617	11,736	38,391	34,909
Occupancy expense	1,667	1,714	5,086	4,940
Furniture and equipment	1,009	974	3,100	2,894
Amortization of intangible assets	924	672	2,788	1,969
Other real estate owned, net	19	(20)	60	174
Insurance and assessments	694	642	2,061	1,995
Professional fees	905	929	3,036	3,155
Impairment of long-lived assets	-	-	-	224
Other general and administrative	3,775	5,160	11,705	12,579
Total noninterest expense	<u>21,610</u>	<u>21,807</u>	<u>66,227</u>	<u>62,839</u>
Income before income taxes	19,246	15,160	53,207	44,332
Income tax expense	4,302	5,106	11,443	14,313
Net income	<u>\$ 14,944</u>	<u>\$ 10,054</u>	<u>\$ 41,764</u>	<u>\$ 30,019</u>
Earnings per common share—basic:				
	\$ 0.52	\$ 0.36	\$ 1.45	\$ 1.08
Earnings per common share—diluted:				
	0.51	0.36	1.44	1.07
Dividends declared per common share:				
	0.16	0.13	0.49	0.38
Weighted average common shares outstanding—basic:				
	28,868,984	27,920,658	28,851,952	27,900,627
Weighted average common shares outstanding—diluted:				
	29,068,332	28,120,111	29,083,965	28,140,332

See "Notes to Unaudited Condensed Consolidated Financial Statements."

GUARANTY BANCORP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Comprehensive Income

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(In thousands)			
Net income	\$ 14,944	\$ 10,054	\$ 41,764	\$ 30,019
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	(2,592)	91	(9,086)	2,249
Income tax effect	640	(35)	2,241	(855)
Change in unamortized loss on available for sale securities reclassified into held to maturity securities	102	120	316	365
Income tax effect	(25)	(46)	(78)	(139)
Reclassification adjustment for net losses (gains) included in net income during the period	-	86	(16)	86
Income tax effect	-	(33)	4	(33)
Change in fair value of derivatives during the period	101	33	808	(187)
Income tax effect	(25)	(13)	(199)	71
Reclassification adjustment of losses on derivatives during the period	52	190	263	609
Income tax effect	(13)	(72)	(65)	(231)
Other comprehensive income (loss)	(1,760)	321	(5,812)	1,935
Total comprehensive income	<u>\$ 13,184</u>	<u>\$ 10,375</u>	<u>\$ 35,952</u>	<u>\$ 31,954</u>

See "Notes to Unaudited Condensed Consolidated Financial Statements"

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, 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)
Balance, September 30, 2017	28,401,870	\$ 834,370	\$ (106,035)	\$ (348,392)	\$ (4,791)	\$ 375,152
Balance, January 1, 2018	29,222,264	\$ 859,541	\$ (106,565)	\$ (343,383)	\$ (4,694)	\$ 404,899
Net income	-	-	-	41,764	-	41,764
Other comprehensive loss	-	-	-	-	(5,812)	(5,812)
Stock compensation awards, net of forfeitures	121,844	-	-	-	-	-
Stock based compensation, net	-	2,585	-	-	-	2,585
Repurchase of common stock	(40,594)	-	(1,127)	-	-	(1,127)
Reclassification of stranded tax effect	-	-	-	1,011	(1,011)	-
Dividends paid	-	-	-	(14,070)	-	(14,070)
Balance, September 30, 2018	29,303,514	\$ 862,126	\$ (107,692)	\$ (314,678)	\$ (11,517)	\$ 428,239

See "Notes to Unaudited Condensed Consolidated Financial Statements."

GUARANTY BANCORP AND SUBSIDIARIES
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 41,764	\$ 30,019
Reconciliation of net income to net cash from operating activities:		
Depreciation and amortization	5,009	4,178
Net accretion on investment and loan portfolios	(844)	(392)
Provision for loan losses	924	708
Impairment of long-lived assets	-	224
Stock compensation, net	2,585	2,272
Dividends on bank stocks	(512)	(362)
Increase in cash surrender value of life insurance	(1,704)	(1,587)
Net gain on sale of securities and SBA loans	(932)	(885)
Gain on the sale of other assets	(954)	(271)
Origination of SBA loans with intent to sell	(11,421)	(5,413)
Proceeds from the sale of SBA loans originated with intent to sell	11,719	10,641
Loss, net, and valuation adjustments on real estate owned	49	160
Net change in:		
Interest receivable and other assets	10	1,433
Net deferred income tax assets	118	493
Interest payable and other liabilities	(1,000)	(2,804)
Net cash from operating activities	<u>44,811</u>	<u>38,414</u>
Cash flows from investing activities:		
Activity in available for sale securities:		
Sales, maturities, prepayments and calls	28,619	83,967
Purchases	(44,352)	(57,765)
Activity in held to maturity securities and bank stocks:		
Maturities, prepayments and calls	22,555	18,431
Purchases	(15,962)	(30,184)
Loan originations, net of principal collections	(114,020)	(69,615)
Loan purchases	(6,465)	(79,154)
Purchase of bank-owned life insurance contracts	-	(7,500)
Proceeds from sale of other assets	5,687	1,463
Proceeds from sales of other real estate owned and foreclosed assets	112	514
Proceeds from sale of SBA and other loans transferred to held for sale	-	3,940
Additions to premises and equipment	(803)	(879)
Cash paid in acquisition, net of cash received	(5,223)	-
Net cash from investing activities	<u>(129,852)</u>	<u>(136,782)</u>
Cash flows from financing activities:		
Net change in deposits	118,381	199,020
Repayment of Federal Home Loan Bank term notes	(20,000)	(2,409)
Net change in borrowings on Federal Home Loan Bank line of credit	25,616	(73,509)
Cash dividends on common stock	(14,070)	(10,467)
Net change in repurchase agreements and federal funds purchased	(36,124)	995
Repurchase of common stock	(1,127)	(985)
Net cash from financing activities	<u>72,676</u>	<u>112,645</u>
Net change in cash and cash equivalents	<u>(12,365)</u>	<u>14,277</u>
Cash and cash equivalents, beginning of period	51,553	50,111
Cash and cash equivalents, end of period	<u>\$ 39,188</u>	<u>\$ 64,388</u>

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. 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. 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. On April 3, 2017, Cherry Hills Investment Advisors, Inc. ("CHIA"), a previous wholly owned subsidiary of the Bank, was consolidated into PCM. On October 27, 2017, the Company completed the acquisition of Castle Rock Bank Holding Company ("Castle Rock"), based in Castle Rock, Colorado in exchange for Company stock. Similar to the Home State acquisition, the Castle Rock acquisition enhanced the Company's liquidity and grew market share in Douglas County, Colorado. On January 16, 2018, the Company through PCM acquired the assets of Wagner Wealth Management, LLC ("Wagner"). The Wagner acquisition increased the Company's market share in the Denver wealth management marketplace and added additional investment advisory expertise.

On May 22, 2018 the Company jointly announced with Independent Bank Group, Inc. ("Independent"), the execution of an Agreement and Plan of Reorganization (the "Reorganization Agreement"), under which the Company would merge (the "Merger") with and into Independent in an all-stock transaction. Under the terms of the Reorganization Agreement, stockholders of the Company will receive 0.45 shares of Independent common stock for each share of Company common stock. Closing of the Merger remains subject to customary conditions, including the receipt of bank regulatory approvals and the satisfaction of other customary closing conditions. Independent's Registration Statement on Form S-4, which registered the Independent shares to be issued in connection with the Merger, was filed with the Securities and Exchange Commission on August 15, 2018 and has been made effective. Independent's shareholders approved the transaction at the special meeting of shareholders on September 24, 2018 and the Company's stockholders approved the transaction at the Company's special meeting of stockholders on September 25, 2018.

(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, 2017.

(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. In the October 27, 2017 Castle Rock transaction, the Company designated \$1,283,000 of loans as PCI. As of September 30, 2018, \$1,060,000 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 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.

(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 and prevailing economic conditions. 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 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, Castle Rock and Wagner transactions and represents the excess of the purchase price over the fair value of acquired tangible assets and identifiable intangible assets less 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 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, ranging from 10 to 13 years. The Company has added to its aggregated customer relationship intangible asset in its acquisitions of PCM, CHIA, Home State and Wagner.

Non-compete intangible assets are recognized at estimated fair value in the event that non-compete or similar agreements are entered into in an acquisition between the Company and the sellers of the acquired business. In preparing their valuation, management considers the ability and likelihood of a seller to compete in the absence of the agreement in addition to the terms of the agreement in consideration of the specific market in which the seller would be likely to compete. Non-compete intangible assets are amortized to expense over their estimated useful life. The Company has a non-compete intangible asset acquired in the Wagner acquisition which it is amortizing to expense over a period of three years.

(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, 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, 2018, there were 497,975 shares remaining available for grant under the 2015 Plan.

As of September 30, 2018, 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 16, 2021. 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 12, 2018, 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, 2018, however, this most recent extension extends the expiration date of the repurchase program through April 2, 2019. 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. Repurchases reflected on the Statement of Changes in Stockholder’s Equity are not made under the Company’s share repurchase program but rather represent the repurchase of shares related to employee net settlements of restricted stock.

(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. During 2017 the President of the United States signed the 2017 Tax Cuts and Jobs Act ("the Tax Act") which reduced the statutory federal corporate income tax rate from 35% to 21% beginning in 2018. As a result, the Company's existing deferred tax assets and liabilities (net deferred tax asset) which were expected to be reversed beginning in 2018 were re-measured in 2017 using the updated statutory rates applicable in 2018. The re-measurement of the Company's net deferred tax asset resulted in a \$976,000 charge being recognized in income tax expense in the fourth quarter 2017.

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. In assessing the Company's likelihood of realizing deferred tax assets, management evaluates both positive and negative evidence, forecasts of future income, taking into account applicable tax planning strategies, and assessments of current and future economic and business conditions. Management performs this analysis quarterly and adjusts as necessary. At September 30, 2018 and December 31, 2017, the Company had a net deferred tax asset of \$3,586,000 and \$1,802,000, respectively, which includes the deferred tax asset associated with the net unrealized loss on securities and interest rate swaps. The portion of the total deferred tax asset related to the net unrealized losses on securities and interest rate swaps was \$3,770,000 as of September 30, 2018 and \$1,867,000 as of December 31, 2017. 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, 2018, 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, 2018 or December 31, 2017.

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 2015 and is no longer subject to examination by the State of Colorado for years before 2014. 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, 2018 and December 31, 2017, the Company did not have any amounts accrued for interest or penalties.

(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,	
	2018	2017	2018	2017
Average common shares outstanding	28,868,984	27,920,658	28,851,952	27,900,627
Effect of dilutive unvested stock grants ⁽¹⁾	199,348	199,453	232,013	239,705
Average shares outstanding for calculated diluted earnings per common share	<u>29,068,332</u>	<u>28,120,111</u>	<u>29,083,965</u>	<u>28,140,332</u>

⁽¹⁾ Unvested stock grants representing 430,501 shares at September 30, 2018 had a dilutive impact of 199,348 and 232,013 shares in the diluted earnings per share calculation for the three and nine months ended September 30, 2018, respectively. 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.

(l) Recently Issued Accounting Standards

Adoption of New Accounting Standards:

In May 2014, the FASB issued accounting standards update 2014-09 Revenue from Contracts with Customers, codified at ASC 606. 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 became 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 to the Company is limited to certain components of noninterest income. The Company adopted ASC 606 utilizing the modified retrospective method on January 1, 2018. Because the Company's noninterest income is primarily generated by customer transactions or attributable to the passage of time (wealth management fees), ASC 606 has not had a material impact on the timing of revenue recognition. The Company had no material uncompleted customer contract liabilities as of December 31, 2017 and as a result there was no cumulative transition adjustment recorded in the Company's accumulated deficit upon adoption in the first quarter 2018. The most significant impact of ASC 606 to the Company was the additional disclosure requirements added to Note 14 "Revenue".

In January 2016, the FASB released accounting standards update 2016-01 Recognition and Measurement of Financial Assets and Liabilities. The provisions of this update became effective for interim and annual periods beginning after December 15, 2017. The main provisions of the update eliminated the available for sale classification of accounting for equity securities and adjusted fair value disclosures for financial instruments carried at amortized costs to reflect an exit price as opposed to an entry price. The provisions of this update also required that equity securities be carried at fair market value on the balance sheet and any periodic changes in value to be adjustments to the income statement. A practical expedient was provided for equity securities without a readily determinable fair value, such that these securities can be carried at cost less any impairment. The Company adopted the provisions of the update beginning in the first quarter 2018 and considered these requirements in calculating the September 30, 2018 estimate of loan portfolio fair value included in Note nine "Fair Value Measurements and Fair Value of Financial Instruments".

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 became effective for fiscal years and interim periods beginning after December 15, 2017. The provisions of the update outlined 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. The provisions of the update did not affect the presentation of our 2018 statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations - Clarifying the Definition of a Business. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, feedback received by FASB indicated that analyzing transactions can be inefficient and costly and that the current definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The requirements of this update did not have a material impact on the Company's financial position, results of operations or cash flows.

In February 2018, the FASB issued accounting standards update 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“AOCI”). The amendments of the update allowed an optional reclassification to retained earnings for stranded tax effects included in accumulated other comprehensive income, resulting from the reduction in the U.S. Statutory Corporate Income Tax Rate as provided for in the Tax Act. The provisions of the update are effective for all entities beginning with fiscal years commencing after December 15, 2018, with early adoption allowed in any interim period. The Company adopted the update in the first quarter 2018 and reclassified the \$1,011,000 in stranded tax effects from AOCI into retained earnings, as reflected on the Statement of Changes in Stockholder’s Equity.

Recently Issued but not yet Effective Accounting Standards:

In February 2016, the FASB issued accounting standards update 2016-02 Leases, codified at ASC 842. 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. ASU 2016-02 initially required a restatement of comparative financial statements from the earliest historical period presented to reflect consistent application of the rule in comparative historical periods but in July 2018 the FASB issued accounting standards update 2018-11, which provided an alternative transition method. Under the alternative transition method, provided in ASU 2018-11, the impact of applying the new lease accounting rules to comparative periods may be captured by a cumulative-effect adjustment to retained earnings in the initial period of adoption. Management is in the process of reviewing accounts payable records and contracts to determine whether the Company has imbedded leases present in other contracts not traditionally identified as leases. As of the date of this filing, management expects the financial statement impact of accounting for leases not traditionally identified as leases under ASC 842 to be immaterial. Based on leases outstanding at September 30, 2018, we anticipate total assets and total liabilities will increase between \$10,000,000 and \$12,000,000 as the result of additional leases being recognized on our balance sheet, we do not expect the provisions of ASC 842 to have a material impact on our results of operations or cash flows. Decisions to execute, 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 incurred 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, 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 under CECL reserves will be established for purchased loans at the time of acquisition 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 and has engaged a third party vendor to assist in the identification of appropriate segmentations and methodologies which will assist the Company in forecasting lifetime loss rates. 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 or direction 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 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, which is expected to better align the amortization period with expectations incorporated into market pricing. 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. Adoption of the standard also provides a one-time opportunity to transfer held to maturity securities to available for sale. The update is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The update requires a modified retrospective transition method in which the Company would 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 is evaluating whether the Company will transfer certain held to maturity securities to available for sale under the provisions of the update. Management does not expect the requirements of this update relating to accounting for the Company's derivative instruments 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 December 1, 2017, Private Capital Management LLC, a wholly owned subsidiary of the Bank, entered into an Asset Purchase Agreement with Wagner Wealth Management LLC ("Wagner"). The transaction, structured as an asset purchase, closed on January 16, 2018, with the Company paying \$5,223,000 of cash, in addition to agreeing to make a contingent payment on approximately the one-year anniversary of the acquisition valued at \$1,846,000 on January 16, 2018.

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 Bank, a Colorado state chartered bank headquartered in Castle Rock, Colorado whereby Castle Rock would merge into the Company. The transaction closed on October 27, 2017 with an aggregate transaction value of \$24,421,000. The Castle Rock Merger Agreement provided that, subject to certain conditions, Castle Rock shareholders would receive 840,629 shares of Company voting common stock valued at \$24,420,000 based on the Company's closing stock price on October 27, 2017 of \$29.05, in addition to approximately \$1,000 in cash paid in lieu of the issuance of fractional shares of Company stock.

The Wagner acquisition increased the Company's market share in the Denver wealth management marketplace and added additional investment advisory expertise. The Castle Rock transaction enhanced the Company's balance sheet liquidity and supported the Company's objective of serving the banking needs of business and consumer customers in Colorado's Front Range markets.

Table of Contents

Wagner's and Castle Rock's results of operations subsequent to the respective merger dates have been included in the Company's results of operations; however, it is impractical to provide separate information on Wagner or Castle Rock's revenues and income subsequent to acquisition due to changes in the consolidated balance sheet. Pre-tax merger-related expenses of \$75,000, incurred in connection with the Wagner transaction were included in the Company's results of operations in the first quarter 2018. An additional \$1,033,000 and \$400,000, respectively, in merger-related expenses were incurred by the Company in the second and third quarter 2018, related to the Independent transaction. Comparatively, no merger related expenses were incurred in 2017 until the third quarter 2017 when \$268,000 in merger-related expenses, related to the Castle Rock transaction, were incurred. The Company did not incur debt-issuance or stock-issuance costs in association with the Wagner or Castle Rock transactions.

Goodwill of \$2,811,000 and \$8,702,000, respectively, was recognized in the Wagner and Castle Rock transactions. The recognized goodwill represents expected synergies and cost savings resulting from combining the operations of the acquired institutions with those of the Company. Since the Wagner acquisition was a taxable transaction, tax-deductible goodwill of \$2,811,000 will be amortized over a period of 15 years for income tax purposes. The tax-free structure of the Castle Rock transaction precludes the amortization of tax-deductible goodwill for tax purposes. The fair values of assets acquired and liabilities assumed at acquisition are subject to measurement period adjustments, for a period of one-year following the acquisition, should information obtained in a subsequent period shed light on the valuations utilized as of the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the January 16, 2018 transaction with Wagner:

Assets acquired:	
	(In thousands)
Goodwill	\$ 2,811
Other intangible assets, net	4,161
Premises and equipment, net	24
Other assets	188
Total assets acquired	<u>7,184</u>
Liabilities assumed:	
Other liabilities	115
Anniversary payment liability	1,846
Total liabilities assumed	<u>1,961</u>
Net assets acquired	<u>\$ 5,223</u>

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in the October 27, 2017 transaction with Castle Rock:

Assets acquired:	
	(In thousands)
Cash and cash equivalents	\$ 21,717
Securities available for sale	39,670
Bank stocks	705
Net Loans	71,052
Premises and equipment, net	4,184
Other real estate owned	761
Goodwill	8,702
Other intangible assets, net	1,870
Bank owned life insurance	3,371
Other assets	1,048
Total assets acquired	<u>153,080</u>
Liabilities assumed:	
Deposits	128,450
Other liabilities	209
Total liabilities assumed	<u>128,659</u>
Net assets acquired	<u>\$ 24,421</u>

Table of Contents

The fair value of net assets acquired in the Castle Rock transaction includes fair value adjustments to certain loans that were considered impaired as of the acquisition date. The fair value adjustments were determined using discounted expected cash flows. Acquired loans that evidence credit deterioration since origination, for which the acquirer does not expect to collect all contractual cash flows, are designated as PCI upon acquisition. The gross contractual amount of loans identified as PCI as of the acquisition date totaled \$1,644,000 in the Castle Rock transaction. Contractual cash flows not expected to be collected as of acquisition date on these PCI loans totaled \$320,000 in the Castle Rock transaction. Additionally, Castle Rock PCI loans had an interest rate fair value adjustment of \$41,000, bringing the net fair value of acquired PCI loans to \$1,283,000 in the Castle Rock transaction. The cash flows on the Company's PCI loans cannot be estimated and as a result these loans have been designated as nonaccrual. Loans that were not designated PCI in the Castle Rock transaction had a fair value and contractual balance of \$69,769,000 and \$72,220,000 as of October 27, 2017. The credit component of the fair value adjustment on non-PCI loans as of acquisition totaled \$1,494,000 in the Castle Rock transaction, representing 2.1% of contractual loan balances. No allowance for loan losses related to acquired loans was brought over as a result of the Castle Rock transaction.

The composition of Castle Rock Bank's loan portfolio as of October 27, 2017 is detailed in the table below:

	October 27, 2017
	(In thousands)
Commercial and residential real estate	\$ 51,531
Construction	6,337
Commercial	5,666
Agricultural	3,735
Consumer	3,783
Total gross loans	\$ 71,052

The following tables present unaudited pro-forma financial information as if the Wagner transaction occurred as of January 1, 2017. The unaudited pro-forma information includes adjustments for noninterest income on investment management fees generated, amortization of intangibles arising from the transaction and the related tax effects. The unaudited pro forma financial information has been adjusted to exclude nonrecurring expenses related to the Wagner transaction. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction occurred on January 1, 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
UNAUDITED	(Dollars in thousands, except per share data)			
Net interest income	\$ 32,790	\$ 31,334	\$ 97,761	\$ 89,005
Noninterest income	8,272	6,910	22,752	21,214
Net income	14,944	10,043	41,837	29,985
Earnings per common share-basic:	\$ 0.52	\$ 0.36	\$ 1.45	\$ 1.07
Earnings per common share-diluted:	\$ 0.51	\$ 0.36	\$ 1.44	\$ 1.07

Unaudited pro forma net income for the first nine months of 2018 excludes \$75,000 in merger-related expenses incurred by the Company during the first quarter 2018. These expenses were excluded since they were nonrecurring in nature and directly attributable to the transaction. For the first nine months of 2017, no merger-related expense adjustments were made to pro forma income.

(3) Securities

The fair value of available for sale debt securities and the related gross unrealized gains and losses recognized in AOCI were as follows at the dates presented:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
(In thousands)				
September 30, 2018:				
Securities available for sale:				
State and municipal	\$ 78,094	\$ 74	\$ (3,043)	\$ 81,063
Mortgage-backed - agency / residential	156,476	28	(6,787)	163,235
Corporate	95,196	79	(3,865)	98,982
Collateralized loan obligations	5,259	6	(32)	5,285
Total securities available for sale	<u>\$ 335,025</u>	<u>\$ 187</u>	<u>\$ (13,727)</u>	<u>\$ 348,565</u>

December 31, 2017:				
Securities available for sale:				
State and municipal	\$ 82,486	\$ 530	\$ (1,224)	\$ 83,180
Mortgage-backed - agency / residential	131,180	133	(3,069)	134,116
Corporate	103,512	546	(1,320)	104,286
Collateralized loan obligations	12,799	17	(51)	12,833
Total securities available for sale	<u>\$ 329,977</u>	<u>\$ 1,226</u>	<u>\$ (5,664)</u>	<u>\$ 334,415</u>

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, 2018:				
Securities held to maturity:				
State and municipal	\$ 130,468	\$ 366	\$ (4,666)	\$ 134,768
Mortgage-backed - agency / residential	95,945	24	(4,769)	100,690
Asset-backed	14,023	-	(507)	14,530
Other	1,200	-	-	1,200
Total securities held to maturity	<u>\$ 241,636</u>	<u>\$ 390</u>	<u>\$ (9,942)</u>	<u>\$ 251,188</u>

December 31, 2017:				
Securities held to maturity:				
State and municipal	\$ 136,490	\$ 1,121	\$ (1,530)	\$ 136,899
Mortgage-backed - agency / residential	103,925	315	(2,088)	105,698
Asset-backed	16,050	7	(76)	16,119
Other	1,200	-	-	1,200
Total securities held to maturity	<u>\$ 257,665</u>	<u>\$ 1,443</u>	<u>\$ (3,694)</u>	<u>\$ 259,916</u>

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,	
	2018	2017	2018	2017
(In thousands)				
Proceeds	\$ -	\$ 48,320	\$ 1,022	\$ 48,320
Gross gains	-	254	16	254
Gross losses	-	(340)	-	(340)
Net tax (benefit) expense related to gains (losses) on sale	-	(33)	4	(33)

[Table of Contents](#)

The amortized cost and estimated fair value of available for sale and held to maturity debt securities by contractual maturity at September 30, 2018 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	\$ 5,322	\$ 5,330
Due after one year through five years	17,443	17,874
Due after five years through ten years	99,877	104,704
Due after ten years	50,648	52,137
Total AFS, excluding mortgage-backed (MBS) and collateralized loan obligations	173,290	180,045
Mortgage-backed and collateralized loan obligations	161,735	168,520
Total securities available for sale	<u>\$ 335,025</u>	<u>\$ 348,565</u>

	Held to Maturity	
	Fair Value	Amortized Cost
(In thousands)		
Securities held to maturity:		
Due in one year or less	\$ 4,383	\$ 4,376
Due after one year through five years	19,284	19,687
Due after five years through ten years	71,964	74,069
Due after ten years	36,037	37,836
Total HTM, excluding MBS and asset-backed	131,668	135,968
Mortgage-backed and asset-backed	109,968	115,220
Total securities held to maturity	<u>\$ 241,636</u>	<u>\$ 251,188</u>

The following tables present the fair value and the unrealized loss on securities that were temporarily impaired as of September 30, 2018 and December 31, 2017, aggregated by major security type and length of time in a continuous unrealized loss position:

September 30, 2018	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:						
<i>Available for sale:</i>						
State and municipal	\$ 27,272	\$ (681)	\$ 40,902	\$ (2,362)	\$ 68,174	\$ (3,043)
Mortgage-backed - agency / residential	75,446	(1,620)	75,407	(5,167)	150,853	(6,787)
Corporate	39,418	(679)	47,657	(3,186)	87,075	(3,865)
Collateralized loan obligations	-	-	3,004	(32)	3,004	(32)
<i>Held to maturity:</i>						
State and municipal	29,501	(926)	80,141	(4,459)	109,642	(5,385)
Mortgage-backed - agency / residential	13,812	(501)	81,365	(5,110)	95,177	(5,611)
Asset-backed	-	-	14,023	(811)	14,023	(811)
Total temporarily impaired	<u>\$ 185,449</u>	<u>\$ (4,407)</u>	<u>\$ 342,499</u>	<u>\$ (21,127)</u>	<u>\$ 527,948</u>	<u>\$ (25,534)</u>

December 31, 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:						
<i>Available for sale:</i>						
State and municipal	\$ 8,710	\$ (82)	\$ 36,894	\$ (1,142)	\$ 45,604	\$ (1,224)
Mortgage-backed - agency / residential	43,494	(315)	77,909	(2,754)	121,403	(3,069)
Corporate	38,267	(567)	23,731	(753)	61,998	(1,320)
Collateralized loan obligations	4,532	(13)	3,011	(38)	7,543	(51)
<i>Held to maturity:</i>						
State and municipal	18,521	(167)	69,314	(2,057)	87,835	(2,224)
Mortgage-backed - agency / residential	19,721	(162)	78,472	(2,685)	98,193	(2,847)
Asset-backed	-	-	16,051	(448)	16,051	(448)
Total temporarily impaired	<u>\$ 133,245</u>	<u>\$ (1,306)</u>	<u>\$ 305,382</u>	<u>\$ (9,877)</u>	<u>\$ 438,627</u>	<u>\$ (11,183)</u>

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, 2018 or December 31, 2017.

At September 30, 2018, there were 346 individual securities in an unrealized loss position, including 225 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 121 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, 2017, there were 255 individual securities in an unrealized loss position, including 194 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 increased from 255 individual securities at December 31, 2017 to 346 securities at September 30, 2018, primarily as a result of fluctuation in market interest rates. At September 30, 2018, 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 of 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, 2018 and December 31, 2017, the Company's unrated municipal bonds comprised approximately 4.5% and 4.4%, respectively, of the carrying value of the Company's entire municipal bond portfolio.

Securities with carrying values of \$197,229,000 and \$219,621,000 were pledged at September 30, 2018 and December 31, 2017, 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 \$12,054,000 and \$56,383,000 were pledged to secure overnight repurchase agreement borrowings as of September 30, 2018 and December 31, 2017, respectively. Fluctuations in the fair value of these securities, and/or the fluctuation in public deposits or customer repurchase agreement balances, may result in the need to pledge

[Table of Contents](#)

additional securities against these borrowings. Management monitors the Bank's collateral position with respect to public deposits and 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, 2018	December 31, 2017
(In thousands)		
Commercial and residential real estate	\$ 2,074,512	\$ 1,977,431
Construction	125,305	99,965
Commercial	558,181	523,355
Agricultural	14,987	16,995
Consumer	114,320	143,066
SBA	41,073	44,121
Other	330	866
Total gross loans	2,928,708	2,805,799
Deferred costs and (fees)	707	(136)
Loans, held for investment, net	2,929,415	2,805,663
Less allowance for loan losses	(23,750)	(23,250)
Net loans, held for investment	<u>\$ 2,905,665</u>	<u>\$ 2,782,413</u>

In the first nine months of 2018, the Company purchased \$6,465,000 of performing loans included in commercial and residential real estate and commercial loan portfolio segments. During 2017, excluding the Castle Rock transaction, the Company purchased \$98,940,000 in performing loans included in commercial and residential real estate, commercial and consumer loan portfolio segments. The Company recognized a \$271,000 gain on the sale of its \$2.0 million credit card loan portfolio during the first quarter 2017.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(In thousands)				
Balance, beginning of period	\$ 23,750	\$ 23,125	\$ 23,250	\$ 23,250
Provision for loan losses	206	497	924	708
Loans charged-off	(245)	(970)	(838)	(1,433)
Recoveries on loans previously charged-off	39	248	414	375
Balance, end of period	<u>\$ 23,750</u>	<u>\$ 22,900</u>	<u>\$ 23,750</u>	<u>\$ 22,900</u>

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, 2018, PCI loans acquired in the Castle Rock and Home State transactions are not considered material and as a result separate PCI disclosures are not included.

Table of Contents

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, 2018 and September 30, 2017. 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	Consumer and Installment	Commercial and Other	Total
(In thousands)				
Allowance for Loan Losses				
Balance as of January 1, 2018	\$ 18,545	\$ 310	\$ 4,395	\$ 23,250
Charge-offs	(9)	(424)	(405)	(838)
Recoveries	330	16	68	414
Provision (credit)	(949)	327	1,546	924
Balance as of September 30, 2018	<u>\$ 17,917</u>	<u>\$ 229</u>	<u>\$ 5,604</u>	<u>\$ 23,750</u>
Balance as of July 1, 2018	\$ 18,058	\$ 212	\$ 5,480	\$ 23,750
Charge-offs	(8)	(126)	(111)	(245)
Recoveries	14	9	16	39
Provision (credit)	(147)	134	219	206
Balance as of September 30, 2018	<u>\$ 17,917</u>	<u>\$ 229</u>	<u>\$ 5,604</u>	<u>\$ 23,750</u>

Balances at September 30, 2018:

Allowance for Loan Losses				
Individually evaluated	\$ -	\$ -	\$ 2,351	\$ 2,351
Collectively evaluated	17,917	229	3,253	21,399
Total	<u>\$ 17,917</u>	<u>\$ 229</u>	<u>\$ 5,604</u>	<u>\$ 23,750</u>
Loans				
Individually evaluated	\$ 8,886	\$ -	\$ 12,170	\$ 21,056
Collectively evaluated	2,341,297	54,860	512,202	2,908,359
Total	<u>\$ 2,350,183</u>	<u>\$ 54,860</u>	<u>\$ 524,372</u>	<u>\$ 2,929,415</u>

	Real Estate	Consumer and Installment	Commercial and Other	Total
(In thousands)				
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	<u>\$ 18,870</u>	<u>\$ 183</u>	<u>\$ 3,847</u>	<u>\$ 22,900</u>
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	<u>\$ 18,870</u>	<u>\$ 183</u>	<u>\$ 3,847</u>	<u>\$ 22,900</u>

Balances at December 31, 2017:

Allowance for Loan Losses				
Individually evaluated	\$ 1	\$ -	\$ 1,121	\$ 1,122
Collectively evaluated	18,544	310	3,274	22,128
Total	<u>\$ 18,545</u>	<u>\$ 310</u>	<u>\$ 4,395</u>	<u>\$ 23,250</u>
Loans				
Individually evaluated	\$ 11,256	\$ 1	\$ 12,363	\$ 23,620
Collectively evaluated	2,225,944	74,675	481,424	2,782,043
Total	<u>\$ 2,237,200</u>	<u>\$ 74,676</u>	<u>\$ 493,787</u>	<u>\$ 2,805,663</u>

Table of Contents

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 costs and fees. 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, 2018	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
(In thousands)					
Impaired loans with no related allowance:					
Commercial and residential real estate	\$ 7,791	\$ 8,330	\$ -	\$ 8,871	\$ 270
Construction	-	-	-	-	-
Commercial	6,728	7,254	-	3,987	309
Consumer	72	86	-	214	5
Other	1,921	2,503	-	2,153	49
Total	<u>\$ 16,512</u>	<u>\$ 18,173</u>	<u>\$ -</u>	<u>\$ 15,225</u>	<u>\$ 633</u>
Impaired loans with a related allowance:					
Commercial and residential real estate	\$ 24	\$ 24	\$ -	\$ 35	\$ 1
Construction	-	-	-	-	-
Commercial	4,399	4,528	2,351	7,085	37
Consumer	121	131	-	137	3
Other	-	-	-	-	-
Total	<u>\$ 4,544</u>	<u>\$ 4,683</u>	<u>\$ 2,351</u>	<u>\$ 7,257</u>	<u>\$ 41</u>
Total impaired loans:					
Commercial and residential real estate	\$ 7,815	\$ 8,354	\$ -	\$ 8,906	\$ 271
Construction	-	-	-	-	-
Commercial	11,127	11,782	2,351	11,072	346
Consumer	193	217	-	351	8
Other	1,921	2,503	-	2,153	49
Total impaired loans	<u>\$ 21,056</u>	<u>\$ 22,856</u>	<u>\$ 2,351</u>	<u>\$ 22,482</u>	<u>\$ 674</u>

December 31, 2017	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
(In thousands)					
Impaired loans with no related allowance:					
Commercial and residential real estate	\$ 9,981	\$ 10,705	\$ -	\$ 16,166	\$ 2,052
Construction	-	-	-	-	-
Commercial	1,006	1,553	-	886	195
Consumer	367	425	-	88	-
Other	2,233	2,838	-	1,066	62
Total	<u>\$ 13,587</u>	<u>\$ 15,521</u>	<u>\$ -</u>	<u>\$ 18,206</u>	<u>\$ 2,309</u>
Impaired loans with a related allowance:					
Commercial and residential real estate	\$ 46	\$ 157	\$ 1	\$ 779	\$ -
Construction	-	-	-	-	-
Commercial	9,807	9,899	1,120	5,262	447
Consumer	180	214	1	329	18
Other	-	-	-	635	6
Total	<u>\$ 10,033</u>	<u>\$ 10,270</u>	<u>\$ 1,122</u>	<u>\$ 7,005</u>	<u>\$ 471</u>
Total impaired loans:					
Commercial and residential real estate	\$ 10,027	\$ 10,862	\$ 1	\$ 16,945	\$ 2,052
Construction	-	-	-	-	-
Commercial	10,813	11,452	1,120	6,148	642
Consumer	547	639	1	417	18
Other	2,233	2,838	-	1,701	68
Total impaired loans	<u>\$ 23,620</u>	<u>\$ 25,791</u>	<u>\$ 1,122</u>	<u>\$ 25,211</u>	<u>\$ 2,780</u>

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, 2018	30-89 Days Past Due	90 Days + Past Due and Still Accruing	90 Days + Past Due and Nonaccrual	Total Nonaccrual and Past Due	Total Loans, Held for Investment
(In thousands)					
Commercial and residential real estate	\$ 7	\$ -	\$ 304	\$ 311	\$ 2,075,012
Construction	-	-	-	-	125,335
Commercial	686	-	3,657	4,343	558,316
Consumer	1,523	-	83	1,606	114,348
Other	716	-	986	1,702	56,404
Total	<u>\$ 2,932</u>	<u>\$ -</u>	<u>\$ 5,030</u>	<u>\$ 7,962</u>	<u>\$ 2,929,415</u>

December 31, 2017	30-89 Days Past Due	90 Days + Past Due and Still Accruing	90 Days + Past Due and Nonaccrual	Total Nonaccrual and Past Due	Total Loans, Held for Investment
(In thousands)					
Commercial and residential real estate	\$ 410	\$ -	\$ 1,750	\$ 2,160	\$ 1,977,335
Construction	-	-	-	-	99,960
Commercial	1,663	-	2,079	3,742	523,330
Consumer	469	-	444	913	143,059
Other	327	-	1,281	1,608	61,979
Total	<u>\$ 2,869</u>	<u>\$ -</u>	<u>\$ 5,554</u>	<u>\$ 8,423</u>	<u>\$ 2,805,663</u>

[Table of Contents](#)

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 \$232,000 for the nine months ended September 30, 2018 and \$173,000 for the nine months ended September 30, 2017. 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 \$85,000 for the third quarter 2018 and \$24,000 for the third quarter 2017.

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, 2018	Commercial & Residential					Total
	Real Estate	Construction	Commercial	Consumer	Other	
	(In thousands)					
Non-classified	\$ 2,065,796	\$ 125,305	\$ 547,729	\$ 114,145	\$ 52,870	\$ 2,905,845
Substandard	8,716	-	10,452	175	3,520	22,863
Doubtful	-	-	-	-	-	-
Subtotal	2,074,512	125,305	558,181	114,320	56,390	2,928,708
Deferred costs and (fees)	500	30	135	28	14	707
Loans, held for investment, net	\$ 2,075,012	\$ 125,335	\$ 558,316	\$ 114,348	\$ 56,404	\$ 2,929,415

December 31, 2017	Commercial & Residential					Total
	Real Estate	Construction	Commercial	Consumer	Other	
	(In thousands)					
Non-classified	\$ 1,964,934	\$ 99,965	\$ 513,563	\$ 142,512	\$ 57,256	\$ 2,778,230
Substandard	12,497	-	9,792	554	4,726	27,569
Doubtful	-	-	-	-	-	-
Subtotal	1,977,431	99,965	523,355	143,066	61,982	2,805,799
Deferred (fees) and costs	(96)	(5)	(25)	(7)	(3)	(136)
Loans, held for investment, net	\$ 1,977,335	\$ 99,960	\$ 523,330	\$ 143,059	\$ 61,979	\$ 2,805,663

The book balance of TDRs at September 30, 2018 and December 31, 2017, was \$16,175,000 and \$19,256,000, respectively. Management established approximately \$7,000 and \$53,000 in specific reserves for these loans as of September 30, 2018 and December 31, 2017, respectively. The Company had an additional \$3,027,000 and \$4,181,000 committed on loans classified as TDRs at September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 2018, the terms of five loans totaling \$1,064,000, were modified in troubled debt restructurings. The modifications of the terms of the five loans included four restructurings of payment terms and one renewal of a loan with a term more favorable to the borrower than would otherwise be available based on the borrower's financial strength. During the three months ended September 30, 2018, no loans were modified in troubled debt restructurings.

Table of Contents

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. There were no material charge-offs or provisions recorded during the three and nine months ended September 30, 2018 or September 30, 2017 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 was a single default on a TDR in the second quarter 2018 with a balance of \$22,000. During the third quarter 2018, this defaulted TDR was charged-off. There were no defaults on TDRs during the nine months ended September 30, 2017.

(5) Goodwill and Other Intangible Assets

The Company recognized \$2,811,000 in goodwill as a result of the January 16, 2018 Wagner acquisition, \$8,702,000 in goodwill as a result of the Castle Rock transaction on October 27, 2017, and \$56,404,000 in goodwill as a result of the Home State transaction on September 8, 2016.

Other intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual values. As of September 30, 2018, the Company's intangible assets were comprised of its core deposit intangible assets, its customer relationship intangible assets and a non-compete intangible asset.

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:

		September 30,	December 31,
	Useful Life	2018	2017
		(In thousands)	
Core deposit intangible assets	10 - 15 years	\$ 75,956	\$ 75,956
Core deposit intangible assets accumulated amortization		(66,900)	(65,272)
Core deposit intangible assets, net		9,056	10,684
Customer relationship intangible assets	10 - 13 years	\$ 9,764	\$ 6,243
Customer relationship intangible assets accumulated amortization		(3,493)	(2,486)
Customer relationship intangible assets, net		6,271	3,757
Non-compete agreements intangible asset	3 years	\$ 640	\$ -
Non-compete agreements intangible asset accumulated amortization		(153)	-
Non-compete agreements intangible asset, net		487	-
Total other intangible assets, net		<u>\$ 15,814</u>	<u>\$ 14,441</u>

(6) Borrowings

A summary of borrowings is as follows:

	Principal	Interest Rate	Maturity Date	Total Committed
(Dollars in thousands)				
<i>September 30, 2018</i>				
Short-term borrowings:				
American Financial Exchange	\$ -	2.35%	overnight	\$ 64,000
Bankers' Bank of the West	-	2.70%	overnight	10,000
Federal Reserve Bank	-	2.75%	overnight	821
U.S. Bank	-	2.75%	overnight	5,750
Wells Fargo	-	2.42%	overnight	10,000
Wells Fargo - Holding Company LOC	-	5.50%	overnight	10,000
Zions	-	2.39%	overnight	25,000
FHLB line of credit	183,060	2.35%	overnight	738,536
Total short-term borrowings	<u>\$ 183,060</u>			
Long-term borrowings:				
FHLB term notes (variable rate)	\$ 25,000	2.28%	March 7, 2019	738,536
FHLB term notes (variable rate)	25,000	2.33%	August 2, 2019	738,536
Total long-term borrowings	<u>\$ 50,000</u>			
Total borrowings	<u>\$ 233,060</u>			
<i>December 31, 2017</i>				
Short-term borrowings:				
Bankers' Bank of the West	\$ -	2.00%	overnight	\$ 10,000
Federal Reserve Bank	-	2.00%	overnight	1,650
U.S. Bank	-	2.00%	overnight	5,750
Wells Fargo	-	1.85%	overnight	10,000
Wells Fargo - Holding Company LOC	-	4.75%	overnight	10,000
Zions	-	1.64%	overnight	25,000
FHLB line of credit	157,444	1.47%	overnight	706,251
Total short-term borrowings	<u>\$ 157,444</u>			
Long-term borrowings:				
FHLB term notes (fixed rate)	\$ 20,000	2.52%	January 23, 2018	706,251
FHLB term notes (variable rate)	25,000	1.48%	March 7, 2018	706,251
FHLB term notes (variable rate)	25,000	1.45%	August 3, 2018	706,251
Total long-term borrowings	<u>\$ 70,000</u>			
Total borrowings	<u>\$ 227,444</u>			

At September 30, 2018, the Company's outstanding borrowings were \$233,060,000 compared to \$227,444,000 at December 31, 2017. These borrowings at September 30, 2018 consisted of \$50,000,000 in term notes and \$183,060,000 of advances on our line of credit, both with the Federal Home Loan Bank (the "FHLB"). At December 31, 2017, outstanding borrowings consisted of \$70,000,000 of term notes and \$157,444,000 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 2.35% at September 30, 2018. The Company has two variable rate term notes with the FHLB. The term notes are each \$25,000,000 that mature on March 7, 2019 and August 2, 2019 carry an interest rate that resets quarterly. As of September 30, 2018, the rates on our variable rate term notes were set at 2.28% and 2.33%, respectively.

The Company has an advance, pledge and security agreement with the FHLB and had pledged qualifying loans and securities in the amount of \$738,536,000 at September 30, 2018 and \$706,251,000 at December 31, 2017. The maximum credit allowance for future borrowings, including term notes and advances on the line of credit, was \$505,476,000 at September 30, 2018 and \$477,474,000 at December 31, 2017.

[Table of Contents](#)

The Company had additional availability with correspondent banks of \$125,571,000 and \$62,400,000 at September 30, 2018 and December 31, 2017, respectively, as outlined in the table above.

In March 2018, the holding company renewed its agreement for a \$10,000,000 secured 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 15, 2019. Under the credit agreement, we can elect a fixed or floating interest rate on each advance. As of September 30, 2018, no amounts had been borrowed on this line of credit.

(7) Subordinated Debentures and Trust Preferred Securities

At September 30, 2018, the Company's outstanding subordinated debentures and notes (collectively, the "Debentures") consisted of \$65,774,000 in debt, partially offset by \$647,000 in debt issuance costs. At December 31, 2017, the Company's outstanding Debentures consisted of \$65,774,000 in debt, partially offset by \$709,000 in debt issuance costs. As of September 30, 2018, the Debentures carried a weighted average cost of funds of 5.52% compared to 5.14% at December 31, 2017.

The Company's Debentures were issued in three separate series. The first two issuances have a maturity of 30 years from their 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 TruPS. The Guaranty Capital Trust III TruPS became callable at each quarterly interest payment date starting on July 7, 2008. The CenBank Statutory Trust III TruPS became callable at each quarterly interest payment date starting on April 15, 2009.

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.

In July 2016, the Company issued its third set of Debentures in anticipation of closing on the Home State transaction. This third issuance of \$40,000,000 Fixed-to-Floating rate Subordinated Notes (the "Notes") initially bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears and mature July 20, 2026. The carrying balance of the Notes at September 30, 2018 was comprised of the \$40,000,000 face amount net of unamortized debt-issuance costs of \$647,000. The terms of the Notes provide that 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, 2018, the Company was in compliance with all financial covenants of all three of the Debentures.

At September 30, 2018, the Company had accrued, unpaid interest on all three series of Debentures of approximately \$794,000 compared to \$1,305,000 at December 31, 2017. Interest payable on Debentures is included in interest payable and other liabilities on the 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 both September 30, 2018 and December 31, 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.

[Table of Contents](#)

The following table summarizes the terms of each outstanding subordinated debenture issuance at September 30, 2018 (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	1/15/2019	Variable	LIBOR + 2.65%	4.99 %	1/15/2019
Guaranty Capital Trust III Subordinated Note	6/30/2003	10,310	7/7/2033	1/7/2019	Variable	LIBOR + 3.10%	5.44 %	1/7/2019
	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, 2018, the rate on the Guaranty Capital Trust III subordinated debentures reset to 5.54%. On October 15, 2018, the rate on the CenBank Trust III subordinated debentures reset to 5.09%. The subordinated notes issued July 18, 2016 are fixed at 5.75% until July 20, 2021 at which point the terms of the notes provide that 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, 2018	December 31, 2017
(In thousands)		
Commitments to extend credit:		
Variable	\$ 499,399	\$ 508,186
Fixed	92,041	116,026
Total commitments to extend credit	<u>\$ 591,440</u>	<u>\$ 624,212</u>
Standby letters of credit	\$ 11,192	\$ 12,398

At September 30, 2018, the rates on the fixed rate commitments to extend credit ranged from 2.90% to 7.00%.

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.

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. 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.

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)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance	
(In thousands)					
Assets/(Liabilities) at September 30, 2018					
State and municipal securities	\$	-\$	71,004 \$	7,090 \$	78,094
Mortgage-backed securities – agency / residential	-	156,476	-	-	156,476
Corporate securities	-	95,196	-	-	95,196
Collateralized loan obligations	-	5,259	-	-	5,259
Interest rate swap - cash flow hedge	-	176	-	-	176
Interest rate swap - cash flow hedge	-	(115)	-	-	(115)
Assets/(Liabilities) at December 31, 2017					
State and municipal securities	\$	-\$	75,162 \$	7,324 \$	82,486
Mortgage-backed securities – agency / residential	-	131,180	-	-	131,180
Corporate securities	-	103,512	-	-	103,512
Collateralized loan obligations	-	12,799	-	-	12,799
Interest rate swaps - cash flow hedge	-	(1,010)	-	-	(1,010)

There were no transfers of financial assets and liabilities among Level 1, Level 2 and Level 3 during the nine months ended September 30, 2018.

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, 2018 and September 30, 2017:

State and Municipal Securities			
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	
(In thousands)			
Beginning balance	\$	7,169 \$	7,324
Total unrealized gains (losses) included in:			
Net income		1	7
Other comprehensive income (loss)		-	-
Sales, calls and prepayments		(80)	(241)
Transfers in and (out) of Level 3		-	-
Balance September 30, 2018	\$	7,090 \$	7,090

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 September 30, 2017	\$	7,401 \$	7,401

[Table of Contents](#)

For the three and nine months ended September 30, 2018 and September 30, 2017, 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, 2018 and September 30, 2017, 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, 2018 and December 31, 2017:

September 30, 2018	Fair Value	Valuation Technique	Unobservable Inputs	Range
				(In thousands)
State and municipal securities	\$ 7,090	discounted cash flow	discount rate	2.90%-3.40%
Total	<u>\$ 7,090</u>			

December 31, 2017	Fair Value	Valuation Technique	Unobservable Inputs	Range
				(In thousands)
State and municipal securities	\$ 7,324	discounted cash flow	discount rate	2.50%-3.00%
Total	<u>\$ 7,324</u>			

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, 2018 and December 31, 2017.

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, 2018 and December 31, 2017.

Fair Value of Financial Instruments

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

Fair Value Measurements at September 30, 2018:					
Carrying Amount	Level 1	Level 2	Level 3	Total	
(In thousands)					
Financial assets:					
Cash and cash equivalents	\$ 39,188	\$ 39,188	\$ -	\$ -	39,188
Time deposits with banks	254	254	-	-	254
Securities available for sale	335,025	-	327,935	7,090	335,025
Securities held to maturity	251,188	-	239,215	2,421	241,636
Bank stocks	26,021	n/a	n/a	n/a	n/a
Loans held for sale	2,228	2,451	-	-	2,451
Loans held for investment, net	2,905,665	-	-	2,814,414	2,814,414
Accrued interest receivable	13,091	-	13,091	-	13,091
Interest rate swap - cash flow hedge	176	-	176	-	176
Financial liabilities:					
Deposits	\$ 3,059,947	\$ -	\$ 3,054,183	\$ -	3,054,183
Federal funds purchased and sold under agreements to repurchase	8,622	-	8,622	-	8,622
Short-term borrowings	183,060	-	183,060	-	183,060
Subordinated debentures	65,127	-	-	63,001	63,001
Long-term borrowings	50,000	-	49,859	-	49,859
Accrued interest payable	1,751	-	1,751	-	1,751
Interest rate swap - cash flow hedge	115	-	115	-	115

Fair Value Measurements at December 31, 2017:					
Carrying Amount	Level 1	Level 2	Level 3	Total	
(In thousands)					
Financial assets:					
Cash and cash equivalents	\$ 51,553	\$ 51,553	\$ -	\$ -	51,553
Time deposits with banks	254	254	-	-	254
Securities available for sale	329,977	-	322,653	7,324	329,977
Securities held to maturity	259,916	-	255,189	2,476	257,665
Bank stocks	24,419	n/a	n/a	n/a	n/a
Loans held for sale	1,725	1,898	-	-	1,898
Loans held for investment, net	2,782,413	-	-	2,771,262	2,771,262
Accrued interest receivable	11,441	-	11,441	-	11,441
Financial liabilities:					
Deposits	\$ 2,941,627	\$ -	\$ 2,937,584	\$ -	2,937,584
Federal funds purchased and sold under agreements to repurchase	44,746	-	44,746	-	44,746
Short-term borrowings	157,444	-	157,444	-	157,444
Subordinated debentures	65,065	-	-	61,129	61,129
Long-term borrowings	70,000	-	70,141	-	70,141
Accrued interest payable	1,930	-	1,930	-	1,930
Interest rate swap - cash flow hedge	1,010	-	1,010	-	1,010

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

Table of Contents

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, Bankers' Bank of the West stock and Pacific Coast Bankers' Bank stock. These three stocks comprise the majority of the balance of the Company's bank stocks.

(c) ***Loans Held for Investment***

Beginning in the first quarter 2018, the fair value of loans was determined using an exit price methodology as prescribed by ASU 2016-01, which became effective in the first quarter 2018. The exit price estimation of fair value is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital (Level 3). In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. In comparison, loan fair values as of December 31, 2017 were estimated based on an entrance price methodology. As a result, the fair value adjustments as of September 30, 2018 and December 31, 2017 are not comparable.

(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).

Table of Contents

(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*

The fair value of interest rate swaps is 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, 2018 and December 31, 2017:

	Balance Sheet Location	Fair Value	
		September 30, 2018	December 31, 2017
(In thousands)			
Derivatives designated as hedging instruments			
Assets:			
Interest rate swaps	Other assets	\$ 176	\$ -
Liabilities:			
Interest rate swaps	Other liabilities	\$ 115	\$ 1,010

[Table of Contents](#)

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, 2018, and December 31, 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, 2018 and December 31, 2017 is included in the table below:

	September 30, 2018	December 31, 2017
(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	2.1 years	2.9 years
Unrealized gains (losses), net	\$ 61	\$ (1,010)

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, 2018 and September 30, 2017, 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, less than \$1,000 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, 2018 and September 30, 2017:

Interest Rate Swaps with Hedge Designation	Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
(In thousands)					
Gain or (loss) recognized in OCI on derivative - net of tax	Not applicable	\$ 76	\$ 20	\$ 609	\$ (116)
(Gain) or loss reclassified from accumulated OCI into income (effective portion) - net of tax	Interest expense	39	118	198	378

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.

[Table of Contents](#)

The Company has minimum collateral posting thresholds with certain of its derivative counterparties and as of September 30, 2018 had posted \$3,584,000 against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2018, 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, 2018 and September 30, 2017:

	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, 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	<u>\$ (2,466)</u>	<u>\$ (1,452)</u>	<u>\$ (873)</u>	<u>\$ (4,791)</u>
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	<u>\$ (2,466)</u>	<u>\$ (1,452)</u>	<u>\$ (873)</u>	<u>\$ (4,791)</u>
Balance, July 1, 2018	\$ (8,249)	\$ (1,514)	\$ 6	\$ (9,757)
Other comprehensive income (loss)				
before reclassifications, net of tax	(1,952)	-	76	(1,876)
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	-	77	39	116
Net other comprehensive income (loss)	(1,952)	77	115	(1,760)
Balance, September 30, 2018	<u>\$ (10,201)</u>	<u>\$ (1,437)</u>	<u>\$ 121</u>	<u>\$ (11,517)</u>
Balance, January 1, 2018	\$ (2,751)	\$ (1,377)	\$ (566)	\$ (4,694)
Other comprehensive income (loss)				
before reclassifications, net of tax	(6,845)	-	609	(6,236)
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	(12)	238	198	424
Net other comprehensive income (loss)	(6,857)	238	807	(5,812)
Reclassification of stranded tax effect	(593)	(298)	(120)	(1,011)
Balance, September 30, 2018	<u>\$ (10,201)</u>	<u>\$ (1,437)</u>	<u>\$ 121</u>	<u>\$ (11,517)</u>

[Table of Contents](#)

The following table summarizes the significant amounts reclassified out of each component of AOCI for the three and nine months ended September 30, 2018 and September 30, 2017:

Details about AOCI Components	Amount Reclassified from AOCI				Affected Income Statement Line Item
	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2018	2017	2018	2017	
(In thousands)					
Unrealized gains and losses on available for sale securities	\$ -	\$ 86	\$ (16)	\$ 86	(Gain) loss on the sale of securities
	-	(33)	4	(33)	Income tax effect
	\$ -	\$ 53	\$ (12)	\$ 53	Net income
Unrealized gains and losses on held to maturity securities	\$ 102	\$ 120	\$ 316	\$ 365	Interest income
	(25)	(46)	(78)	(139)	Income tax effect
	\$ 77	\$ 74	\$ 238	\$ 226	Net income
Unrealized gains and losses on cash flow hedges	\$ 52	\$ 190	\$ 263	\$ 609	Interest expense
	(13)	(72)	(65)	(231)	Income tax effect
	\$ 39	\$ 118	\$ 198	\$ 378	Net income
Total reclassifications for the period	\$ 116	\$ 245	\$ 424	\$ 657	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, 2018, there were 312,056 and 118,445 outstanding awards under the 2015 Plan and the Incentive Plan, respectively. As of September 30, 2018, there were 497,975 shares remaining available for grant under the 2015 Plan.

Of the 430,501 shares represented by unvested awards at September 30, 2018, approximately 417,000 shares are expected to vest. At September 30, 2018, there were 270,064 shares of restricted stock outstanding that were subject to a performance condition. As of September 30, 2018, management expects that approximately 264,000 of these shares will vest and that the remaining shares will expire unvested. The performance shares that are expected to vest relate to awards granted to various key employees from March 2014 through May 2018. The vesting of these

Table of Contents

performance shares is contingent upon meeting certain return on average asset performance measures. The performance-based shares awarded in 2014, 2016, 2017 and 2018 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, 2018, management expected that all of the performance awards made in 2014, 2016, 2017 and 2018 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, 2018 is presented in the table below:

	Shares	Weighted Average Fair Value on Award Date
Unearned at January 1, 2018	434,149	\$ 17.05
Awarded	135,038	27.95
Forfeited	(13,194)	23.95
Vested	(125,492)	16.44
Unearned at September 30, 2018	<u>430,501</u>	<u>\$ 20.44</u>

The Company recognized \$2,585,000 and \$2,272,000 in stock-based compensation expense for services rendered for the nine months ended September 30, 2018 and September 30, 2017, respectively. The total income tax benefit recognized on share-based compensation recorded during the nine months ended September 30, 2018 and September 30, 2017, was \$638,000 and \$864,000, respectively. The Company recognized \$819,000 and \$769,000 in stock-based compensation expense for services rendered for the three months ended September 30, 2018 and September 30, 2017, respectively. The total income tax benefit recognized on share-based compensation recorded during the three months ended September 30, 2018 and September 30, 2017, was \$202,000 and \$293,000, respectively. In addition to the tax benefit on recorded share-based compensation expense, the Company recognized an excess tax benefit of \$356,000 and \$582,000 during the nine months ended September 30, 2018 and September 30, 2017, respectively. Likewise, the excess tax benefit recognized during the third quarter 2018 and 2017 was \$19,000 and \$22,000, 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, 2018 and September 30, 2017 was \$3,774,000 and \$2,845,000, respectively. The fair value of shares that vested in the nine months ended September 30, 2018 and September 30, 2017 was approximately \$3,506,000 and \$3,567,000, respectively. At September 30, 2018, compensation cost of \$4,253,000 related to unvested awards not yet recognized is expected to be recognized over a weighted-average period of 1.1 years.

Pursuant to the terms of the reorganization agreement, upon closing of the merger, shares of restricted stock awarded under the Incentive Plan will vest immediately while shares of restricted stock awarded under the 2015 Plan, subject to certain exceptions, will be converted into restricted stock in Independent, with additional clarification added in the following sentence. For performance-based restricted stock awarded under the 2015 Plan, the related performance criteria will be deemed to have been satisfied at the target level and the restricted-stock will convert to time-based restricted stock in Independent set to vest according to the original vesting schedule.

(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, 2018	Ratio at December 31, 2017	Minimum Requirement for "Adequately Capitalized" Institution plus fully phased in Capital Conservation Buffer	Minimum Requirement for "Well- Capitalized" Institution
<i>Common Equity Tier 1 Risk-Based Capital Ratio</i>				
Consolidated	10.98 %	10.57 %	7.00 %	N/A
Guaranty Bank and Trust Company	12.46 %	12.29 %	7.00 %	6.50 %
<i>Tier 1 Risk-Based Capital Ratio</i>				
Consolidated	11.75 %	11.36 %	8.50 %	N/A
Guaranty Bank and Trust Company	12.46 %	12.29 %	8.50 %	8.00 %
<i>Total Risk-Based Capital Ratio</i>				
Consolidated	13.71 %	13.36 %	10.50 %	N/A
Guaranty Bank and Trust Company	13.20 %	13.03 %	10.50 %	10.00 %
<i>Leverage Ratio</i>				
Consolidated	10.46 %	10.21 %	4.00 %	N/A
Guaranty Bank and Trust Company	11.10 %	11.05 %	4.00 %	5.00 %

(14) Revenue

On January 1, 2018, the Company implemented accounting standards update 2014-09 Revenue from Contracts with Customers, codified at ASC 606. The majority of the Company's revenues are generated through interest earned on loans, securities and other sources which fall outside the scope of ASC 606. Revenue earned by the Company subject to ASC 606 was primarily comprised of deposit service charges, investment management fees and other noninterest income.

The Company adopted ASC 606 using the modified retrospective transition method. As of December 31, 2017, the Company had no uncompleted customer contracts and as a result no cumulative transition adjustment was posted to the Company's accumulated deficit during 2018. Results for reporting periods beginning January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported under legacy GAAP.

[Table of Contents](#)

All of the Company's revenue that is subject to ASC 606 is included in noninterest income, however not all noninterest income is subject to ASC 606. The following table presents the Company's sources of noninterest income for the three and nine months ended September 30, 2018 and September 30, 2017. Totals in the table may not agree to the amounts included in the Company's consolidated statements of income as certain sources of revenue not subject to ASC 606 are excluded from the table.

Income Statement Location		Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
(In thousands)					
Overdraft related income	Deposit service and other fees	\$ 836	\$ 875	\$ 2,482	\$ 2,603
Deposit service income	Deposit service and other fees	170	155	541	461
Analysis income	Deposit service and other fees	510	527	1,458	1,519
Wire fee income	Deposit service and other fees	88	59	253	168
Interchange income	Deposit service and other fees	1,798	1,688	5,161	4,919
Safe deposit box rental income	Deposit service and other fees	57	54	180	176
Other fee income	Deposit service and other fees	54	126	160	216
Subtotal		\$ 3,513	\$ 3,484	\$ 10,235	\$ 10,062
Trust fee income	Investment management and trust	\$ 784	\$ 567	\$ 1,922	\$ 1,691
Investment advisory income	Investment management and trust	1,966	911	5,592	2,791
Subtotal		\$ 2,750	\$ 1,478	\$ 7,514	\$ 4,482
Gain (loss) on sale of assets	Other noninterest income	\$ 681	\$ 2	\$ 954	\$ 259
Other	Other noninterest income	112	200	359	420
Subtotal		\$ 793	\$ 202	\$ 1,313	\$ 679

A description of the Company's revenue streams accounted for under ASC 606 follows.

Overdraft-related income: The Company earns fees from its deposit customers for overdrafts and for maintaining accounts in an overdraft position. Overdraft fees are recognized at the point in time that the overdraft occurs or each day that an account remains in an overdraft position, which is the same time the Company's performance obligation is satisfied.

Deposit service income: The Company earns fees from its deposit customers for transaction-based and account maintenance services. Transaction-based fees, which include stop-payment fees, statement rendering and check printing are recognized at the time the transaction is executed, which is the same time the Company's performance obligation is satisfied. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month as the monthly maintenance performance obligation to the customer is satisfied.

Analysis Income: For deposit customers on account analysis, a variety of services are provided by the Bank. Services are charged in aggregate to customers on analysis over an established period. Services include remote deposit capture, merchant services, lockbox, ACH transmission, positive pay and cash sweep services. Because the performance obligation of providing the agreed upon services is satisfied monthly, recognition of revenue occurs monthly.

Interchange Income: The Company earns interchange income from cardholder transactions conducted with merchants, through various interchange networks with which the Company participates. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, as transaction processing services are provided to the deposit customer.

Investment advisory and trust fee income: The Company earns investment advisory and trust fee income by providing investment management and trust services to customers under investment management and trust contracts.

[Table of Contents](#)

These fees are earned over time based on the assets under management by the Company as of each quarter-end. As the direction of investment management and trust accounts is provided over time, the performance obligation to investment management and trust customers is satisfied over time and revenue is recognized over time.

Significant judgments made by the Company in recognizing revenue from contracts with customers include the estimation of variable consideration, primarily related to the refunding of deposit service fees and the recognition of investment management fees on a straight-line basis over time. The Company's estimate for refund obligations is based on historical trends and was not material as of September 30, 2018 or December 31, 2017. Investment management fees are recognized over time on a straight-line basis because the provision of advisory services occurs evenly over time and the straight-line method depicts the satisfaction of the Company's performance obligation to the customer.

With respect to deposit service charges, the deposit service charge is generated and revenue is recognized as customer activity occurs, which is also at the time the performance obligation is satisfied. As a result, the Company typically does not have contract liabilities, or unsatisfied performance obligations with deposit customers as of quarter-end. The majority of the Company's investment management fee revenue is billed quarterly in advance after each quarter end resulting in a contract liability balance being recorded as of the date of the billing. A limited amount of investment management fee revenue is billed in arrears, resulting in a contract asset being recorded as of quarter-end. The Company's performance obligation for investment management contracts with customers is satisfied evenly over time on a straight-line basis as investment management services are provided to the customer. This pattern of revenue recognition reflects the underlying provision of investment management services to the customer throughout the quarter. Because investment management fees are billed quarterly and earned during the quarter, the Company typically does not have contract liabilities or unsatisfied performance obligations with investment management customers as of quarter-end.

As of both September 30, 2018 and December 31, 2017, the Company had an immaterial amount of contract assets outstanding.

(15) 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 current legal actions will result in an unfavorable outcome 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.

A putative securities class action complaint was filed in the United States District Court for the District of Colorado on August 22, 2018, against the Company, the members of the Company's Board of Directors and Independent. The complaint alleged, among other things, that the defendants violated Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended, and certain rules and regulations promulgated thereunder by not disclosing certain allegedly material facts in the Joint Proxy Statement/Prospectus dated as of August 15, 2018 that was filed by the Company and Independent with the SEC on August 16, 2018.

The Company believes that the claims asserted in the lawsuit are without merit. However, to avoid the risk that the lawsuit may delay or otherwise adversely affect the consummation of the Merger and to minimize the expense of defending the lawsuit, on September 17, 2018, the Company filed a Current Report on Form 8-K in which it voluntarily made certain supplemental disclosures related to the Merger.

(16) Subsequent Events

On October 29, 2018 the Company's Board of Directors declared a quarterly cash dividend of 16.25 cents per share, payable on November 15, 2018 to stockholders of record on November 8, 2018.

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", "should", "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 and political 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.

Table of Contents

- The pendency of the proposed merger with Independent Bank Group, Inc. (“Independent”) pursuant to an Agreement and Plan of Reorganization dated May 22, 2018 (the “Reorganization Agreement”) and the related additional time that our management team spends on the proposed merger.
- The business uncertainties and contractual restrictions while the Merger is pending and the impact of these factors on employee retention.
- The possibility that the Reorganization Agreement with Independent is terminated or that the Merger does not close.
- 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 2017 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 a single limited liability company that holds 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 were completed on December 4, 2017.

On December 1, 2017, PCM entered into an Asset Purchase Agreement with Wagner Wealth Management LLC (“Wagner”). The transaction closed on January 16, 2018.

On May 22, 2018, the Company jointly announced with Independent the execution of the Reorganization Agreement, under which the Company would merge with and into Independent in an all-stock transaction. Independent’s Registration Statement on Form S-4, which registered the Independent shares to be issued in connection with the Merger, was filed with the Securities and Exchange Commission on August 15, 2018 and has been made effective. Independent’s shareholders approved the transaction at the special meeting of shareholders on September 24, 2018 and the Company’s stockholders approved the transaction at the Company’s special meeting of

[Table of Contents](#)

stockholders on September 25, 2018. Closing of the Merger remains subject to customary conditions, including the receipt of bank regulatory approvals and the satisfaction of other customary closing conditions. The Company expects the Merger to close late in the fourth quarter 2018.

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.

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.

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,		
	2018	2017	Change Favorable (Unfavorable)	2018	2017	Change Favorable (Unfavorable)
(In thousands, except for share data and ratios)						
Results of Operations:						
Interest income	\$ 38,115	\$ 34,688	\$ 3,427	\$ 112,214	\$ 98,962	\$ 13,252
Interest expense	5,325	3,354	(1,971)	14,453	9,957	(4,496)
Net interest income	32,790	31,334	1,456	97,761	89,005	8,756
Provision for loan losses	206	497	291	924	708	(216)
Net interest income after provision for loan losses	32,584	30,837	1,747	96,837	88,297	8,540
Noninterest income	8,272	6,130	2,142	22,597	18,874	3,723
Noninterest expense	21,610	21,807	197	66,227	62,839	(3,388)
Income before income taxes	19,246	15,160	4,086	53,207	44,332	8,875
Income tax expense	4,302	5,106	804	11,443	14,313	2,870
Net income	\$ 14,944	\$ 10,054	\$ 4,890	\$ 41,764	\$ 30,019	\$ 11,745

Common Share Data:

Earnings per common share—basic	\$ 0.52	\$ 0.36	\$ 0.16	\$ 1.45	\$ 1.08	\$ 0.37
Earnings per common share—diluted	\$ 0.51	\$ 0.36	\$ 0.15	\$ 1.44	\$ 1.07	\$ 0.37
Weighted average common shares outstanding—basic	28,868,984	27,920,658	948,326	28,851,952	27,900,627	951,325
Weighted average common shares outstanding—diluted	29,068,332	28,120,111	948,221	29,083,965	28,140,332	943,633
Average equity to average assets	11.36 %	10.89 %	0.47 %	11.17 %	10.73 %	0.44 %
Return on average equity	13.93 %	10.70 %	3.23 %	13.40 %	10.99 %	2.41 %
Return on average assets	1.58 %	1.17 %	0.41 %	1.50 %	1.18 %	0.32 %
Dividend payout ratio	31.39 %	34.71 %	(3.32)%	33.69 %	34.87 %	(1.18)%

	September 30, 2018	September 30, 2017	Change
Selected Balance Sheet Ratios:			
Total risk-based capital to risk-weighted assets	13.71 %	13.50 %	0.21 %
Leverage ratio	10.46 %	10.15 %	0.31 %
Loans ⁽¹⁾ , net of deferred costs and fees to deposits	95.73 %	91.84 %	3.89 %
Allowance for loan losses to loans ⁽¹⁾ , net of deferred costs and fees	0.81 %	0.86 %	(0.05)%
Allowance for loan losses to nonperforming loans	472.17 %	482.72 %	(10.55)%
Classified assets to allowance and Tier 1 capital ⁽²⁾	6.14 %	7.57 %	(1.43)%
Noninterest bearing deposits to total deposits	31.40 %	31.90 %	(0.50)%
Time deposits to total deposits	15.20 %	14.55 %	0.65 %

⁽¹⁾Loans held for investment

⁽²⁾Based on Bank only Tier 1 capital

Third Quarter 2018 Compared to Second Quarter 2018

Net income for the third quarter 2018 was \$14.9 million, or \$0.51 per diluted common share, compared to net income of \$13.3 million, or \$0.46 per diluted common share in the second quarter 2018. The \$1.7 million increase in net income in the third quarter 2018, compared to the second quarter 2018, was primarily due to a \$0.9 million increase in noninterest income, a \$1.1 million decline in noninterest expense and reduced provision for loan losses, partially offset by a \$0.5 million increase in income tax expense, attributable to increased pre-tax income. The third quarter 2018 increase in noninterest income, compared to second quarter 2018 was mostly a result of a \$0.7 million gain recognized on the sale of properties acquired in acquisitions. The third quarter 2018 decrease in noninterest expense, compared to the second quarter 2018, was primarily due to a \$0.6 million decrease in merger-related expenses attributable to the pending merger with and into Independent. The increase in income tax expense in the third quarter 2018, compared to the second quarter 2018, was primarily a result of the increase in pre-tax income. Net interest income declined \$0.1 million in the third quarter 2018, compared to the second quarter 2018, primarily as a result of the compression of net interest margin caused by the increasing cost of interest-bearing liabilities.

Third Quarter 2018 Compared to Third Quarter 2017

Net income for the third quarter 2018 was \$14.9 million, or \$0.51 per diluted common share, compared to net income of \$10.1 million, or \$0.36 per diluted common share in the third quarter 2017. The \$4.9 million increase in net income in the third quarter 2018, compared to the third quarter 2017, was attributable to a \$1.5 million increase in net interest income, a \$0.3 million reduction in the provision for loan losses, a \$2.1 million increase in noninterest income, a \$0.2 million decrease in noninterest expense and a \$0.8 million decrease in income tax expense. The \$1.5 million increase in net interest income in the third quarter 2018, compared to the third quarter 2017, was attributable to a \$3.4 million increase in interest income, partially offset by a \$2.0 million increase in interest expense. The \$2.1 million increase in noninterest income in the third quarter 2018, compared to the third quarter 2017, was primarily due to the \$1.3 million increase in investment management and trust income, as a result of the first quarter 2018 purchase of the assets under management of Wagner, in addition to \$0.7 million in gains recognized on the sale of properties acquired in acquisitions. The \$0.8 million reduction in income tax expense was the result of the reduction of the federal corporate income tax rate from 35% to 21% due to the December 2017, Tax Cuts and Jobs Act (the "Tax Act").

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, net income was \$41.8 million, or \$1.44 per diluted common share, compared to \$30.0 million, or \$1.07 per diluted common share for the same period in 2017. The \$11.7 million increase in net income during the nine months ended September 30, 2018, compared to the same period in 2017, was primarily attributable to an \$8.8 million increase in net interest income, a \$3.7 million increase in noninterest income and a \$2.9 million decrease in income tax expense, partially offset by a \$0.2 million increase in the provision for loan losses and a \$3.4 million increase in noninterest expense. The growth in net interest income was due to increases in average earning assets compounded by increased yield on earning assets, partially offset by an increase in the cost of interest-bearing liabilities. The \$3.7 million increase in noninterest income was mostly due to a \$3.0 million increase in investment management and trust income as a result of the Wagner acquisition. The \$2.9 million decrease in income tax expense is a result of the reduced federal corporate income tax rate, which became effective January 1, 2018 following the December 2017 signing of the Tax Act. The \$3.4 million increase in noninterest expense was mostly attributable to the increased personnel and occupancy expense related to growth of the Company through the Castle Rock and Wagner acquisitions, and a \$1.2 million increase in merger-related expenses related to the pending merger with and into Independent, partially offset by a \$1.6 million reduction in litigation-related settlements, compared to the same period in 2017.

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

[Table of Contents](#)

The following table summarizes the Company's net interest income and related spread and margin for the quarter ended September 30, 2018 and the prior four quarters:

Table 2

	Three Months Ended				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	(Dollars in thousands)				
Net interest income	\$ 32,790	\$ 32,878	\$ 32,093	\$ 31,794	\$ 31,334
Interest rate spread	3.44 %	3.54 %	3.54 %	3.56 %	3.71 %
Net interest margin	3.74 %	3.80 %	3.77 %	3.77 %	3.91 %
Net interest margin, fully tax equivalent ⁽¹⁾	3.80 %	3.87 %	3.84 %	3.89 %	4.02 %
Loan yield	4.67 %	4.71 %	4.59 %	4.57 %	4.73 %
Average cost of interest-bearing liabilities (including noninterest-bearing deposits)	0.64 %	0.59 %	0.52 %	0.44 %	0.44 %
Average cost of deposits (including noninterest-bearing deposits)	0.42 %	0.38 %	0.31 %	0.28 %	0.27 %

⁽¹⁾ 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 24.66% for 2018 and 38.01% for 2017.

The following table summarizes the Company's net interest income and related spread and margin for the nine months ended September 30, 2018 and September 30, 2017:

Table 3

	Nine Months Ended	
	September 30, 2018	September 30, 2017
	(Dollars in thousands)	
Net interest income	\$ 97,761	\$ 89,005
Interest rate spread	3.51 %	3.57 %
Net interest margin	3.77 %	3.77 %
Net interest margin, fully tax equivalent ⁽¹⁾	3.84 %	3.88 %
Loan yield	4.66 %	4.54 %
Average cost of interest-bearing liabilities (including noninterest-bearing deposits)	0.59 %	0.44 %
Average cost of deposits (including noninterest-bearing deposits)	0.37 %	0.25 %

⁽¹⁾ 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 24.66% for 2018 and 38.01% for 2017.

[Table of Contents](#)

The following table presents, 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, 2018			September 30, 2017		
	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⁾	\$ 2,870,984	\$ 33,825	4.67 %	\$ 2,593,667	\$ 30,902	4.73 %
Investment securities ⁽¹⁾						
Taxable	366,464	2,652	2.87 %	339,671	2,221	2.59 %
Tax-exempt	214,143	1,206	2.23 %	210,363	1,233	2.33 %
Bank stocks ⁽⁴⁾	26,060	406	6.18 %	19,993	275	5.46 %
Other earning assets	5,287	26	1.95 %	18,060	57	1.25 %
Total interest-earning assets	3,482,938	38,115	4.34 %	3,181,754	34,688	4.33 %
Non-earning assets:						
Cash and due from banks	36,488			35,426		
Other assets	226,837			206,044		
Total assets	\$ 3,746,263			\$ 3,423,224		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand and NOW	\$ 808,172	\$ 485	0.24 %	\$ 850,670	\$ 380	0.18 %
Money market	542,557	1,026	0.75 %	493,433	459	0.37 %
Savings	209,856	64	0.12 %	182,190	51	0.11 %
Time certificates of deposit	463,183	1,611	1.38 %	420,102	1,049	0.99 %
Total interest-bearing deposits	2,023,768	3,186	0.62 %	1,946,395	1,939	0.40 %
Borrowings:						
Repurchase agreements	55,016	23	0.17 %	33,958	16	0.19 %
Federal funds purchased	6,241	33	2.07 %	1	-	1.46 %
Subordinated debentures	65,119	937	5.71 %	65,035	868	5.30 %
Borrowings	193,921	1,146	2.34 %	91,087	531	2.31 %
Total interest-bearing liabilities	2,344,065	5,325	0.90 %	2,136,476	3,354	0.62 %
Noninterest bearing liabilities:						
Demand deposits	960,347			898,262		
Other liabilities	16,258			15,739		
Total liabilities	3,320,670			3,050,477		
Stockholders' equity	425,593			372,747		
Total liabilities and stockholders' equity	\$ 3,746,263			\$ 3,423,224		
Net interest income		\$ 32,790			\$ 31,334	
Net interest margin			3.74 %			3.91 %
Net interest margin, fully tax equivalent ⁽²⁾			3.80 %			4.02 %

⁽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 24.66% for 2018 and 38.01% for 2017.

⁽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.

Table 4 (continued)

	Nine Months Ended					
	September 30, 2018			September 30, 2017		
	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⁾	\$ 2,855,181	\$ 99,489	4.66 %	\$ 2,571,906	\$ 87,270	4.54 %
Investment securities ⁽¹⁾						
Taxable	362,807	7,763	2.86 %	351,818	6,892	2.62 %
Tax-exempt	215,544	3,659	2.27 %	204,814	3,713	2.42 %
Bank stocks ⁽⁴⁾	26,317	1,220	6.20 %	22,572	1,011	5.99 %
Other earning assets	6,250	83	1.78 %	8,953	76	1.13 %
Total interest-earning assets	3,466,099	112,214	4.33 %	3,160,063	98,962	4.19 %
Non-earning assets:						
Cash and due from banks	36,014			35,224		
Other assets	228,688			205,373		
Total assets	\$ 3,730,801			\$ 3,400,660		
Liabilities and Stockholders' Equity:						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand and NOW	\$ 820,093	\$ 1,340	0.22 %	\$ 810,763	\$ 1,091	0.18 %
Money market	532,590	2,456	0.62 %	487,635	1,194	0.33 %
Savings	207,748	178	0.11 %	177,968	147	0.11 %
Time certificates of deposit	462,550	4,260	1.23 %	403,068	2,830	0.94 %
Total interest-bearing deposits	2,022,981	8,234	0.54 %	1,879,434	5,262	0.37 %
Borrowings:						
Repurchase agreements	51,403	71	0.18 %	34,063	48	0.19 %
Federal funds purchased	2,879	56	2.62 %	1	-	1.46 %
Subordinated debentures	65,098	2,759	5.67 %	65,014	2,568	5.28 %
Borrowings	211,872	3,333	2.10 %	161,023	2,079	1.73 %
Total interest-bearing liabilities	2,354,233	14,453	0.82 %	2,139,535	9,957	0.62 %
Noninterest bearing liabilities:						
Demand deposits	943,743			881,017		
Other liabilities	16,003			15,053		
Total liabilities	3,313,979			3,035,605		
Stockholders' equity	416,822			365,055		
Total liabilities and stockholders' equity	\$ 3,730,801			\$ 3,400,660		
Net interest income		\$ 97,761			\$ 89,005	
Net interest margin			3.77 %			3.77 %
Net interest margin, fully tax equivalent ⁽²⁾			3.84 %			3.88 %

⁽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 24.66% for 2018 and 38.01% for 2017.

⁽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.

[Table of Contents](#)

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, 2018 Compared to Three Months Ended September 30, 2017			Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017		
	Net Change	Rate	Volume	Net Change	Rate	Volume
	(In thousands)			(In thousands)		
Interest income:						
Gross Loans, net of deferred costs and fees	\$ 2,923	\$ (340)	\$ 3,263	\$ 12,219	\$ 2,399	\$ 9,820
Investment Securities						
Taxable	431	248	183	871	651	220
Tax-exempt	(27)	(50)	23	(54)	(306)	252
Bank Stocks	131	40	91	209	36	173
Other earning assets	(31)	116	(147)	7	15	(8)
Total interest income	3,427	14	3,413	13,252	2,795	10,457
Interest expense:						
Deposits:						
Interest-bearing demand and NOW	105	123	(18)	249	236	13
Money market	567	517	50	1,262	1,143	119
Savings	13	5	8	31	6	25
Time certificates of deposit	562	446	116	1,430	971	459
Repurchase agreements	7	(2)	9	23	(1)	24
Federal funds purchased	33	-	33	56	-	56
Subordinated debentures	69	68	1	191	188	3
Borrowings	615	7	608	1,254	513	741
Total interest expense	1,971	1,164	807	4,496	3,056	1,440
Net interest income	\$ 1,456	\$ (1,150)	\$ 2,606	\$ 8,756	\$ (261)	\$ 9,017

Third Quarter 2018 Compared to Second Quarter 2018

Net interest income decreased to \$32.8 million for the third quarter 2018 compared to \$32.9 million in the second quarter 2018. The \$0.1 million decrease in net interest income was attributable to a \$0.4 million increase in interest income, offset by a \$0.4 million increase in interest expense. Interest income increased in the third quarter 2018 primarily as a result of an increase in average earning asset balances. The increase in interest expense in the third quarter 2018, compared to the second quarter 2018, was primarily due to a seven basis point increase in the cost of interest-bearing liabilities.

Third Quarter 2018 Compared to Third Quarter 2017

Net interest income increased \$1.5 million in the third quarter 2018, compared to the third quarter 2017, as a result of a \$3.4 million increase in interest income, partially offset by a \$2.0 million increase in interest expense over the same period. The increase in interest income was mostly the result of a \$301.2 million increase in average interest earning assets in the third quarter 2018, compared to the third quarter 2017. The increase in interest expense was attributable to increases in deposits and borrowings in addition to increased interest costs on both deposits and borrowings.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

During the nine months ended September 30, 2018, net interest income increased \$8.8 million, compared to the same period in 2017, primarily due to a \$306.0 million increase in average earning assets, partially offset by a \$214.7 million increase in interest-bearing liabilities.

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.

In the third quarter 2018, we recorded a \$0.2 million provision for loan losses, compared to a \$0.5 million provision for loan losses in the second quarter 2018 and a \$0.5 million provision for loan losses in the third quarter 2017. 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, 2018.

Net charge-offs in the third quarter 2018 were \$0.2 million, compared to net charge-offs of \$0.1 million in the second quarter 2018 and \$0.7 million of net charge-offs in the third quarter 2017.

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, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	(In thousands)				
Noninterest income:					
Deposit service and other fees	\$ 3,571	\$ 3,646	\$ 3,321	\$ 3,546	\$ 3,580
Investment management and trust	2,750	2,466	2,298	1,523	1,478
Increase in cash surrender value of life insurance	670	661	670	675	674
Gain (loss) on sale of securities	-	16	-	80	(86)
Gain on sale of SBA loans	430	255	231	285	143
Other	851	311	450	461	341
Total noninterest income	\$ 8,272	\$ 7,355	\$ 6,970	\$ 6,570	\$ 6,130

Third Quarter 2018 Compared to Second Quarter 2018

Noninterest income increased \$0.9 million during the third quarter 2018, compared to the second quarter 2018, primarily as a result of a \$0.7 million increase in gains recognized on the sale of long-lived assets due to the sale of certain properties obtained in recent acquisitions, included in other noninterest income.

Third Quarter 2018 Compared to Third Quarter 2017

Noninterest income increased \$2.1 million during the third quarter 2018, compared to the same quarter in 2017, primarily as a result of an increase in investment management and trust income attributable to the first quarter 2018 Wagner acquisition, in addition to a \$0.7 million increase in gains on the sale of long-lived assets.

[Table of Contents](#)

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

Table 7

	Nine Months Ended	
	September 30, 2018	September 30, 2017
(In thousands)		
Noninterest income:		
Deposit service and other fees	\$ 10,538	\$ 10,405
Investment management and trust	7,514	4,482
Increase in cash surrender value of life insurance	2,001	1,884
Gain (loss) on sale of securities	16	(86)
Gain on sale of SBA loans	916	971
Other	1,612	1,218
Total noninterest income	\$ 22,597	\$ 18,874

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, noninterest income increased \$3.7 million, compared to the same period in 2017, primarily due to increased investment management and trust income due to the first quarter 2018 Wagner acquisition, in addition to a \$0.7 million increase in gains recognized on the sale of long-lived assets.

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, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
(In thousands)					
Noninterest expense:					
Salaries and employee benefits	\$ 12,617	\$ 12,871	\$ 12,903	\$ 11,853	\$ 11,736
Occupancy expense	1,667	1,681	1,738	1,724	1,714
Furniture and equipment	1,009	1,031	1,060	1,004	974
Amortization of intangible assets	924	952	912	776	672
Other real estate owned, net	19	2	39	-	(20)
Insurance and assessments	694	670	697	671	642
Professional fees	905	1,040	1,091	974	929
Impairment of long-lived assets	-	-	-	170	-
Other general and administrative	3,775	4,424	3,506	6,784	5,160
Total noninterest expense	\$ 21,610	\$ 22,671	\$ 21,946	\$ 23,956	\$ 21,807

Third Quarter 2018 Compared to Second Quarter 2018

Third quarter 2018 noninterest expense decreased \$1.1 million, compared to the second quarter 2018, primarily as a result of a \$0.6 million decrease in merger-related expenses attributable to the pending merger with and into Independent. Merger-related expenses are included in other general and administrative expenses in table above.

Third Quarter 2018 Compared to Third Quarter 2017

Third quarter 2018 noninterest expense decreased \$0.2 million compared to the third quarter 2017, mostly due to a \$1.4 million decrease in other general and administrative expense, driven by a \$1.6 million litigation-related settlement in the third quarter 2017. The decrease in other general and administrative expense was offset by smaller increases in several other categories of noninterest expense. Salaries and employee benefits increased \$0.9 million in the third quarter 2018, compared to the third quarter 2017, primarily as a result of employees added in the fourth quarter 2017 Castle Rock acquisition and the first quarter 2018 Wagner acquisition. In the third quarter 2018,

[Table of Contents](#)

merger-related expenses were \$0.4 million related to the pending merger with and into Independent compared to third quarter 2017 merger-related expenses of \$0.3 million related to the Castle Rock acquisition.

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

Table 9

	Nine Months Ended	
	September 30, 2018	September 30, 2017
(In thousands)		
Noninterest expense:		
Salaries and employee benefits	\$ 38,391	\$ 34,909
Occupancy expense	5,086	4,940
Furniture and equipment	3,100	2,894
Amortization of intangible assets	2,788	1,969
Other real estate owned, net	60	174
Insurance and assessment	2,061	1,995
Professional fees	3,036	3,155
Impairment of long-lived assets	-	224
Other general and administrative	11,705	12,579
Total noninterest expense	\$ 66,227	\$ 62,839

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, noninterest expense increased \$3.4 million, compared to the same period in 2017, due to a \$3.5 million increase in salaries and employee benefits primarily attributable to increases in compensation and the addition of staff in the fourth quarter 2017 Castle Rock acquisition and the first quarter 2018 Wagner acquisition, combined with a \$1.2 million increase in merger-related expenses due to the pending merger with and into Independent, partially offset by the \$1.6 million decrease in litigation-related settlements compared to the same period in 2017.

Income Taxes

The Company's 2018 income tax expense has been favorably impacted by the Tax Act, which was signed into law in December 2017. This new tax law reduced the statutory federal corporate tax rate from 35.0% to 21.0%, beginning on January 1, 2018. The Company's third quarter 2018 income tax expense and effective tax rate were \$4.3 million and 22.4%, respectively, compared to second quarter 2018 income tax expense of \$3.8 million and effective tax rate of 22.1%, and third quarter 2017 income tax expense of \$5.1 million with an effective tax rate of 33.7%.

BALANCE SHEET ANALYSIS

The following sets forth certain key consolidated balance sheet data:

Table 10

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
(In thousands)					
Cash and cash equivalents	\$ 39,188	\$ 72,348	\$ 44,340	\$ 51,553	\$ 64,388
Time deposits with banks	254	254	254	254	254
Total investments	612,234	598,316	598,391	614,312	576,459
Total loans (including loans held for sale)	2,931,643	2,876,721	2,847,465	2,807,388	2,661,866
Total assets	3,810,527	3,775,967	3,721,651	3,698,890	3,510,046
Earning assets	3,546,698	3,506,911	3,454,670	3,424,769	3,266,698
Deposits	3,059,947	2,947,795	3,031,714	2,941,627	2,898,060
FHLB Borrowings	233,060	270,700	158,100	227,444	121,182

At September 30, 2018, the Company had total assets of \$3.8 billion, reflecting an increase of \$111.6 million compared to December 31, 2017 and an increase of \$300.5 million compared to September 30, 2017. The increase in total assets compared to December 31, 2017 was primarily due to a \$124.3 million increase in total loans, partially offset by a \$2.1 million decrease in total investments and a \$12.4 million decrease in cash. As of

[Table of Contents](#)

September 30, 2018, deposits increased \$118.3 million compared to December 31, 2017. The increase in total assets compared to September 30, 2017 was primarily due to a \$269.8 million increase in total loans, a \$35.8 million increase in investments, a \$14.0 million increase in goodwill and intangible assets and a \$5.7 million increase in bank owned life insurance. The increase in total assets compared to September 30, 2017 was funded by a \$161.9 million increase in deposits, a \$111.9 million increase in borrowings and a \$53.1 million increase in stockholder's equity. In Castle Rock transaction in the fourth quarter 2017 the Company acquired loans of \$71.1 million and deposits of \$128.4 million.

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

Table 11

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
(In thousands)					
Loans held for sale	\$ 2,228	\$ 1,766	\$ 1,940	\$ 1,725	\$ 314
Commercial and residential real estate	2,074,512	2,023,729	2,003,326	1,977,431	1,892,828
Construction	125,305	122,789	107,707	99,965	81,826
Commercial	558,181	547,206	543,818	523,355	499,936
Consumer	114,320	124,396	133,670	143,066	124,625
Other	56,390	56,502	57,123	61,982	62,277
Total gross loans	2,930,936	2,876,388	2,847,584	2,807,524	2,661,806
Deferred costs and (fees)	707	333	(119)	(136)	60
Loans, net	2,931,643	2,876,721	2,847,465	2,807,388	2,661,866
Less allowance for loan losses	(23,750)	(23,750)	(23,350)	(23,250)	(22,900)
Net loans	\$ 2,907,893	\$ 2,852,971	\$ 2,824,115	\$ 2,784,138	\$ 2,638,966

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

Table 12

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
(In thousands)					
Beginning balance	\$ 2,876,388	\$ 2,847,584	\$ 2,807,524	\$ 2,661,806	\$ 2,578,318
New credit extended	146,598	164,258	156,311	186,969	192,774
Acquisition of Castle Rock Bank	-	-	-	71,052	-
Net existing credit advanced	94,393	111,266	76,770	77,307	59,275
Net pay-downs and maturities	(186,159)	(246,108)	(192,986)	(191,624)	(165,520)
Other	(284)	(612)	(35)	2,014	(3,041)
Gross loans	2,930,936	2,876,388	2,847,584	2,807,524	2,661,806
Deferred costs and (fees)	707	333	(119)	(136)	60
Loans, net	\$ 2,931,643	\$ 2,876,721	\$ 2,847,465	\$ 2,807,388	\$ 2,661,866
Net change - loans outstanding	\$ 54,922	\$ 29,256	\$ 40,077	\$ 145,522	\$ 83,394

During the third quarter 2018, loans net of deferred costs and fees increased \$54.9 million, comprised of \$241.0 million in new loans and advances on existing loans, partially offset by \$186.2 million in net pay-downs and maturities during the quarter. In addition to contractual loan principal payments and maturities, the third quarter 2018 included \$54.9 million in early payoffs related to our borrowers selling their assets, \$13.3 million in loan pay-downs related to fluctuations in loan balances of existing customers, and \$8.7 million in loan payoffs related to our strategic decision not to match certain financing terms offered by competitors.

During the twelve months ended September 30, 2018, loans net of deferred costs and fees increased by \$269.8 million, or 10.1%, despite \$816.9 million in pay-downs and maturities during this period.

At September 30, 2018, our commercial and residential real estate portfolio included \$477.0 million of 1-4 family residential loans. The utilization rate on commercial lines of credit was 36.9% at September 30, 2018, compared to 38.0% at December 31, 2017 and 38.2% as of September 30, 2017.

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 40% of capital at September 30, 2018, compared to 41% at December 31, 2017 and 38% at September 30, 2017. For the Bank, total commercial real estate loans represented 339% of capital at September 30, 2018, compared to 328% at December 31, 2017 and 337% at September 30, 2017. Including \$445.5 million in loans acquired in the Home State transaction and \$71.1 million in loans acquired in the Castle Rock transaction, the Bank’s commercial real estate loan portfolio increased by 59.5% during the preceding 36 months. Excluding loans acquired in the Castle Rock and Home State transactions, the Bank’s commercial real estate loans increased by 32.8% 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. We have concluded that we have an acceptable and well-managed concentration in commercial real estate lending under the foregoing standards.

With respect to geographic concentrations, most of our business activity is with customers in the state of Colorado. At September 30, 2018, 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.

Generally, loans are placed on nonaccrual status when they become 90 days or more past due or at such earlier time as management determines timely recognition of interest to be in doubt. Accrual of interest is discontinued on a loan when we believe, after considering economic and business conditions and analysis of the borrower’s financial condition and the underlying collateral value, that the collection of interest is doubtful.

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.

[Table of Contents](#)

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

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
(Dollars in thousands)					
Originated nonaccrual loans	\$ 3,970	\$ 3,348	\$ 3,696	\$ 3,932	\$ 3,935
Purchased credit impaired loans	1,060	1,157	1,495	1,622	809
Accruing loans past due 90 days or more ⁽¹⁾	-	370	-	-	-
Total nonperforming loans (NPLs)	\$ 5,030	\$ 4,875	\$ 5,191	\$ 5,554	\$ 4,744
Other real estate owned and foreclosed assets	596	629	629	761	-
Total nonperforming assets (NPAs)	\$ 5,626	\$ 5,504	\$ 5,820	\$ 6,315	\$ 4,744
Total classified assets	\$ 23,459	\$ 25,552	\$ 26,125	\$ 28,330	\$ 28,186
Nonperforming troubled debt restructurings	\$ 149	\$ 208	\$ 484	\$ 1,190	\$ 1,416
Other nonperforming loans	4,881	4,667	4,707	4,364	3,328
Performing troubled debt restructurings	16,026	16,769	18,411	18,066	10,989
Allocated allowance for loan losses	(2,351)	(2,157)	(1,408)	(1,122)	(698)
Net carrying amount of impaired loans	\$ 18,705	\$ 19,487	\$ 22,194	\$ 22,498	\$ 15,035
Accruing loans past due 30-89 days ⁽¹⁾	\$ 2,932	\$ 2,546	\$ 2,671	\$ 2,869	\$ 9,129
Allowance for loan losses	\$ 23,750	\$ 23,750	\$ 23,350	\$ 23,250	\$ 22,900
Unaccreted loan discount ⁽²⁾	\$ 10,152	\$ 10,939	\$ 12,046	\$ 13,049	\$ 11,654
For the Three Months Ended:					
Loans charged-off	\$ (245)	\$ (332)	\$ (261)	\$ (117)	\$ (970)
Recoveries	39	202	173	183	248
Net (charge-offs) recoveries	\$ (206)	\$ (130)	\$ (88)	\$ 66	\$ (722)
Provision for loan losses	\$ 206	\$ 530	\$ 188	\$ 284	\$ 497
Loan Portfolio Ratios:					
Allowance for loan losses to loans, net of deferred costs and fees ⁽³⁾	0.81 %	0.83 %	0.82 %	0.83 %	0.86 %
Allowance for loan losses to NPLs	472.17 %	487.18 %	449.82 %	418.62 %	482.72 %
Annualized net (charge-offs) recoveries to average loans	(0.03)%	(0.02)%	(0.01)%	0.01 %	(0.11)%
Nonperforming assets to total assets	0.15 %	0.15 %	0.16 %	0.17 %	0.14 %
Nonperforming loans to loans, net of deferred costs and fees ⁽³⁾	0.17 %	0.17 %	0.18 %	0.20 %	0.18 %
Loans 30-89 days past due to loans, net of deferred costs and fees ⁽³⁾	0.10 %	0.09 %	0.09 %	0.10 %	0.34 %
Texas ratio ⁽⁴⁾	1.31 %	1.33 %	1.38 %	1.53 %	1.22 %
Classified asset ratio ⁽⁵⁾	6.14 %	6.99 %	6.73 %	7.43 %	7.57 %

⁽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 and Castle Rock transactions.

⁽³⁾ Loans, net of deferred costs and fees, 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.

[Table of Contents](#)

As of September 30, 2018, nonperforming loans decreased by \$0.5 million, compared to December 31, 2017 and increased by \$0.3 million compared to September 30, 2017. As a result of the Castle Rock transaction, the Company acquired \$1.6 million of nonperforming loans and \$0.8 million of other real estate owned. As of September 30, 2018, no additional funds were committed to be advanced in connection with non-performing loans.

Net charge-offs of \$0.2 million were recognized during the third quarter 2018 compared to \$0.1 million in net charge-offs in the second quarter 2018 and \$0.7 million in net charge-offs during the third quarter 2017.

We categorize loans into risk categories of “pass”, “pass-watch”, “special mention”, “substandard”, “doubtful” and “loss”. These 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 \$17.8 million at September 30, 2018, compared to \$22.0 million at December 31, 2017 and \$23.4 million at September 30, 2017.

At September 30, 2018, classified assets represented 6.1% of bank level capital and allowance for loan losses, compared to 7.4% as of December 31, 2017 and 7.6% as of September 30, 2017.

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, 2018, the Company had \$0.6 million of other real estate owned (OREO), compared to \$0.8 million at December 31, 2017 and no OREO at September 30, 2017. The balance of OREO at September 30, 2018 was comprised of three properties categorized as vacant land, whereas at December 31, 2017, the Company’s OREO balance was comprised of four properties categorized as vacant land.

At September 30, 2018, we had \$16.2 million of loans with terms that were modified in troubled debt restructurings (TDRs) with an immaterial allocated allowance for loan loss. At December 31, 2017, we had \$19.3 million of loans with terms that were modified in TDRs with a total allocated allowance for loan loss of \$0.1 million. At September 30, 2018, we had \$3.0 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, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
(In thousands)					
Troubled Debt Restructurings (TDRs):					
Performing TDRs	\$ 16,026	\$ 16,769	\$ 18,411	\$ 18,066	\$ 10,989
Allocated allowance for loan losses on performing TDRs	(7)	(17)	(8)	(52)	(16)
Net investment in performing TDRs	\$ 16,019	\$ 16,752	\$ 18,403	\$ 18,014	\$ 10,973
Nonperforming TDRs	\$ 149	\$ 208	\$ 484	\$ 1,190	\$ 1,416
Allocated allowance for loan losses on nonperforming TDRs	-	-	-	(1)	(125)
Net investment in nonperforming TDRs	\$ 149	\$ 208	\$ 484	\$ 1,189	\$ 1,291

The following provides a rollforward of TDRs for the nine month periods ended September 30, 2018 and September 30, 2017:

Table 15

Troubled Debt Restructuring Rollforward:	Performing TDRs		Nonperforming TDRs		Total
	(In thousands)				
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
Balance at January 1, 2018	\$	18,066	\$	1,190	\$ 19,256
Principal repayments / advances		(2,816)		(1,019)	(3,835)
Charge-offs, net		-		(22)	(22)
New modifications		1,064		-	1,064
Loans removed from TDR Status		(288)		-	(288)
Transfers		-		-	-
Balance at September 30, 2018	\$	16,026	\$	149	\$ 16,175

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 0.81% at September 30, 2018 compared to 0.83% at December 31, 2017 and 0.86% at September 30, 2017.

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 balance at each quarter end and any shortfall is charged against income as an additional provision for loan losses. If the amount calculated is less than the recorded allowance for loan losses, the excess would be credited to income as a credit provision for loan losses. 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 the credit quality of our loan portfolio relative to 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.

[Table of Contents](#)

During the third quarter 2018, we recorded a \$0.2 million provision for loan losses, compared to a \$0.5 million provision for loan losses in the second quarter 2018 and a \$0.5 million provision for loan losses in the third quarter 2017. 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, 2018. For further discussion of the provision for loan losses, see “Provision for Loan Losses” above.

Approximately \$2.4 million, or 9.9%, of the \$23.8 million allowance for loan losses at September 30, 2018 relates to specific reserve allocations. This compares to a specific reserve of \$1.1 million, or 4.8%, of the total allowance for loan losses at December 31, 2017.

The general component of the allowance as a percentage of overall loans, net of unearned costs and fees, was 0.73% at September 30, 2018, compared to 0.79% at December 31, 2017 and 0.83% at September 30, 2017. The decrease in the general reserve as a percentage of loans between September 30, 2017 and September 30, 2018 was primarily due to the impact of purchase accounting related to the Castle Rock transaction, reductions in the concentration risk and loan growth qualitative factors and a reduction in historical loss rates utilized in the calculation, reflecting management’s expectation that probable incurred losses as a percentage of loans had declined during the last twelve months.

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,	
	2018	2017
	(In thousands)	
Balance, beginning of period	\$ 23,250	\$ 23,250
Loan charge-offs:		
Commercial and residential real estate	(9)	(383)
Commercial	(58)	(582)
Consumer	(424)	(92)
Other	(347)	(376)
Total loan charge-offs	<u>(838)</u>	<u>(1,433)</u>
Loan recoveries:		
Commercial and residential real estate	266	55
Construction	64	31
Commercial	11	20
Consumer	16	11
Other	57	258
Total loan recoveries	<u>414</u>	<u>375</u>
Net loan charge-offs	(424)	(1,058)
Provision for loan losses	924	708
Balance, end of period	<u>\$ 23,750</u>	<u>\$ 22,900</u>

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, 2018	December 31, 2017	Increase (Decrease)	Percent Change
(In thousands)				
Securities available for sale:				
State and municipal	\$ 78,094	\$ 82,486	\$ (4,392)	(5.3) %
Mortgage-backed - agency / residential	156,476	131,180	25,296	19.3 %
Corporate	95,196	103,512	(8,316)	(8.0) %
Collateralized loan obligations	5,259	12,799	(7,540)	(58.9) %
Total securities available for sale	<u>\$ 335,025</u>	<u>\$ 329,977</u>	<u>\$ 5,048</u>	<u>1.5 %</u>
Securities held to maturity:				
State and municipal	134,768	136,899	(2,131)	(1.6) %
Mortgage-backed - agency / residential	100,690	105,698	(5,008)	(4.7) %
Asset-backed	14,530	16,119	(1,589)	(9.9) %
Other	1,200	1,200	-	-
Total securities held to maturity	<u>\$ 251,188</u>	<u>\$ 259,916</u>	<u>\$ (8,728)</u>	<u>(3.4) %</u>

The carrying value of our available for sale investment securities at September 30, 2018 was \$335.0 million compared to the December 31, 2017 carrying value of \$330.0 million. The \$5.0 million increase in available for sale securities from December 31, 2017 was primarily a result of purchases of mortgage-backed securities, offset by maturities, calls and pay-downs.

The carrying value of our held to maturity securities at September 30, 2018 was \$251.2 million compared to \$259.9 million at December 31, 2017.

At September 30, 2018 and December 31, 2017, our investment securities portfolio had an average effective duration of approximately 4.5 years and 4.6 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, 2018, there were 346 individual securities in an unrealized loss position, including 225 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 121 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, 2018, 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, 2018 and December 31, 2017, we held \$26.0 million and \$24.4 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.

Deposits

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

Table 18

	<u>At September 30, 2018</u>		<u>At December 31, 2017</u>	
	<u>Balance</u>	<u>% of Total</u>	<u>Balance</u>	<u>% of Total</u>
(Dollars in thousands)				
Noninterest-bearing demand	\$ 960,931	31.40 %	\$ 939,550	31.94 %
Interest-bearing demand and NOW	850,848	27.81 %	813,882	27.66 %
Money market	570,995	18.66 %	527,621	17.94 %
Savings	211,996	6.93 %	201,687	6.86 %
Time	465,177	15.20 %	458,887	15.60 %
Total deposits	<u>\$ 3,059,947</u>	<u>100.00 %</u>	<u>\$ 2,941,627</u>	<u>100.00 %</u>

The \$118.3 million increase in total deposits at September 30, 2018, compared to December 31, 2017, included a \$43.4 million increase in money market, a \$37.0 million increase in interest-bearing demand and NOW, a \$21.4 million increase in noninterest-bearing demand, a \$10.3 million increase in savings and a \$6.3 million increase in time deposits.

Noninterest-bearing deposits as a percentage of total deposits were approximately 31.4% at September 30, 2018, compared to 31.9% at December 31, 2017. Noninterest-bearing deposits help reduce overall funding costs. With recent increases in the federal funds borrowing rate initiated by the Federal Reserve Board, these deposits have become more valuable.

Time deposit balances comprised 15.2% of total deposits at September 30, 2018. The majority of the time deposit balance was comprised of deposits of local customers, with \$98.4 million representing brokered deposits, compared to \$95.3 million at December 31, 2017. We monitor time deposit maturities and renewals on a daily basis and raise rates on local time deposits if necessary to grow such deposits.

Securities Sold under Agreement to Repurchase

At September 30, 2018, securities sold under agreements to repurchase were \$8.6 million, compared to \$44.7 million at December 31, 2017, and \$37.9 million at September 30, 2017. Two customers transferred \$42.4 million in repurchase agreement funding to deposit accounts in the third quarter 2018.

Borrowings and Subordinated Debentures

At September 30, 2018, our FHLB borrowings were \$233.1 million, compared to \$227.4 million at December 31, 2017 and \$121.2 million at September 30, 2017. As of September 30, 2018, FHLB borrowings consisted of \$183.1 million in line of credit advances and \$50.0 million in term notes. At December 31, 2017, our FHLB borrowings consisted of \$157.4 million in line of credit advances and \$70.0 million in term notes. The total FHLB commitment, including balances outstanding, at September 30, 2018 and December 31, 2017 was \$738.5 million and \$706.3 million, respectively.

Under an advance, pledge and security agreement with the FHLB, the Bank had additional borrowing capacity of approximately \$505.5 million at September 30, 2018 which can be utilized for term and/or line of credit advances.

The FHLB term borrowings at September 30, 2018 consisted of two variable-rate term notes. The variable-rate term notes of \$25.0 million bore interest rates of 2.28% and 2.33% at September 30, 2018. These notes mature on March 7, 2019 and August 2, 2019 and will be renewed annually for the next two to three 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 2.35% at September 30, 2018.

At both September 30, 2018 and December 31, 2017, the balance of the Company's outstanding subordinated debentures (the "Debentures") was \$65.1 million, comprised of \$65.8 million in debt, partially offset by \$0.7 million in debt issuance costs. As of September 30, 2018, the Company's Debentures bore a weighted average rate of 5.52%.

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 March 2018, 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 15, 2019. Under the credit agreement, we can elect a fixed or floating interest rate on each advance. As of September 30, 2018, 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 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, 2018, each of the Bank's capital ratios was above the regulatory capital threshold of "well capitalized".

[Table of Contents](#)

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, 2018	Ratio at December 31, 2017	Ratio at September 30, 2017	Minimum Requirement for "Adequately Capitalized" Institution plus fully phased in Capital Conservation Buffer	Minimum Requirement for "Well- Capitalized" Institution
<i>Common Equity Tier 1 Risk-Based Capital Ratio</i>					
Consolidated	10.98 %	10.57 %	10.56 %	7.00 %	N/A
Guaranty Bank and Trust Company	12.46 %	12.29 %	12.23 %	7.00 %	6.50 %
<i>Tier 1 Risk-Based Capital Ratio</i>					
Consolidated	11.75 %	11.36 %	11.40 %	8.50 %	N/A
Guaranty Bank and Trust Company	12.46 %	12.29 %	12.23 %	8.50 %	8.00 %
<i>Total Risk-Based Capital Ratio</i>					
Consolidated	13.71 %	13.36 %	13.50 %	10.50 %	N/A
Guaranty Bank and Trust Company	13.20 %	13.03 %	13.00 %	10.50 %	10.00 %
<i>Leverage Ratio</i>					
Consolidated	10.46 %	10.21 %	10.15 %	4.00 %	N/A
Guaranty Bank and Trust Company	11.10 %	11.05 %	10.89 %	4.00 %	5.00 %

At September 30, 2018, all of our regulatory capital ratios remained well above minimum requirements for a "well-capitalized" institution. Our consolidated capital ratios increased compared to December 31, 2017, primarily due to 2018 earnings.

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. 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 and paid quarterly cash dividends at this level through the fourth quarter 2017. In February 2018, we increased the quarterly cash dividend 30% to 16.25 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. In the second quarter 2018, the Bank received permission and subsequently paid a \$23.8 million dividend to the 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, 2018, interest payments on our two trust preferred financings were current.

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, 2018	December 31, 2017
(In thousands)		
Commitments to extend credit:		
Variable	\$ 499,399	\$ 508,186
Fixed	92,041	116,026
Total commitments to extend credit	\$ 591,440	\$ 624,212
Standby letters of credit	\$ 11,192	\$ 12,398

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, 2018, the Company had \$382.1 million in unencumbered securities, \$39.2 million in cash and cash equivalents and \$12.6 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 liquid assets, 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, 2018, the Bank had \$505.5 million of availability on its FHLB line, \$50.8 million of availability on its secured and unsecured federal funds lines with correspondent banks, \$64.0 million in borrowing capacity through the American Financial Exchange, and \$0.8 million of availability with the Federal Reserve discount window.

At September 30, 2018, the Bank had \$123.4 million of brokered deposits, of which \$25.1 million were money market accounts, \$12.2 million will mature in the fourth quarter 2018, \$39.7 million will mature during 2019, \$25.1 million will mature during 2020 and \$21.5 million will mature during 2021. As of December 31, 2017, the Bank maintained \$120.3 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, 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, 2018, the holding company had approximately \$17.2 million of cash on hand, primarily as a result of the \$23.8 million dividend payment from the Bank made during the second quarter 2018 to fund stockholder dividends and debt servicing. In March 2018, 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, 2018, 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, 2017. There have been no changes during 2018 to the critical accounting policies listed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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.

The following table shows the projected net interest income increase or decrease over the 12 months following September 30, 2018 and September 30, 2017:

Table 21

Market Risk:

	Annualized Net Interest Income	
	September 30, 2018	September 30, 2017
	Amount of Change	Amount of Change
	(In thousands)	
Rates in Basis Points		
300	\$ 3,351	\$ 5,612
200	2,013	3,559
100	1,462	1,714
Static	-	-
(100)	(7,315)	(7,404)
(200)	(14,426)	(7,814)
(300)	(16,731)	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, 2018, 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 was mostly due to the amount of variable rate loans on the books and is partially mitigated by variable rate borrowings. At September 30, 2018, we have approximately \$644.4 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 4.1% 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, 200 or 300 basis point falling rate environment. This is consistent with our belief that our balance sheet is asset sensitive. At September 30, 2018, 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, 2018, 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.

ITEM 4. Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of 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, 2018. 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 as of September 30, 2018.

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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. The risks described below represent changes to the risk factors set forth in the above-referenced filing as of September 30, 2018.

The pendency of the Merger and the related attention from management, in addition to merger-related expenses may adversely affect our business and results of operations.

The Company's management and Board of Directors have devoted, and will continue to devote, a significant amount of time and attention to the Merger. In addition, in connection with the Merger we have incurred, and will continue to incur, expenses which could prove to be significant. Our business and our operating and financial results may be materially adversely affected by the time and attention devoted by management to the proposed Merger in addition to the expenses incurred in connection with the Merger.

We will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees and clients may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is completed, and could cause clients and others that deal with us to seek to change their existing business relationships with us. Retention of employees may be challenging during the pendency of the Merger as employees experience uncertainty about their future roles. If the Merger were substantially delayed or terminated, the Company may need to hire additional personnel, and our business could be materially adversely affected. Further, if key employees depart because of issues relating to the uncertainty or a desire not to remain with the business, our business could be negatively affected. In addition, the Reorganization Agreement restricts us from taking certain actions without the consent of Independent until the Merger occurs. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Merger.

The Reorganization Agreement may be terminated in accordance with its terms, and the Merger may not be completed.

Completion of the Merger is subject to customary conditions, including (i) the receipt of bank regulatory approvals, and (ii) the satisfaction of other customary closing conditions. Further, the Reorganization Agreement may be terminated in certain circumstances. There can be no assurance that the Merger will be completed.

Termination of the Reorganization Agreement could negatively affect us.

If the Reorganization Agreement is terminated, our business may be adversely affected by the failure to pursue other beneficial opportunities due to the focus of management on the Merger. In addition, if the Reorganization Agreement is terminated, the market price of our common stock might decline to the extent that the current market price reflects a market assumption that the Merger will be completed. If the Reorganization Agreement is terminated and our Board of Directors seeks another merger or business combination, stockholders cannot be certain that we will be able to find a party willing to offer equivalent or more attractive consideration than the consideration Independent has agreed to provide in the Merger. If the Reorganization Agreement is terminated under certain circumstances, we may be required to pay a termination fee to Independent and we may need to hire additional personnel to replace employees that have left following the entry into the Reorganization Agreement.

The value of the shares of Independent common stock to be received by the Company’s stockholders in the Merger is dependent upon the market price of Independent’s common stock, which is subject to fluctuation and may decline prior to the consummation of the Merger and reduce the economic benefits to be received by holders of the Company’s common stock upon completion of the Merger.

The value of each share of Independent common stock to be issued in connection with the Merger is subject to fluctuations in the marketplace, resulting in the possibility that its value could decrease before the date of the closing of the Merger. The Company has the ability to terminate the Reorganization Agreement, subject to certain terms and conditions, if the decline in Independent’s stock price (measured by dividing the Independent closing price per share on May 21, 2018 by the average closing price per share for the 20 trading days ending on and including the third trading day prior to the closing) is more than 15%, and the percentage decrease on an absolute basis exceeds the decline in the NASDAQ Bank Index during such period by more than 1500 basis points. The Reorganization Agreement further provides that, in the event that the Company notifies Independent of its intent to terminate the Reorganization Agreement pursuant to this right, Independent has the option to increase the exchange ratio as provided in the Reorganization Agreement. Because the exchange ratio for shares of Independent’s common stock is fixed, a reduction in the price of Independent’s stock price will directly reduce the economic benefits to be received by the Company’s stockholders in the Merger. Further, there can be no assurance that, if Independent’s stock price declines by more than 15%, the percentage decrease on an absolute basis will exceed the decline in the NASDAQ Bank Index during the applicable period by more than 1500 basis points and thus that the Company would have the ability to terminate the Reorganization Agreement. Further, if the Company terminates the Reorganization Agreement the Company could be negatively affected in other ways as set forth in the other risk factors included herein.

Changes in U.S. trade policies and other factors beyond the Company’s control may adversely impact our business, financial condition and results of operations.

Following the U.S. presidential election in 2016, there have been changes to U.S. trade policies, legislation, treaties and tariffs, including trade policies and tariffs affecting China and retaliatory tariffs by China. Tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products, could cause the prices of our customers’ products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt; which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future. A trade war or other governmental action related to tariffs or international trade agreements or policies has the potential to negatively impact our and our customers’ costs, demand for our customers’ products, and the U.S. economy or certain sectors thereof and, thus, adversely impact our business, financial condition and results of operations.

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 2018.

	Total Shares Purchased⁽¹⁾	Average Price Paid per Share	Shares Purchased under Publicly Announced Repurchase Plan	Remaining Repurchase Authority in Shares
July 1 to July 31	143	\$ 30.20	-	1,000,000
August 1 to August 31	-	-	-	1,000,000
September 1 to September 30	651	30.32	-	1,000,000
	794	\$ 30.30	-	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, 2019. 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

On October 29, 2018, the Company's Board of Directors approved the participation of Anthony L. Pizzichini, Regional President of Guaranty Bank and Trust Company, in the Company's Change in Control Severance Plan (the "Plan"). The Plan provides severance to participants in the event of termination without cause or for good reason within two years following a change in control. In connection with and as a condition to the Committee's approval of Mr. Pizzichini's participation in the Plan, Mr. Pizzichini agreed that any change in his title, position, duties, responsibilities and status or to his base salary or aggregate benefits with Independent immediately following the Merger would not constitute "good reason" under the Plan. A description of the Plan is included in the Company's 2018 Proxy Statement filed on March 23, 2018 under "Executive Compensation — Potential Payments on Termination or Change in Control" and the Plan is filed as Exhibit 10.6 to the Company's Form 8-K filed on May 19, 2015, each of which is incorporated herein by reference.

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).
2.3	Agreement and Plan of Reorganization dated May 22, 2018 (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on May 23, 2018).
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).
3.6	Amendment to the Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on May 23, 2018).
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.

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.

Dated: October 31, 2018

GUARANTY BANCORP

/s/ CHRISTOPHER G. TREECE

Christopher G. Treece

*Executive Vice President, Chief Financial Officer and
Secretary
(Principal Financial Officer)*

76

[\(Back To Top\)](#)

Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Section 302 Certification

I, Paul W. Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Guaranty Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over

financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 31, 2018

/s/ Paul W. Taylor

Paul W. Taylor
President and Chief Executive Officer

[\(Back To Top\)](#)

Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Section 302 Certification

I, Christopher G. Treece, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Guaranty Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 31, 2018

/s/ Christopher G. Treece

Christopher G. Treece
*Executive Vice President, Chief Financial
Officer and Secretary*

[\(Back To Top\)](#)

Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

Section 906 Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officer of Guaranty Bancorp (the "Company") hereby certifies to his individual knowledge that (1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (2) that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2018

/s/ Paul W. Taylor

Name: Paul W. Taylor

Title: *President and Chief Executive Officer*

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

[\(Back To Top\)](#)

Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

Section 906 Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officer of Guaranty Bancorp (the "Company") hereby certifies to his individual knowledge that (1) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (2) that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2018

/s/ Christopher G. Treece

Name: Christopher G. Treece

Title: *Executive Vice President, Chief
Financial Officer and Secretary*

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and is not being filed as part of the Report or as a separate disclosure document.

[\(Back To Top\)](#)