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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from to

Commission File Number: 001-36580

Green Bancorp, Inc.

(Exact name of registrant as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)	**42-1631980** (I.R.S. Employer Identification No.)

4000 Greenbriar
Houston, Texas 77098
(Address of principal executive offices, including zip code)

(713) 275 - 8220
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☒			

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

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

As of November 6, 2017, there were 37,280,822 outstanding shares of the registrant’s Common Stock, par value $0.01 per share.

GREEN BANCORP, INC. AND SUBSIDIARIES
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Special Cautionary Notice Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to the concentration of our business within our geographic areas of operation in Texas, including the continued impact of downturns in the energy sector, as well as risks associated with the technology and real estate sectors within our geographic areas of operation in Texas;
- risks related to our energy reserve exposure and energy-related service industry exposure of our total funded loans and the decline in oil prices and our ability to successfully execute our strategy to mitigate these risks;
- our ability to execute on our growth strategy, including through the identification of acquisition candidates that will be accretive to our financial condition and results of operation;
- risks related to the integration of any acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- our ability to meet the supervisory expectations of our regulators and the impact of any regulatory restrictions or supervisory actions imposed on us, including on our ability to grow, conduct acquisitions or pay dividends;
- market conditions and economic trends nationally, regionally and in our target markets, particularly in Texas and the geographic areas in which we operate;
- our ability to attract and retain successful bankers that meet our expectations in terms of customer relationships and profitability;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- risks associated with our commercial and industrial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- the sufficiency of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- risks related to our concentration of loans to a limited number of borrowers and in a limited geographic area;
- our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy, operations or to meet increased minimum regulatory capital levels;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- accounting estimates and risk management processes that rely on analytical and forecasting models;
- our ability to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- potential fluctuations in the market value and liquidity of the securities we hold for sale;
- loss of our executive officers or other key employees could impair our relationship with our customers and adversely affect our business;
- potential impairment on the goodwill we may record in connection with business acquisitions;

- risks associated with system failures or failures to prevent breaches of our network security;
- a failure in or breach of operational or security systems of the Company's infrastructure, or those of its third-party vendors and other service providers, including as a result of cyber attacks;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with data processing system failures and errors;
- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- the institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- our new lines of business or new products and services may subject us to additional risks;
- legal and regulatory proceedings or the results of regulatory examinations could adversely affect our business, financial condition, and results of operation;
- we are subject to claims and litigation pertaining to intellectual property from time to time;
- we could experience claims and litigation pertaining to fiduciary responsibility;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the Dodd-Frank Act;
- governmental monetary and fiscal policies, including the policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- the failure of the Company's enterprise risk management framework to identify or address risks adequately;
- the impact of, and our ability to comply with, formal or informal regulatory actions by federal banking agencies, including any requirements or limitations imposed on us as a result of our confidential supervisory ratings or the results of any regulatory examination;
- many of our new activities and expansion plans require regulatory approvals, and failure to obtain them may restrict our growth;
- financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations;
- substantial regulatory limitations on changes of control of bank holding companies;
- changes in the scope and cost of Federal Deposit Insurance Corporation (the "FDIC") insurance and other coverages;
- systemic risks associated with the soundness of other financial institutions;
- acts of terrorism, an outbreak of hostilities or other international or domestic calamities, weather or other acts of God and other matters beyond the Company's control; and
- 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").

Other factors not identified above, including those described in our Annual Report on Form 10-K for year ended December 31, 2016 under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 25,181	$ 18,351
Interest bearing deposits in financial institutions and fed funds sold	154,282	370,656
Total cash and cash equivalents	179,463	389,007
Available-for-sale securities, at fair value	694,259	274,619
Held-to-maturity securities, at amortized cost (fair value of $13,701 and $34,844, respectively)	13,730	35,505
Investment in Patriot Bancshares Capital Trusts I and II	666	666
Federal Reserve Bank stock	11,349	10,954
Federal Home Loan Bank of Dallas stock	10,428	7,029
Total securities and other investments	730,432	328,773
Loans held for sale	17,673	23,989
Loans held for investment	3,071,761	3,098,220
Allowance for loan losses	(33,480)	(26,364)
Loans, net	3,055,954	3,095,845
Premises and equipment, net	29,733	25,674
Goodwill	85,291	85,291
Core deposit intangibles, net of accumulated amortization	8,835	9,975
Accrued interest receivable	10,158	8,011
Deferred tax asset, net	13,984	11,266
Real estate acquired by foreclosure	802	5,220
Bank owned life insurance	35,053	34,385
Other assets	11,220	31,375
TOTAL ASSETS	$ 4,160,925	$ 4,024,822
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 684,329	$ 650,064
Interest-bearing transaction and savings	1,383,514	1,359,187
Certificates and other time deposits	1,340,410	1,365,449
Total deposits	3,408,253	3,374,700
Securities sold under agreements to repurchase	5,867	3,493
Other borrowed funds	215,000	150,000
Subordinated debentures and subordinated notes	47,596	47,492
Accrued interest payable	3,261	2,387
Other liabilities	18,637	16,268
Total liabilities	3,698,614	3,594,340
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $0.01 par value, 90,000,000 shares authorized; 37,274,490 and 37,165,674 shares issued at September 30, 2017 and December 31, 2016, respectively; 37,096,490 and 36,987,674 shares outstanding at September 30, 2017 and December 31, 2016, respectively	373	372
Capital surplus	384,488	382,961
Retained earnings	80,644	49,127
Accumulated other comprehensive income, net	(1,941)	(725)
Less treasury stock, at cost, 178,000 shares at both September 30, 2017 and December 31, 2016	(1,253)	(1,253)
Total shareholders' equity	462,311	430,482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,160,925	$ 4,024,822

See notes to interim condensed consolidated financial statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
INTEREST INCOME:				
Loans, including fees	$ 39,549	$ 37,897	$ 114,396	$ 112,953
Securities	4,337	989	10,848	3,058
Other investments	221	199	606	577
Deposits in financial institutions and fed funds sold	432	347	1,172	630
Total interest income	44,539	39,432	127,022	117,218
INTEREST EXPENSE:				
Transaction and savings deposits	2,502	1,537	6,710	3,999
Certificates and other time deposits	4,042	3,791	11,435	10,256
Subordinated debentures and subordinated notes	1,059	246	3,151	726
Other borrowed funds	657	183	1,499	793
Total interest expense	8,260	5,757	22,795	15,774
NET INTEREST INCOME	36,279	33,675	104,227	101,444
PROVISION FOR LOAN LOSSES	2,300	28,200	9,955	55,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	33,979	5,475	94,272	46,244
NONINTEREST INCOME:				
Customer service fees	2,365	1,523	6,830	4,374
Loan fees	871	806	2,811	2,224
(Loss) gain on sale of available-for-sale securities, net	(332)	-	(38)	-
(Loss) gain on held-for-sale loans, net	(1,294)	-	(1,210)	41
Gain on sale of guaranteed portion of loans, net	1,302	968	4,107	2,964
Other	478	794	2,084	2,425
Total noninterest income	3,390	4,091	14,584	12,028
NONINTEREST EXPENSE:				
Salaries and employee benefits	12,487	11,925	37,546	35,365
Occupancy	2,080	2,194	6,125	6,259
Professional and regulatory fees	2,331	2,180	6,627	6,537
Data processing	924	921	2,827	2,836
Software license and maintenance	464	580	1,391	1,584
Marketing	154	283	516	882
Loan related	271	1,287	1,172	2,331
Real estate acquired by foreclosure, net	159	2,105	674	2,786
Other	1,197	1,908	3,639	4,965
Total noninterest expense	20,067	23,383	60,517	63,545
INCOME (LOSS) BEFORE INCOME TAXES	17,302	(13,817)	48,339	(5,273)
PROVISION (BENEFIT) FOR INCOME TAXES	5,895	(4,831)	16,822	(1,757)
NET INCOME (LOSS)	$ 11,407	$ (8,986)	$ 31,517	$ (3,516)
EARNINGS (LOSSES) PER SHARE:				
Basic	$ 0.31	$ (0.25)	$ 0.85	$ (0.10)
Diluted	$ 0.31	$ (0.25)	$ 0.85	$ (0.10)

See notes to interim condensed consolidated financial statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
NET INCOME (LOSS)	$ 11,407	$ (8,986)	$ 31,517	$ (3,516)
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:				
Change in unrealized gain (loss) on securities available-for-sale	(1,857)	106	(1,871)	865
Total other comprehensive income (loss) before tax	(1,857)	106	(1,871)	865
DEFERRED TAX (BENEFIT) EXPENSE RELATED TO OTHER COMPREHENSIVE (LOSS) INCOME	(650)	37	(655)	303
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(1,207)	69	(1,216)	562
COMPREHENSIVE INCOME (LOSS)	$ 10,200	$ (8,917)	$ 30,301	$ (2,954)

See notes to interim condensed consolidated financial statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Treasury	
	Shares	Amount	Surplus	Earnings	Income (Loss)	Stock	Total
BALANCE — January 1, 2016	36,788	$ 368	$ 378,518	$ 50,099	$ 417	$ -	$ 429,402
Net loss	-	-	-	(3,516)	-	-	(3,516)
Net change in unrealized gains and losses on available-for-sale securities, net of taxes of $303 and reclassification adjustment	-	-	-	-	562	-	562
Purchase of treasury stock	(178)	-	-	-	-	(1,253)	(1,253)
Issuance of common stock in connection with exercise of stock options	251	1	71	-	-	-	72
Stock-based compensation expense	-	-	948	-	-	-	948
BALANCE — September 30, 2016	36,861	$ 369	$ 379,537	$ 46,583	$ 979	$ (1,253)	$ 426,215
BALANCE — January 1, 2017	36,988	$ 372	$ 382,961	$ 49,127	$ (725)	$ (1,253)	$ 430,482
Net income	-	-	-	31,517	-	-	31,517
Net change in unrealized gains and losses on available-for-sale securities, net of tax benefits of $655 and reclassification adjustment	-	-	-	-	(1,216)	-	(1,216)
Issuance of common stock in connection with exercise of stock options	286	1	469	-	-	-	470
Stock-based compensation expense	-	-	1,058	-	-	-	1,058
BALANCE — September 30, 2017	37,274	$ 373	$ 384,488	$ 80,644	$ (1,941)	$ (1,253)	$ 462,311

See notes to interim condensed consolidated financial statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 31,517	$ (3,516)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Amortization and accretion of premiums and discounts on securities, net	1,126	610
Accretion of loan discounts, net	(3,752)	(6,768)
Amortization of deposit premiums	(781)	(1,947)
Amortization of core deposit intangibles	1,140	1,206
Amortization and accretion of borrowing and debt valuation allowance, net	315	184
Amortization of issuance costs of subordinated notes	109	-
Provision for loan losses	9,955	55,200
Depreciation	1,558	1,832
Net loss on sale of available-for-sale securities	38	-
Net loss on sale of real estate acquired by foreclosure	147	566
Net loss (gain) on loans held-for-sale	1,210	(41)
Net gain on sale of guaranteed portion of loans	(4,107)	(2,964)
Originations of loans held-for-sale	-	(1,094)
Proceeds from sales of and principal collected on loans held-for-sale	15,136	7,772
Writedown of real estate acquired by foreclosure	304	1,048
Stock-based compensation expense	1,700	951
Deferred tax benefit	(2,062)	(878)
Decrease (increase) in accrued interest receivable and other assets, net	17,340	(16,434)
Increase in accrued interest payable and other liabilities, net	2,281	4,880
Net cash provided by operating activities	73,174	40,607
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the maturities or calls and paydowns of available-for-sale securities	55,811	96,108
Proceeds from the sale of available-for-sale securities	349,374	-
Purchases of available-for-sale securities	(811,919)	(100,335)
Proceeds from the maturities or calls and paydowns of held-to-maturity securities	5,833	6,306
Purchases of held-to-maturity securities	-	(1,963)
Proceeds from sales of guaranteed portion of loans	45,957	35,482
Proceeds from sales of real estate acquired by foreclosure	3,967	8,127
Purchases of Federal Home Loan Bank of Dallas stock, net of redemptions	(3,399)	6,103
Purchases of Federal Reserve Bank stock	(395)	(3,738)
Net increase in loans held for investment	(29,778)	(40,542)
Investment in construction of premises and purchases of other fixed assets	(347)	(260)
Net cash provided by (used in) investing activities	(384,896)	5,288
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit accounts	34,334	217,098
Net decrease (increase) in securities sold under agreements to repurchase	2,374	(218)
Net proceeds (repayments) of other short-term borrowed funds	65,000	(64,250)
Proceeds from other long-term borrowed funds	-	50,000
Repayment of other long-term borrowed funds	-	(58,884)
Proceeds from issuance of common stock due to exercise of stock options	470	72
Purchase of treasury stock	-	(1,253)
Net cash provided by financing activities	102,178	142,565
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (209,544)	$ 188,460
CASH AND CASH EQUIVALENTS:		
Beginning of period	389,007	124,906
End of period	$ 179,463	$ 313,366
NONCASH ACTIVITIES:		
Noncash investing and financing activities - acquisition of real estate through foreclosure of collateral	$ 5,270	$ 420
Transfer of loans to held-for-sale	$ 10,030	$ 45,187
Transfer of securities to available-for-sale	$ 15,883	$ -
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 29,498	$ 17,379
Income taxes paid	$ 11,700	$ 11,700

See notes to interim condensed consolidated financial statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Unaudited)

1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements include the accounts of Green Bancorp, Inc. ("Green Bancorp"), together with Green Bank, N.A., its subsidiary bank, (the "Company"). All intercompany transactions and balances have been eliminated.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial information. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are of a normal recurring nature. These financial statements and the accompanying notes should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or any other period.

Organization—Green Bancorp is a Texas corporation that was incorporated on October 20, 2004. In 2006 Green Bancorp entered into an agreement and plan of merger with Redstone Bank, National Association ("Redstone Bank"), a national banking association located in Houston, Texas, for the purpose of acquiring all of the issued and outstanding stock of Redstone Bank. The acquisition was completed on December 31, 2006, and Green Bancorp became a bank holding company registered under the Bank Holding Company Act of 1956, as amended.

Green Bank, N.A. (the "Bank") is a national banking association, which was chartered under the laws of the United States of America as a national bank on February 17, 1999, as Redstone Bank. On September 14, 2007, the name was changed to Green Bank, N.A. The Bank provides commercial and consumer banking services in the greater Houston and Dallas metropolitan areas, and Austin, Louisville and Honey Grove.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The calculation of the allowance for loan losses, the valuation of goodwill and available for sale securities, acquired assets and liabilities and the calculation of stock based compensation are estimates particularly susceptible to significant change in the near term. Actual results could differ from those estimates.

2. EARNINGS PER COMMON SHARE

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average number of common shares outstanding during the period.

Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares. In the event of a net loss, the outstanding stock options are excluded from the diluted earnings per common share calculation due to their anti-dilutive effect and the diluted net loss per common share would equal the basic net loss per common share.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017
(Unaudited)

The following table illustrates the computation of basic and diluted earnings per share:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(Amounts in thousands, except per share amounts)							
Net income (loss)	$ 11,407		$ (8,986)		$ 31,517		$ (3,516)	
Basic:								
Weighted average shares outstanding	37,056	$ 0.31	36,657	$ (0.25)	37,023	$ 0.85	36,659	$ (0.10)
Diluted:								
Add incremental shares for:								
Effect of dilutive securities - options	276		-		250		-	
Total	37,332	$ 0.31	36,657	$ (0.25)	37,273	$ 0.85	36,659	$ (0.10)

On April 30, 2015, the Company announced the Board of Directors approved a stock repurchase program under which it authorized the Company to repurchase, in the aggregate, up to $15.0 million of the Company's outstanding common stock. The repurchase program remains in place, but may be limited or terminated at any time without prior notice. Under the authorized stock repurchase agreement, the Company could repurchase shares in open-market purchases or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. As of September 30, 2017, the Company had repurchased an aggregate of $1.3 million of the Company's outstanding common stock under this program at an average price of $7.04 per share.

3. RECENT ACCOUNTING STANDARDS

Accounting Standards Updates ("ASU")

FASB ASU No. 2017-12 — "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." Issued in August 2017, the ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815. The amendments objectives are to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and to simplify the application of hedge accounting by preparers. For public entities, ASU 2017-12 is effective for interim and annual periods beginning after December 15, 2018; however, early adoption is permitted. The Company adopted the ASU in the third quarter of 2017 and reclassified $15.9 million of securities from held-to-maturity to available-for-sale classification pursuant to the transition election. The amount of net unrealized loss at the date of transfer was recorded in accumulated other comprehensive income. The early adoption did not have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

FASB ASU No. 2017-09 — "Compensation-Stock Compensation (Topic 718) - Scope of Modification Accounting." Issued in May 2017, ASU 2017-09 clarifies when changes to terms or conditions of a share-based payment award must be accounted for as a modification. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as either an equity or liability instrument. ASU 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The guidance requires companies to apply the requirements prospectively to awards modified on or after the adoption date. ASU 2017-09 is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU No. 2017-08 — "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." Issued in March 2017, ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendment requires the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the potential impact of ASU 2017-08 on the Company's consolidated financial statements.

FASB ASU No. 2017-04 — *"Intangibles—Goodwill and Other (Topic 350)."* ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test, which required computing the implied fair value of goodwill. Under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for the Company on January 1, 2020 and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU No. 2017-01 — *"Business Combinations (Topic 805)."* ASU 2017-01 is intended to clarify or correct unintended applications of *ASU 2014-09 "Revenue from Contract with Customers (Topic 606)."* ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Additionally, the amendments in this update provide a more robust framework to assist entities in evaluating whether a set of assets and activities constitutes a business. Lastly, the amendments in this update narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606. ASU 2017-01 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU No. 2016-18 — *"Statement of Cash Flows (Topic 230) – Restricted Cash."* ASU 2016-18 requires the Statement of Cash Flows to explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, restricted cash or cash equivalents should be included with cash and cash equivalents when recording the beginning-of-period and end-of-period total amounts on the Statement of Cash Flows. ASU 2016-18 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU No. 2016-15 — *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments"* ("ASU 2016-15") is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. ASU 2016-15 provides classification guidance on certain cash receipts and cash payments, including, but not limited to, debt prepayment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance policies and distributions received from equity method investees. This ASU will be effective for the Company on January 1, 2018, and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU No. 2016-13 —*"Financial Instruments - Credit Losses (Topic 326)"* ("ASU 2016-13") requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. ASU 2016-13 also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. ASU 2016-13 will be effective for the Company on January 1, 2020. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the potential impact of ASU 2016-13 on the Company's consolidated financial statements.

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FASB ASU No. 2016-09 — *"Compensation - Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting."* ASU 2016-09 was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. This ASU covers accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 was effective for the Company beginning January 1, 2017 and did not have a material impact on the Company's consolidated financial statements.

FASB ASU No. 2016-06 — *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)*. The new guidance clarifies the requirements for assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts, which is used to determine whether the embedded derivative should be separated from the host contract and accounted for separately as a derivative. An entity performing the assessment will be required to assess the embedded call or put options solely in accordance with the pre-existing four-step decision sequence. This guidance was effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years and did not have a material impact on the Company's consolidated financial statements.

FASB ASU No. 2016-02 — "*Leases (Topic 842).*" In February 2016, the Financial Accounting Standards Board issued ASU 2016-02 to supersede nearly all existing lease guidance under GAAP. The guidance would require a lessee to record a right-to-use asset and liability representing the obligation to make lease payments for long-term leases. ASU 2016-02 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and must be adopted using a modified retrospective approach. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements.

FASB ASU No. 2016-01 — "*Financial Instruments─Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*" ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 (i) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (iv) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (v) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (vi) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update affect all entities that hold financial assets or owe financial liabilities. ASU 2016-01 is effective for the Company beginning January 1, 2018, and is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU No. 2015-17 — "*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.*" In November 2015, the FASB issued ASU 2015-17, as part of its simplification initiative. The ASU requires entities to present deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as noncurrent in a classified balance sheet. It thus simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current or noncurrent in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction is still required under the new guidance. ASU 2015-17 was effective for the Company beginning January 1, 2017 and did not have a material impact on the Company's consolidated financial statements.

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FASB ASU No. 2014-09 — "*Revenue from Contracts with Customers (Topic 606)"*. ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 was initially effective for the Company on January 1, 2017; however, in August 2015, the FASB issued ASU No. 2015-14 - *Revenue from Contracts with Customers - Deferral of the Effective Date,* which deferred the effective date to January 1, 2018. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08 - *Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* ASU No. 2016-10 - *Identifying Performance Obligations and Licensing,* ASU No. 2016-12 - *Narrow-Scope Improvements and Practical Expedients,* and ASU No. 2016-20 - *Technical Corrections and Improvements to Top 606 - Revenue from Contract with Customer*s. The Company will adopt ASU 2014-09, effective January 1, 2018, using the modified retrospective application with a cumulative-effect adjustment, if such adjustment is significant. The Company continues to evaluate the requirements of ASU 2014-09, but it is not expected to have a significant impact on the Company's consolidated financial statements.

4. ACQUISITIONS

Acquisitions have been in the past and may be in the future an important part of the Company's growth strategy. All acquisitions were accounted for using the acquisition method of accounting. Accordingly, the assets and liabilities of the acquired entities were recorded at their fair values at the acquisition date. The excess of the purchase price over the estimated fair value of the net assets for tax-free acquisitions is recorded as goodwill, none of which is deductible for tax purposes. The excess of the purchase price over the estimated fair value of the net assets for taxable acquisitions was recorded as goodwill, and is deductible for tax purposes. The identified core deposit intangibles for each acquisition are being amortized using an accelerated basis over an estimated life of six to nineteen years. The results of operations for each acquisition have been included in the Company's consolidated financial results beginning on the respective acquisition date.

The measurement period for the Company to determine the fair values of acquired identifiable assets and assumed liabilities will end at the earlier of (1) twelve months from the date of the acquisition or (2) as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.

5. CASH AND CASH EQUIVALENTS

The Bank, as a correspondent of the Federal Reserve Bank, is required to maintain minimum average reserve balances. The amount of the required reserve balance for the Bank was $66.2 million and $65.1 million at September 30, 2017 and December 31, 2016, respectively. These amounts are included in interest-bearing deposits in financial institutions.

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6. SECURITIES

The amortized cost and fair value of securities as of the dates set forth were as follows:

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
SBA guaranteed securities	$ 106,284	$ 252	$ (350)	$ 106,186
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	259,045	1,197	(307)	259,935
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: commercial	66,069	-	(611)	65,458
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	214,898	-	(2,921)	211,977
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	31,138	-	(30)	31,108
Corporate debt securities	1,788	3	-	1,791
Obligations of municipal subdivisions	6,686	7	-	6,693
CRA qualified investment fund	11,337	-	(226)	11,111
Total	$ 697,245	$ 1,459	$ (4,445)	$ 694,259
Held-to-maturity:				
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	$ 11,103	$ 97	$ (131)	$ 11,069
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	2,627	5	-	2,632
Total	$ 13,730	$ 102	$ (131)	$ 13,701

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
Obligations of the U.S. Treasury and other U.S. government agencies or sponsored enterprises	$ 118,272	$ 17	$ (403)	$ 117,886
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	99,876	452	(430)	99,898
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	42,379	96	(563)	41,912
Corporate debt securities	3,788	1	(14)	3,775
Obligations of municipal subdivisions	236	-	(1)	235
CRA qualified investment fund	11,183	-	(270)	10,913
Total	$ 275,734	$ 566	$ (1,681)	$ 274,619
Held-to-maturity:				
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	$ 14,358	$ 140	$ (267)	$ 14,231
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	21,147	2	(536)	20,613
Total	$ 35,505	$ 142	$ (803)	$ 34,844

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Expected maturities of securities will differ from contractual maturities because the underlying borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately. The following table sets forth, as of the date indicated, contractual maturities of securities:

	September 30, 2017			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$ 1,788	$ 1,791	$ -	$ -
Due after one year through five years	106,284	106,186	-	-
Due after five years through ten years	236	243	-	-
Due after ten years	6,450	6,450		
	114,758	114,670	-	-
Mortgage-backed securities and collateralized mortgage obligations	571,150	568,478	13,730	13,701
CRA qualified investment fund	11,337	11,111	-	-
Total	$ 697,245	$ 694,259	$ 13,730	$ 13,701

During the nine months ended of September 30, 2017, proceeds of $349.4 million were received from sales of securities classified as available-for-sale. The sales resulted in a net loss of $38 thousand, which is comprised of $910 thousand in gross realized gains, offset by $948 thousand in gross realized losses. There were no sales of securities during the three or nine months ended September 30, 2016.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available-for-sale or held-to-maturity are evaluated for OTTI under FASB ASC 320, *Investments—Debt and Equity Securities*.

In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss.

As of September 30, 2017, the Company does not intend to sell any debt securities classified as held-to-maturity and management believes that the Company more likely than not will not be required to sell any debt securities that are in a loss position before their anticipated recovery, at which time the Company will receive full value for the securities. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2017, management believes any impairment in the Company's securities is temporary and no impairment loss has been realized in the Company's consolidated statements of income.

Declines in the fair value of individual securities below their cost that are other-than-temporary would result in writedowns, as a realized loss, to their fair value. In evaluating other-than-temporary impairment losses, management considers several factors including the severity and the duration that the fair value has been less than cost, the credit quality of the issuer, and whether it is more likely than not that the Company will be required to sell the security before a recovery in value. The Company has not realized any losses due to other-than-temporary impairment of securities as of September 30, 2017.

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Securities with unrealized losses segregated by length of continuous unrealized loss position as of the dates set forth were as follows:

	September 30, 2017					
	Less than 12 Months			12 Months or More		
	Amortized Cost	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)					
Available-for-sale:						
SBA guaranteed securities	$ 73,878	$ (350)	$ 73,528	$ -	$ -	$ -
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	70,052	(253)	69,799	5,127	(54)	5,073
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: commercial	66,069	(611)	65,458	-	-	-
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	200,902	(2,873)	198,029	2,429	(48)	2,381
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	31,138	(30)	31,108	-	-	-
CRA qualified investment fund	-	-	-	11,337	(226)	11,111
Total	$ 442,039	$ (4,117)	$ 437,922	$ 18,893	$ (328)	$ 18,565
Held-to-maturity:						
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	$ 2,437	$ (27)	$ 2,410	$ 3,872	$ (104)	$ 3,768
Total	$ 2,437	$ (27)	$ 2,410	$ 3,872	$ (104)	$ 3,768

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	December 31, 2016					
	Less than 12 Months			12 Months or More		
	Amortized Cost	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)					
Available-for-sale:						
Obligations of the U.S. Treasury and other U.S. government agencies or sponsored enterprises	$ 100,517	$ (403)	$ 100,114	$ -	$ -	$ -
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	60,233	(405)	59,828	4,121	(25)	4,096
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	29,916	(492)	29,424	2,874	(71)	2,803
Corporate debt securities	1,785	(14)	1,771	-	-	-
Obligations of municipal subdivisions	236	(1)	235	-	-	-
CRA qualified investment fund	11,183	(270)	10,913	-	-	-
Total	$ 203,870	$ (1,585)	$ 202,285	$ 6,995	$ (96)	$ 6,899
Held-to-maturity:						
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	$ 8,551	$ (234)	$ 8,317	$ 860	$ (33)	$ 827
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	12,141	(191)	11,950	7,644	(345)	7,299
Total	$ 20,692	$ (425)	$ 20,267	$ 8,504	$ (378)	$ 8,126

The average loss on securities in an unrealized loss position was 0.98% and 1.04% of the amortized cost basis at September 30, 2017 and December 31, 2016, respectively. There were nine securities in an unrealized loss position of greater than 12 months at both September 30, 2017 and December 31, 2016.

The Company did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored enterprises) for which the aggregate adjusted cost exceeds 10% of the consolidated shareholders' equity at September 30, 2017 or December 31, 2016.

Securities with an amortized cost of $6.6 million and $12.2 million and fair value of $6.6 million and $12.2 million were pledged and available to be sold under repurchase agreements at September 30, 2017 and December 31, 2016, respectively. Securities with an amortized cost of $52.4 million and $73.0 million and fair value of $52.4 million and $72.6 million were pledged to various Federal Reserve Districts related to deposits of bankruptcy trustees at September 30, 2017 and December 31, 2016, respectively. Securities with an amortization cost and fair value of $1.3 million at December 31, 2016 were pledged to collateralize public deposits. In addition, securities with an amortized cost of $3.4 million and $5.2 million and fair value of $3.3 million and $5.2 million were pledged as collateral for the Company's derivative instruments at September 30, 2017 and December 31, 2016, respectively.

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7. LOANS

The loan portfolio classified by type and class as of the dates set forth were as follows:

	September 30, 2017		
	Originated	Acquired (Dollars in thousands)	Total
Commercial & industrial	$ 1,066,715	$ 82,135	$ 1,148,850
Real estate:			
Owner occupied commercial real estate	312,162	96,236	408,398
Commercial real estate	806,327	262,415	1,068,742
Construction, land & land development	146,522	47,334	193,856
Residential mortgage	138,095	96,994	235,089
Consumer and other	15,418	1,408	16,826
Total loans held for investment	$ 2,485,239	$ 586,522	$ 3,071,761
Total loans held for sale	$ 17,673	$ -	$ 17,673

	December 31, 2016		
	Originated	Acquired (Dollars in thousands)	Total
Commercial & industrial	$ 904,331	$ 149,594	$ 1,053,925
Real estate:			
Owner occupied commercial real estate	264,876	129,334	394,210
Commercial real estate	816,029	327,722	1,143,751
Construction, land & land development	179,999	69,705	249,704
Residential mortgage	127,445	117,746	245,191
Consumer and other	9,248	2,191	11,439
Total loans held for investment	$ 2,301,928	$ 796,292	$ 3,098,220
Total loans held for sale	$ 23,989	$ -	$ 23,989

The loan portfolio is comprised of three types, commercial and industrial loans, real estate loans and consumer and other loans. The real estate loans are further segregated into owner occupied commercial real estate, commercial real estate, which includes multi-family loans, construction, land and land development, which includes both commercial construction and loans for the construction of residential properties and residential mortgage, which includes first and second liens and home equity lines. Consumer and other loans includes various types of loans to consumers and overdrafts. Loans are further separated between loans originated by the Company and loans acquired.

Included in the loans held for investment balance was $13.4 million and $17.4 million of net deferred loan origination fees and unamortized premium and discount at September 30, 2017 and December 31, 2016, respectively. Also included in loans at September 30, 2017 and December 31, 2016 was $1.8 million and $3.0 million, respectively, in non-accretable discount on acquired credit impaired loans. Accrued interest receivable on loans was $7.9 million and $7.4 million at September 30, 2017 and December 31, 2016, respectively. Consumer and other loans include overdrafts of $41 thousand and $73 thousand as of September 30, 2017 and December 31, 2016, respectively.

The loan portfolio consists of various types of loans made to borrowers principally located in the Houston and Dallas metropolitan areas. Although the portfolio is diversified and generally secured by various types of collateral, a substantial portion of its debtors' ability to honor their obligations is dependent on local economic conditions. The risks created by this geographic concentration and our exposure to energy-related borrowers have been considered by management in the determination of the adequacy of the allowance for loan losses.

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Reserved-based energy loans held for investment represented approximately 0.4% and 0.5% of total funded loans as of September 30, 2017 and December 31, 2016, respectively. Energy-related service industry loans represented approximately 1.9% and 2.6% of total funded loans as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, and December 31, 2016, $12.1 million and $14.0 million of reserved-based energy loans and $34.3 million and $42.2 million of energy-related service industry loans were impaired, respectively.

Most of the Company's activities are with customers located within the Texas cities of Houston, Dallas, Austin and their respective surrounding areas. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the Houston and Dallas MSAs. The Company does not have any significant concentration to any one industry or customer. As of September 30, 2017 and December 31, 2016, there were no concentrations of loans related to any single industry in excess of 10% of total loans.

Loan maturities and rate sensitivity of the loans held for investment, as of the date indicated, were as follows:

	September 30, 2017			
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Commercial & industrial	$ 410,376	$ 702,880	$ 35,594	$ 1,148,850
Real estate:				
Owner occupied commercial real estate	39,677	147,336	221,385	408,398
Commercial real estate	159,098	672,213	237,431	1,068,742
Construction, land & land development	71,615	93,899	28,342	193,856
Residential mortgage	20,542	48,336	166,211	235,089
Consumer and Other	4,941	2,957	8,928	16,826
Total loans held for investment	$ 706,249	$ 1,667,621	$ 697,891	$ 3,071,761
Fixed rate	$ 109,487	$ 393,018	$ 107,670	$ 610,175
Adjustable rate(1)	596,762	1,274,603	590,221	2,461,586
Total loans held for investment	$ 706,249	$ 1,667,621	$ 697,891	$ 3,071,761

(1) Includes all adjustable rate loans irrespective of the time period to next interest rate reset.

In the ordinary course of business, the Company has granted loans to certain directors, officers and their affiliates. In the opinion of management, all transactions entered into between the Bank and such related parties have been and are in the ordinary course of business, made on the same terms and conditions as similar transactions with unaffiliated persons.

An analysis of activity with respect to these related-party loans for the nine months ended September 30, 2017 and the year ended December 31, 2016 was as follows:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Beginning balance	$ 5,813	$ 9,741
Advances	-	503
Repayments	(5,813)	(4,431)
Ending Balance	$ -	$ 5,813

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Acquired Loans — The outstanding principal balance and recorded investment in the total acquired loans from all completed acquisitions, as of the dates set forth, was as follows:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Credit impaired acquired loans:		
Outstanding principal balance	$ 23,182	$ 30,694
Recorded investment	20,416	25,188
Discount, net	$ 2,766	$ 5,506
Other acquired loans:		
Outstanding principal balance	568,529	775,709
Deferred fees, net	(77)	(174)
Recorded investment	566,106	771,104
Discount, net	$ 2,346	$ 4,431
Total acquired loans:		
Outstanding principal balance	591,711	806,403
Deferred fees, net	(77)	(174)
Recorded investment	586,522	796,292
Discount, net	$ 5,112	$ 9,937

Changes in the accretable yield for credit impaired acquired loans for the periods indicated, were as follows:

	Nine Months Ended September 30, 2017	2016
	(Dollars in thousands)	
Balance at beginning of period	$ 2,544	$ 967
Reclassifications from non-accretable discount	(422)	3,087
Accretion	(1,166)	(1,051)
Balance at period end	$ 956	$ 3,003

Purchased credit impaired loans are evaluated on an ongoing basis after acquisition. Reclassifications from non-accretable discount to accretable yield are recorded based on the current estimates of the timing and amount of expected future cash flows.

Nonaccrual and Past Due Loans — When management doubts a borrower's ability to meet payment obligations, which typically occurs when principal or interest payments are more than 90 days past due, the loans are placed on nonaccrual status.

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The age analysis of loans, segregated by class, as of the dates set forth was as follows:

	September 30, 2017						
	Loans Past Due and Still Accruing						
	30 - 89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual	Purchased Credit Impaired	Current	Total Loans
	(Dollars in thousands)						
Originated Loans							
Commercial & industrial	$ 2,800	$ 50	$ 2,850	$ 37,489	$ -	$ 1,026,376	$ 1,066,715
Real estate:							
Owner occupied commercial real estate	500	357	857	-	-	311,305	312,162
Commercial real estate	5,165	-	5,165	202	-	800,960	806,327
Construction, land & land development	1,212	222	1,434	3,137	-	141,951	146,522
Residential mortgage	4,383	419	4,802	1,507	-	131,786	138,095
Consumer and other	84	21	105	52	-	15,261	15,418
Total originated loans	$ 14,144	$ 1,069	$ 15,213	$ 42,387	$ -	$ 2,427,639	$ 2,485,239
Acquired Loans							
Commercial & industrial	$ 218	$ -	$ 218	$ 8,707	$ 3,339	$ 69,871	$ 82,135
Real estate:							
Owner occupied commercial real estate	4,971	-	4,971	2,634	4,283	84,348	96,236
Commercial real estate	1,082	180	1,262	127	10,323	250,703	262,415
Construction, land & land development	1,144	3,579	4,723	107	17	42,487	47,334
Residential mortgage	818	-	818	37	2,454	93,685	96,994
Consumer and other	1	-	1	212	-	1,195	1,408
Total acquired loans	$ 8,234	$ 3,759	$ 11,993	$ 11,824	$ 20,416	$ 542,289	$ 586,522
Total loans held for investment	$ 22,378	$ 4,828	$ 27,206	$ 54,211	$ 20,416	$ 2,969,928	$ 3,071,761

	December 31, 2016						
	Loans Past Due and Still Accruing						
	30 - 89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual	Purchased Credit Impaired	Current	Total Loans
	(Dollars in thousands)						
Originated Loans							
Commercial & industrial	$ 1,515	$ 1,106	$ 2,621	$ 36,331	$ -	$ 865,379	$ 904,331
Real estate:							
Owner occupied commercial real estate	1,941	-	1,941	-	-	262,935	264,876
Commercial real estate	1,612	-	1,612	2,059	-	812,358	816,029
Construction, land & land development	4,375	-	4,375	-	-	175,624	179,999
Residential mortgage	1,791	63	1,854	1,254	-	124,337	127,445
Consumer and other	139	-	139	119	-	8,990	9,248
Total originated loans	$ 11,373	$ 1,169	$ 12,542	$ 39,763	$ -	$ 2,249,623	$ 2,301,928
Acquired Loans							
Commercial & industrial	$ 2,854	$ -	$ 2,854	$ 23,424	$ 4,506	$ 118,810	$ 149,594
Real estate:							
Owner occupied commercial real estate	223	-	223	8,942	5,339	114,830	129,334
Commercial real estate	2,529	-	2,529	2,002	10,807	312,384	327,722
Construction, land & land development	488	-	488	978	1,819	66,420	69,705
Residential mortgage	2,768	-	2,768	1,692	2,717	110,569	117,746
Consumer and other	226	-	226	5	-	1,960	2,191
Total acquired loans	9,088	-	9,088	37,043	25,188	724,973	796,292
Total loans held for investment	$ 20,461	$ 1,169	$ 21,630	$ 76,806	$ 25,188	$ 2,974,596	$ 3,098,220

Impaired Loans — The following is a summary of information related to impaired, nonaccrual and restructured loans and accruing loans past due 90 days or more as of the dates set forth:

	September 30, 2017		
	Originated	Acquired	Total
	(Dollars in thousands)		
Nonaccrual loans	$ 34,632	$ 9,024	$ 43,656
Accruing loans past due 90 days or more	1,069	3,759	4,828
Restructured loans - nonaccrual	7,755	2,800	10,555
Restructured loans - accruing	4,137	14,114	18,251
Total nonperforming loans	$ 47,593	$ 29,697	$ 77,290

	December 31, 2016		
	Originated	Acquired	Total
	(Dollars in thousands)		
Nonaccrual loans	$ 32,805	$ 33,868	$ 66,673
Accruing loans past due 90 days or more	1,169	-	1,169
Restructured loans - nonaccrual	6,959	3,174	10,133
Restructured loans - accruing	5,267	11,251	16,518
Total nonperforming loans	$ 46,200	$ 48,293	$ 94,493

Based on an analysis of impaired loans at September 30, 2017 and December 31, 2016, an allowance of $7.8 million and $1.8 million, respectively, was allocated to impaired loans. There was approximately $275 thousand and $382 thousand in interest recognized on impaired loans, for the three months ended September 30, 2017 and 2016, respectively. There was approximately $610 thousand and $757 thousand in interest recognized on impaired loans, for the nine months ended September 30, 2017 and 2016, respectively. Interest recognized includes interest accrued on restructured loans that are performing based on their restructured terms and interest collected on paid nonaccrual loans.

Impaired loans of $54.2 million and $76.8 million at September 30, 2017 and December 31, 2016 respectively, have been categorized by management as nonaccrual loans. Interest foregone on nonaccrual loans for the three months ended September 30, 2017 and 2016 was approximately $1.0 million and $1.8 million, respectively, and for the nine months ended September 30, 2017 and 2016 was approximately $3.8 million and $3.4 million, respectively.

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The following tables present, for the periods indicated, the average recorded investment in impaired loans and the approximate amount of interest recognized on impaired loans. Interest recognized includes interest accrued on restructured loans that have performed based on their restructured terms and interest collected on nonaccrual loans that were paid in full during the period.

	Three Months Ended			
	September 30, 2017		September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Originated Loans				
Commercial & industrial	$ 41,829	$ 47	$ 62,932	$ 38
Owner occupied commercial real estate	-	-	1,498	73
Commercial real estate	723	-	6,589	80
Construction, land & land development	3,016	-	-	-
Residential mortgage	1,023	97	575	-
Consumer and other	75	1	183	1
Total originated loans	$ 46,666	$ 145	$ 71,777	$ 192
Acquired Loans				
Commercial & industrial	$ 16,693	$ 77	$ 20,362	$ 63
Owner occupied commercial real estate	6,918	-	3,029	-
Commercial real estate	42	-	2,304	48
Construction, land & land development	1,021	30	239	-
Residential mortgage	212	23	1,959	79
Consumer and other	214	-	9	-
Total acquired loans	$ 25,100	$ 130	$ 27,902	$ 190
Total	$ 71,766	$ 275	$ 99,679	$ 382

	Nine Months Ended			
	September 30, 2017		September 30, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Originated Loans				
Commercial & industrial	$ 39,892	$ 59	$ 51,141	$ 57
Owner occupied commercial real estate	-	-	1,030	73
Commercial real estate	2,744	-	5,718	241
Construction, land & land development	1,005	-	205	180
Residential mortgage	1,977	123	531	10
Consumer and other	136	3	135	5
Total originated loans	$ 45,754	$ 185	$ 58,760	$ 566
Acquired Loans				
Commercial & industrial	$ 21,989	$ 348	$ 7,372	$ 63
Owner occupied commercial real estate	7,977	-	1,431	-
Commercial real estate	1,093	-	1,932	48
Construction, land & land development	1,186	45	79	-
Residential mortgage	900	32	1,691	80
Consumer and other	168	-	4	-
Total acquired loans	$ 33,313	$ 425	$ 12,509	$ 191
Total	$ 79,067	$ 610	$ 71,269	$ 757

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The following tables present additional information regarding impaired loans that were individually evaluated for impairment as of the dates indicated:

	September 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
Originated Loans			
With no related allowance recorded:			
Commercial & industrial	$ 18,372	$ 18,557	$ -
Commercial real estate	202	202	-
Construction, land & land development	174	178	-
Residential mortgage	1,507	1,507	-
Consumer and other	20	21	-
Total with no related allowance recorded:	$ 20,275	$ 20,465	$ -
With an allowance recorded:			
Commercial & industrial	$ 23,233	$ 23,306	$ 7,415
Construction, land & land development	2,964	2,964	308
Consumer and other	52	52	29
Total with an allowance recorded:	$ 26,249	$ 26,322	$ 7,752
Total originated loans	$ 46,524	$ 46,787	$ 7,752
Acquired Loans			
With no related allowance recorded:			
Commercial & industrial	$ 17,762	$ 17,767	$ -
Owner occupied commercial real estate	6,880	6,914	-
Commercial real estate	127	127	-
Construction, land & land development	920	933	-
Residential mortgage	18	18	-
Consumer and other	209	203	-
Total with no related allowance recorded:	$ 25,916	$ 25,962	$ -
With an allowance recorded:			
Residential mortgage	$ 19	$ 19	$ 19
Consumer and other	3	3	3
Total with an allowance recorded:	$ 22	$ 22	$ 22
Total acquired loans	$ 25,938	$ 25,984	$ 22
Total:			
Commercial & industrial	$ 59,367	$ 59,630	$ 7,415
Real estate	12,811	12,862	327
Consumer and other	284	279	32
Total	$ 72,462	$ 72,771	$ 7,774

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	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
Originated Loans			
With no related allowance recorded:			
Commercial & industrial	$ 33,415	$ 33,671	$ -
Commercial real estate	7,155	7,162	-
Residential mortgage	1,254	1,249	-
Consumer and other	96	96	-
Total with no related allowance recorded:	$ 41,920	$ 42,178	$ -
With an allowance recorded:			
Commercial & industrial	$ 2,992	$ 3,038	$ 394
Consumer and other	119	119	119
Total with an allowance recorded:	$ 3,111	$ 3,157	$ 513
Total originated loans	$ 45,031	$ 45,335	$ 513
Acquired Loans			
With no related allowance recorded:			
Commercial & industrial	$ 32,922	$ 33,093	$ -
Owner occupied commercial real estate	8,942	8,949	-
Commercial real estate	2,002	2,026	-
Construction, land & land development	978	991	-
Residential mortgage	1,692	1,694	-
Consumer and other	2	2	-
Total with no related allowance recorded:	$ 46,538	$ 46,755	$ -
With an allowance recorded:			
Commercial & industrial	$ 1,753	$ 1,774	$ 1,260
Consumer and other	2	3	2
Total with an allowance recorded:	$ 1,755	$ 1,777	$ 1,262
Total acquired loans	$ 48,293	$ 48,532	$ 1,262
Total:			
Commercial & Industrial	$ 71,082	$ 71,576	$ 1,654
Real Estate	22,023	22,071	-
Consumer and other	219	220	121
Total	$ 93,324	$ 93,867	$ 1,775

Credit Quality — Internally assigned risk grades for loans are defined as follows:

Grade 1 (Highest Quality — No Apparent Risk) — This category includes loans to borrowers of unquestioned credit standing which are secured by readily marketable collateral of undisputed value, with appropriate margin. It also includes loans to borrowing entities with: excellent capitalization, liquidity and earnings levels; quality management; positive financial trends; and favorable industry conditions.

Grade 2 (Good Quality — Minimal Risk) — This category includes loans to investment grade entities with: good liquidity and financial condition; nominal term debt; strong debt service capability; solid management; and quality financial information. These loans are usually secured with current assets, but may be unsecured. Alternative financing from other lenders is generally available to these borrowers.

Grade 3 (Satisfactory Quality — Acceptable Risk — Tier One) — This category includes loans to entities maintaining fair liquidity and acceptable financial conditions. The level of term debt is moderate, with adequate debt service capability. Earnings may be volatile, but borrowers in this category generally do not show a loss within the last three years. Primary debt service must be supported by identified secondary repayment sources or by guarantors with adequate and proven responsibility and capacity.

Grade 4 (Satisfactory Quality — Acceptable Risk — Tier Two) — This category includes loans to borrowers maintaining acceptable financial conditions; however, borrowers may exhibit certain characteristics of leverage or asset dependency that reflect a greater level of risk than Tier One credits. This category may also include borrowers exhibiting explainable interim losses within the previous three years and/or industry characteristics that warrant frequent monitoring.

Grade 5 (Monitored Loans) — This category includes loans with trends or characteristics which, if continued, could result in impaired repayment ability. The borrower may exhibit a low degree of liquidity and relatively high leverage, erratic earnings history (including the possibility of a reported loss in the past four years), significant term debt and a nominal cushion for debt service capacity. Loans in this category may also include financing to start-up borrowers backed by experienced management and significant capital investment or established companies in distressed industry conditions.

Grade 6 (Other Assets Especially Mentioned) — This category includes loans which have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or a weakening of the Company's credit position at some future date. Grade 6 loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Grade 7 (Substandard — Accruing) — This category includes loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any, or loans with identified weaknesses but where there is sufficient collateral value and/or cash flow coverage. This category includes loans that: (1) may require a secondary source of repayment (liquidation of collateral or repayment by a guarantor); (2) lack current financial information or appraisals; and/or (3) have collateral deficiencies such that the Company would be in an unsecured position with an obligor not deserving unsecured credit. This category may also include borrowers with operating losses in recent periods.

Grade 8 (Substandard — Nonaccrual) — This category includes loans with the same basic characteristics as Grade 7 loans that also meet the Company's criteria for nonaccrual status, but do not warrant a Grade 9 or Grade 10 classification.

Grade 9 (Doubtful/Exposure) — This category includes loans with all the Grade 7 or 8 characteristics but with weaknesses that make collection (or liquidation) highly questionable and improbable.

Grade 10 (Loss) — This category includes loans which are considered uncollectible, or of such little value that they should no longer be carried as an asset of the Company.

The credit risk profile of loans aggregated by class and internally assigned risk grades as of the dates set forth were as follows:

	September 30, 2017							
	Grade 1 - 4 (Pass)	Grade 5 (Watch)	Grade 6 (Special Mention)	Grade 7 (Substandard- Accrual)	Grade 8 (Substandard- Nonaccrual)	Grade 9 (Doubtful)	PCI	Total
	(Dollars in thousands)							
Originated Loans								
Commercial & Industrial	$ 932,888	$ 50,276	$ 2,613	$ 43,449	$ 37,489	$ -	$ -	$ 1,066,715
Owner Occupied Commercial Real Estate	300,558	2,678	8,426	500	-	-	-	312,162
Commercial Real Estate	698,303	53,421	44,917	9,484	202	-	-	806,327
Construction & Land Development	126,318	12,688	-	4,379	3,137	-	-	146,522
Residential Mortgage	127,082	6,734	-	2,772	1,507	-	-	138,095
Other Consumer	15,344	1	-	21	52	-	-	15,418
Total originated loans	$ 2,200,493	$ 125,798	$ 55,956	$ 60,605	$ 42,387	$ -	$ -	$ 2,485,239
Acquired Loans								
Commercial & Industrial	$ 41,279	$ 6,755	$ 12,864	$ 9,191	$ 8,707	$ -	$ 3,339	$ 82,135
Owner Occupied Commercial Real Estate	74,781	10,005	-	4,533	2,634	-	4,283	96,236
Commercial Real Estate	195,202	39,539	17,224	-	127	-	10,323	262,415
Construction & Land Development	18,870	24,004	2,955	1,381	107	-	17	47,334
Residential Mortgage	92,668	1,032	644	159	37	-	2,454	96,994
Other Consumer	1,196	-	-	-	212	-	-	1,408
Total acquired loans	$ 423,996	$ 81,335	$ 33,687	$ 15,264	$ 11,824	$ -	$ 20,416	$ 586,522
Total loans	$ 2,624,489	$ 207,133	$ 89,643	$ 75,869	$ 54,211	$ -	$ 20,416	$ 3,071,761

	December 31, 2016							
	Grade 1 - 4 (Pass)	Grade 5 (Watch)	Grade 6 (Special Mention)	Grade 7 (Substandard- Accrual)	Grade 8 (Substandard- Nonaccrual)	Grade 9 (Doubtful)	PCI	Total
	(Dollars in thousands)							
Originated Loans								
Commercial & Industrial	$ 818,352	$ 11,427	$ 24,133	$ 14,088	$ 34,520	$ 1,811	$ -	$ 904,331
Owner Occupied Commercial Real Estate	247,868	13,169	513	3,326	-	-	-	264,876
Commercial Real Estate	716,744	35,812	55,230	6,184	2,059	-	-	816,029
Construction & Land Development	171,287	5,590	1,931	1,191	-	-	-	179,999
Residential Mortgage	118,042	6,079	573	1,497	1,254	-	-	127,445
Other Consumer	9,032	5	58	34	119	-	-	9,248
Total originated loans	$ 2,081,325	$ 72,082	$ 82,438	$ 26,320	$ 37,952	$ 1,811	$ -	$ 2,301,928
Acquired Loans								
Commercial & Industrial	$ 69,304	$ 2,982	$ 15,528	$ 33,850	$ 23,424	$ -	$ 4,506	$ 149,594
Owner Occupied Commercial Real Estate	94,450	2,533	9,788	8,282	8,942	-	5,339	129,334
Commercial Real Estate	248,583	23,854	39,833	2,643	2,002	-	10,807	327,722
Construction & Land Development	49,849	12,859	2,577	1,623	978	-	1,819	69,705
Residential Mortgage	111,818	948	215	356	1,692	-	2,717	117,746
Other Consumer	1,972	-	214	-	5	-	-	2,191
Total acquired loans	$ 575,976	$ 43,176	$ 68,155	$ 46,754	$ 37,043	$ -	$ 25,188	$ 796,292
Total loans	$ 2,657,301	$ 115,258	$ 150,593	$ 73,074	$ 74,995	$ 1,811	$ 25,188	$ 3,098,220

Troubled Debt Restructurings — The restructuring of a loan is considered a troubled debt restructuring if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

Troubled debt restructurings identified during the periods indicated were as follows:

	Nine Months Ended					
	September 30, 2017			September 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Recorded Investment as of September 30, 2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Recorded Investment as of September 30, 2016
	(Dollars in thousands)					
Commercial & industrial	3	$ 2,526	$ 2,468	3	$ 8,883	$ 8,592
Owner occupied commercial real estate	3	5,501	5,448	-	-	-
Construction, land & land development	2	831	814	-	-	-
Consumer and other	1	208	208	-	-	-
Total	9	$ 9,066	$ 8,938	3	$ 8,883	$ 8,592

The modifications primarily relate to extending the maturity date of the loans, which includes loans modified post-bankruptcy. The Company did not forgive any principal or interest on the restructured loans. For the nine months ended September 30, 2017, the Company added $9.1 million in new troubled debt restructuring of which $8.9 million was still outstanding on September 30, 2017. The decrease in outstanding balance was primarily due to payments received. For the nine months ended September 30, 2016, the Company added $8.8 million in new troubled debt restructuring of which $8.6 million was still outstanding on September 30, 2016. The decrease in outstanding balance was primarily due to payments received.

Troubled debt restructurings are individually evaluated for impairment. The allowance for loan losses included specific reserves of $561 thousand related to $2.2 million of these loans at September 30, 2017.

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8. ALLOWANCE FOR LOAN LOSSES

An analysis of activity in the allowance for loan losses for the periods indicated, and the balance of loans receivable by the method of impairment evaluation for those periods were as follows:

	Balance June 30, 2017	Provision	Charge-offs	Recoveries	Balance September 30, 2017
	(Dollars in thousands)				
Originated Loans					
Commercial & industrial	$ 16,606	$ 2,031	$ (836)	$ 5	$ 17,806
Owner occupied commercial real estate	2,825	85	-	-	2,910
Commercial real estate	8,185	131	-	-	8,316
Construction, land & land development	1,576	255	-	-	1,831
Residential mortgage	1,165	(6)	-	13	1,172
Consumer and other	172	(17)	(9)	-	146
Total originated loans	$ 30,529	$ 2,479	$ (845)	$ 18	$ 32,181
Acquired Loans					
Commercial & industrial	$ 157	$ (145)	$ (4)	$ 7	$ 15
Owner occupied commercial real estate	-	-	-	-	-
Commercial real estate	487	167	-	4	658
Construction, land & land development	3	19	-	1	23
Residential mortgage	598	(10)	-	8	596
Consumer and other	217	(210)	(1)	1	7
Total acquired loans	$ 1,462	$ (179)	$ (5)	$ 21	$ 1,299
Total	$ 31,991	$ 2,300	$ (850)	$ 39	$ 33,480

	Balance June 30, 2016	Provision	Charge-offs	Recoveries	Balance September 30, 2016
	(Dollars in thousands)				
Originated Loans					
Commercial & industrial	$ 30,880	$ 22,308	$ (36,330)	$ 13	$ 16,871
Owner occupied commercial real estate	2,124	278	-	-	2,402
Commercial real estate	7,540	669	(26)	-	8,183
Construction, land & land development	2,426	(588)	-	-	1,838
Residential mortgage	1,172	(4)	-	23	1,191
Consumer and other	59	181	(54)	5	191
Total originated loans	$ 44,201	$ 22,844	$ (36,410)	$ 41	$ 30,676
Acquired Loans					
Commercial & industrial	$ 410	$ 3,719	$ (1,459)	$ 24	$ 2,694
Owner occupied commercial real estate	580	383	(977)	17	3
Commercial real estate	25	466	(466)	-	25
Construction, land & land development	825	671	-	6	1,502
Residential mortgage	1,368	122	(512)	22	1,000
Consumer and other	11	(5)	(1)	6	11
Total acquired loans	$ 3,219	$ 5,356	$ (3,415)	$ 75	$ 5,235
Total	$ 47,420	$ 28,200	$ (39,825)	$ 116	$ 35,911

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	Balance December 31, 2016	Provision	Charge-offs	Recoveries	Balance September 30, 2017
	(Dollars in thousands)				
Originated Loans					
Commercial & industrial	$ 9,491	$ 10,002	$ (2,280)	$ 593	$ 17,806
Owner occupied commercial real estate	2,609	301	-	-	2,910
Commercial real estate	8,576	(260)	-	-	8,316
Construction, land & land development	1,852	(21)	-	-	1,831
Residential mortgage	1,134	(9)	-	47	1,172
Consumer and other	193	(27)	(142)	122	146
Total originated loans	$ 23,855	$ 9,986	$ (2,422)	$ 762	$ 32,181
Acquired Loans					
Commercial & industrial	$ 1,260	$ (984)	$ (338)	$ 77	$ 15
Owner occupied commercial real estate	-	957	(961)	4	-
Commercial real estate	437	214	-	7	658
Construction, land & land development	115	(72)	(95)	75	23
Residential mortgage	685	(136)	-	47	596
Consumer and other	12	(10)	(2)	7	7
Total acquired loans	$ 2,509	$ (31)	$ (1,396)	$ 217	$ 1,299
Total	$ 26,364	$ 9,955	$ (3,818)	$ 979	$ 33,480

	Balance December 31, 2015	Provision	Charge-offs	Recoveries	Balance September 30, 2016
	(Dollars in thousands)				
Originated Loans					
Commercial & industrial	$ 23,084	$ 42,286	$ (49,201)	$ 702	$ 16,871
Owner occupied commercial real estate	1,675	727	-	-	2,402
Commercial real estate	4,525	3,684	(26)	-	8,183
Construction, land & land development	2,337	(499)	-	-	1,838
Residential mortgage	815	350	-	26	1,191
Consumer and other	286	(14)	(96)	15	191
Total originated loans	$ 32,722	$ 46,534	$ (49,323)	$ 743	$ 30,676
Acquired Loans					
Commercial & industrial	$ 46	$ 4,360	$ (1,804)	$ 92	$ 2,694
Owner occupied commercial real estate	4	1,137	(1,155)	17	3
Commercial real estate	166	325	(466)	-	25
Construction, land & land development	8	1,415	-	79	1,502
Residential mortgage	1	1,421	(518)	96	1,000
Consumer and other	-	8	(15)	18	11
Total acquired loans	$ 225	$ 8,666	$ (3,958)	$ 302	$ 5,235
Total	$ 32,947	$ 55,200	$ (53,281)	$ 1,045	$ 35,911

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An analysis of activity in the allowance for loan losses for the periods indicated, and the balance of loans receivable by the method of impairment evaluation for those periods were as follows:

	September 30, 2017							
	Loans evaluated for impairment				Allowance for loan losses evaluated			
	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total loans	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total allowance for loan losses
	(Dollars in thousands)							
Originated Loans								
Commercial & industrial	$ 1,025,109	$ 41,606	$ -	$ 1,066,715	$ 10,391	$ 7,415	$ -	$ 17,806
Owner occupied commercial real estate	312,162	-	-	312,162	2,910	-	-	2,910
Commercial real estate	806,125	202	-	806,327	8,316	-	-	8,316
Construction, land & land development	143,385	3,137	-	146,522	1,523	308	-	1,831
Residential mortgage	136,588	1,507	-	138,095	1,172	-	-	1,172
Consumer and other	15,346	72	-	15,418	117	29	-	146
Total originated loans	$ 2,438,715	$ 46,524	$ -	$ 2,485,239	$ 24,429	$ 7,752	$ -	$ 32,181
Acquired Loans								
Commercial & industrial	$ 61,035	$ 17,761	$ 3,339	$ 82,135	$ 15	$ -	$ -	$ 15
Owner occupied commercial real estate	85,073	6,880	4,283	96,236	-	-	-	-
Commercial real estate	251,965	127	10,323	262,415	569	-	89	658
Construction, land & land development	46,396	921	17	47,334	23	-	-	23
Residential mortgage	94,503	37	2,454	96,994	532	19	45	596
Consumer and other	1,196	212	-	1,408	4	3	-	7
Total acquired loans	$ 540,168	$ 25,938	$ 20,416	$ 586,522	$ 1,143	$ 22	$ 134	$ 1,299
Total	$ 2,978,883	$ 72,462	$ 20,416	$ 3,071,761	$ 25,572	$ 7,774	$ 134	$ 33,480

	December 31, 2016							
	Loans evaluated for impairment				Allowance for loan losses evaluated			
	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total loans	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total allowance for loan losses
	(Dollars in thousands)							
Originated Loans								
Commercial & industrial	$ 867,924	$ 36,407	$ -	$ 904,331	$ 9,097	$ 394	$ -	$ 9,491
Owner occupied commercial real estate	264,876	-	-	264,876	2,609	-	-	2,609
Commercial real estate	808,874	7,155	-	816,029	8,576	-	-	8,576
Construction, land & land development	179,999	-	-	179,999	1,852	-	-	1,852
Residential mortgage	126,190	1,255	-	127,445	1,134	-	-	1,134
Consumer and other	9,034	214	-	9,248	74	119	-	193
Total originated loans	$ 2,256,897	$ 45,031	$ -	$ 2,301,928	$ 23,342	$ 513	$ -	$ 23,855
Acquired Loans								
Commercial & industrial	$ 110,413	$ 34,675	$ 4,506	$ 149,594	$ -	$ 1,260	$ -	$ 1,260
Owner occupied commercial real estate	115,053	8,942	5,339	129,334	-	-	-	-
Commercial real estate	314,913	2,002	10,807	327,722	429	-	8	437
Construction, land & land development	66,908	978	1,819	69,705	14	-	101	115
Residential mortgage	113,338	1,691	2,717	117,746	672	-	13	685
Consumer and other	2,186	5	-	2,191	10	2	-	12
Total acquired loans	$ 722,811	$ 48,293	$ 25,188	$ 796,292	$ 1,125	$ 1,262	$ 122	$ 2,509
Total	$ 2,979,708	$ 93,324	$ 25,188	$ 3,098,220	$ 24,467	$ 1,775	$ 122	$ 26,364

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	September 30, 2016							
	Loans evaluated for impairment				Allowance for loan losses evaluated			
	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total loans	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total allowance for loan losses
	(Dollars in thousands)							
Originated Loans								
Commercial & industrial	$ 766,494	$ 56,553	$ -	$ 823,047	$ 8,106	$ 8,765	$ -	$ 16,871
Owner occupied commercial real estate	248,373	1,454	-	249,827	2,402	-	-	2,402
Commercial real estate	754,527	7,261	-	761,788	8,183	-	-	8,183
Construction, land & land development	180,315	-	-	180,315	1,838	-	-	1,838
Residential mortgage	127,498	579	-	128,077	1,177	14	-	1,191
Consumer and other	8,784	221	-	9,005	72	119	-	191
Total originated loans	$ 2,085,991	$ 66,068	$ -	$ 2,152,059	$ 21,778	$ 8,898	$ -	$ 30,676
Acquired Loans								
Commercial & industrial	$ 150,937	$ 25,652	$ 4,778	$ 181,367	$ -	$ 2,684	$ 10	$ 2,694
Owner occupied commercial real estate	128,633	2,583	5,989	137,205	-	-	3	3
Commercial real estate	333,271	2,623	11,960	347,854	-	-	25	25
Construction, land & land development	89,319	358	8,331	98,008	3	-	1,499	1,502
Residential mortgage	124,165	1,534	3,064	128,763	705	-	295	1,000
Consumer and other	2,350	12	-	2,362	9	2	-	11
Total acquired loans	$ 828,675	$ 32,762	$ 34,122	$ 895,559	$ 717	$ 2,686	$ 1,832	$ 5,235
Total	$ 2,914,666	$ 98,830	$ 34,122	$ 3,047,618	$ 22,495	$ 11,584	$ 1,832	$ 35,911

9. PREMISES AND EQUIPMENT

Premises and equipment as of the dates indicated are summarized as follows:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Land	$ 9,623	$ 7,660
Buildings and improvements	26,695	23,293
Furniture, fixtures and equipment	10,372	10,193
	46,690	41,146
Less accumulated depreciation	(16,957)	(15,472)
Total	$ 29,733	$ 25,674

Depreciation of premises and equipment totaled $509 thousand and $581 thousand for the three months ended September 30, 2017 and 2016, respectively, and $1.6 million for both the nine months ended September 30, 2017 and 2016, respectively.

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10. GOODWILL AND CORE DEPOSIT INTANGIBLES

The Company reviews its goodwill for impairment annually, or more frequently, if indicators of impairment exist. At September 30, 2017 and December 31, 2016, management determined that goodwill, as reflected in the Company's financial statements, was not impaired. The most recent goodwill impairment test was as of December 31, 2016. Subsequent to year end, management has determined that no triggering events have occurred that would result in impairment.

Changes in the carrying amount of goodwill and core deposit intangibles for the periods set forth were as follows:

	Goodwill	Core Deposit Intangibles
	(Dollars in thousands)	
Balance - December 31, 2015	$ 85,291	$ 11,562
Less - amortization	-	(1,587)
Balance - December 31, 2016	$ 85,291	$ 9,975
Less amortization	-	(1,140)
Balance - September 30, 2017	$ 85,291	$ 8,835

Amortization of core deposit intangibles was $380 thousand and $402 thousand for the three months ended September 30, 2017 and 2016, respectively, and $1.1 million and $1.2 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company initially records the total premium paid on acquisitions as goodwill. After finalizing the valuation, core deposit intangibles are identified and reclassified from goodwill to core deposit intangibles on the balance sheet. This reclassification has no effect on total assets, liabilities, shareholders' equity, net income or cash flows. The measurement period for the Company to determine the fair value of acquired identifiable assets and assumed liabilities will be at the end of the earlier of (1) twelve months from the date of acquisition or (2) as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the date of acquisition. The Company may record subsequent adjustments to goodwill for amounts undeterminable at the acquisition date, such as deferred taxes and real estate valuations.

Core deposit intangibles are amortized on an accelerated basis over their estimated lives, which the Company believes is approximately six to nineteen years. The estimated future amortization expense for the core deposit intangibles remaining as of the date indicated is as follows:

	September 30, 2017
	(Dollars in thousands)
2017	$ 332
2018	1,196
2019	1,080
2020	992
2021	905
Thereafter	4,330
Total	$ 8,835

11. DEPOSITS

Scheduled maturities of certificates and other time deposits for the next five years were as follows:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
2017	$ 205,034	$ 863,876
2018	796,955	263,958
2019	220,916	156,824
2020	81,177	67,739
2021	13,244	13,052
Thereafter	23,084	-
Total	$ 1,340,410	$ 1,365,449

Certificates and other time deposits that meet or exceed the FDIC Insurance limit of $250,000 at September 30, 2017 and December 31, 2016, were $564.5 million and $490.7 million, respectively.

The Company had $180.6 million and $97.9 million in brokered time deposits at September 30, 2017 and December 31, 2016, respectively. In addition the Company has $49.9 million in brokered noninterest-bearing deposits at September 30, 2017. Brokered deposits represented 6.8% and 2.9% of total deposits at September 30, 2017 and December 31, 2016, respectively. The Company utilizes brokered deposits to enhance liquidity.

There are no major concentrations of deposits with any one depositor.

12. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER BORROWED FUNDS

Other borrowed funds as of the dates indicated were as follows:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Federal Home Loan Bank advances	$ 215,000	$ 150,000
Repurchase agreements	5,867	3,493
Total	$ 220,867	$ 153,493

Federal Home Loan Bank Advances — The Company has an available borrowing arrangement with the Federal Home Loan Bank (the “FHLB”), which allows the Company to borrow on a collateralized basis. At September 30, 2017 and December 31, 2016, total unused borrowing capacity of $1.1 billion and $608.8 million, respectively, was available under this arrangement. At September 30, 2017, $215.0 million was outstanding with an average interest rate of 1.15% and all of the Company’s FHLB advances will mature within one year. At December 31, 2016, $150.0 million was outstanding with an average interest rate of 0.59% and all of the Company’s FHLB advances will mature within two years. These borrowings are collateralized by a blanket lien on certain loans and unpledged securities held in safekeeping. The total borrowing capacity increased primarily due to the purchase of securities. The Company utilizes these borrowings to meet liquidity needs and to fund certain loans in its loan portfolio.

Federal Reserve Bank — The Company has an available borrower in custody arrangement with the Federal Reserve Bank of Dallas (the “Dallas Fed”), which allows the Company to borrow, on a collateralized basis. Certain commercial and consumer loans are pledged under this arrangement. The Company maintains this borrowing arrangement to meet liquidity needs pursuant to its contingency funding plan. At September 30, 2017 and December 31, 2016, $53.8 million and $330.0 million, respectively, were available under this arrangement and no borrowings were outstanding. The available capacity decreased temporarily at September 30, 2017 due to a delay in providing loan data. The availability was $373.3 million effective October 5, 2017.

Securities Sold Under Agreements to Repurchase — Securities sold under agreements to repurchase represent the purchase of interests in securities by banking customers. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. Repurchase agreements with banking customers are settled on the following business day. All securities sold under agreements to repurchase are collateralized by pledged securities. The securities underlying the repurchase agreements are held in safekeeping by the Bank’s safekeeping agent.

Federal Funds Purchased — The Company has available federal funds lines of credit with its correspondent banks. As of September 30, 2017 and December 31, 2016, there were no federal funds purchased outstanding.

13. SUBORDINATED DEBENTURES AND SUBORDINATED NOTES

Subordinated Notes — During the fourth quarter 2016, the Company issued $35.0 million of 8.50% Fixed-to-Floating Rate Subordinated Notes (the “Notes”) that mature on December 15, 2026 through a private placement to certain institutional accredited investors. The Notes, which qualify as Tier 2 capital under the Federal Reserve’s capital guidelines in effect at September 30, 2017, have an interest rate of 8.50% per annum, during the fixed-rate period from date of issuance through December 15, 2021. Interest is payable semi-annually on each June 15 and December 15, commencing on June 15, 2017.

During the floating rate period from December 15, 2021, but excluding the maturity date or date of earlier redemption, the Notes will bear interest at a rate per annum equal to three-month LIBOR for the related interest period plus 6.685%, payable quarterly on each March 15, June 15, September 15 and December 15. The Notes are subordinated in right of payment to all of the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company's subsidiary bank. The Company may elect to redeem the Notes (subject to regulatory approval), in whole or in part, on any early redemption date which is any interest payment date on or after December 15, 2021 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. Other than on an early redemption date, the Notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization. The sale of the Notes yielded net proceeds of approximately $33.9 million. The Company utilized $32.8 million of the proceeds to transfer several energy loans to the holding company to provide flexibility to resolve these loans.

Unamortized debt issuance costs related to these Notes, which are included in Subordinated Debentures and Subordinated Notes, totaled $1.3 million at September 30, 2017. Net issuance costs associated with issuing these Notes are amortized to interest expense over the respective terms using the straight-line method.

A summary of pertinent information related to the Company’s issues of subordinated Notes outstanding at September 30, 2017 is set forth in the table below:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Subordinated notes fixed to floating rate, 8.50% per annum, maturity date December 15, 2026	$ 35,000	$ 35,000
Less: unamortized debt issuance costs	(1,327)	(1,115)
Total subordinated notes	$ 33,673	$ 33,885

Subordinated Debentures Trust Preferred Securities — At September 30, 2017, the Company had outstanding $22.2 million in subordinated debentures, which is offset by a $8.2 million purchase discount. On October 1, 2015, the Company acquired Patriot Bancshares, Inc., and assumed the obligations related to the subordinated debentures issued to Capital Trust I and Capital Trust II.

A summary of pertinent information related to the Company's two issues of subordinated debentures outstanding at September 30, 2017 is set forth in the table below:

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate[(1)]	Subordinated Debt Owed to Trusts	Maturity Date[(2)]
		(Dollars in thousands)			
Patriot Bancshares Capital Trust I	March 31, 2006	$ 5,000	3 month LIBOR +1.85%, not to exceed 11.90%	$ 5,155	April 7, 2036
Patriot Bancshares Capital Trust II	August 2, 2007	$ 16,500	3 month LIBOR +1.80%, not to exceed 11.90%	$ 17,011	September 15, 2037

(1) The 3-month LIBOR in effect as of September 30, 2017 was 1.334%.
(2) All debentures are callable five years from issuance date.

Each of the trusts is a capital trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company's junior subordinated debentures. The trust preferred securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are 100% owned by the Company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of the Company's present and future senior indebtedness. The Company has fully and unconditionally guaranteed each trust's obligations under the trust securities issued by such trust to the extent not paid or made by each trust, provided such trust has funds available for such obligations.

Under the provisions of each issue of the debentures, the Company has the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on either issue of the debentures are deferred, the distributions on the applicable trust preferred securities and common securities will also be deferred.

14. INCOME TAXES

Income tax expense for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Income tax expense (benefit) for the period	$ $5,895	$ ($4,831)	$ $16,822	$ ($1,757)
Effective Tax Rate	34.1%	35.0%	34.8%	33.3%

The effective tax rates differ from the statutory federal tax rate of 35% largely due to the nontaxable earnings on bank owned life insurance and tax exempt interest income earned on certain investment securities and loans, less state tax expense, net of federal effect, and other non-deductible expenses.

Net deferred tax assets totaled $14.0 million at September 30, 2017 and $11.3 million at December 31, 2016. No valuation allowance was recorded against deferred tax assets as of those dates, as management believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years.

15. EMPLOYEE BENEFITS

Equity Incentive Plan — The 2014 Omnibus Equity Incentive Plan (the "2014 Plan") was approved by the Company's Board of Directors and shareholders on July 28, 2014 and became effective immediately prior to the initial public offering on August 7, 2014. A total of 1,273,838 shares of common stock were reserved for issuance under the 2014 Plan, which permits the grant of incentive stock options, within the meaning of Section 422 of the IRS Code, to the Company's employees, and the grant of non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares and other forms of equity-based awards to the Company's employees, directors, consultants and independent contractors. The 2014 Plan is administered by the Compensation Committee of the Board of Directors, who may select which eligible participants receive awards, the types of awards to be granted, the purchase price, if any, to be paid for shares covered by the awards and the vesting, forfeiture, cancellation and other terms and conditions of the awards.

Stock Options. At September 30, 2017 and December 31, 2016 there were 429,500 and 389,500 time based options outstanding under the 2014 Plan, respectively. The Company has two additional stock options plans, which are frozen to further issuance.

The Green Bancorp, Inc. 2010 Stock Option Plan (the "2010 Option Plan"), which was approved by the Company's Board of Directors on June 30, 2010, permitted the grant of up to 2,239,906 options. The non-qualified stock options granted were in the form of time-based options and performance options and may have been granted to a director, officer or employee of the Company. Time-based options under the 2010 Option Plan vest over a period of four years and expire on the tenth anniversary of the date of the grant. Performance options under the 2010 Option Plan vest upon the occurrence of a liquidity event, with the vested amounts determined based on the achievement of specified performance and market metrics. The 2010 Option Plan was frozen to further issuance upon approval of the 2014 Omnibus Plan. At September 30, 2017 there were 367,213 time based options, 992,864 performance options and 308,054 super-performance options outstanding under the 2010 Option Plan. At December 31, 2016 there were 377,015 time based options, 1,020,242 performance options and 316,550 super-performance options outstanding under the 2010 Option Plan.

The Green Bancorp, Inc. 2006 Stock Option Plan (the "2006 Option Plan"), which was approved by the shareholders of the Company on June 21, 2006, permitted the grant of up to 450,000 options. The options granted may have been in the form of nonqualified stock options, which may have been granted to a director, officer or employee of the Company, or incentive stock options, which may have been granted only to officers of the Company. Awards under the 2006 Option Plan vest over a four-year period, which began on the first anniversary of the grant date, and must be exercised within 10 years from the grant date. The 2006 Option Plan was frozen to further issuance upon approval of the 2010 Option Plan. At September 30, 2017 and December 31, 2016, there were 87,500 and 127,500 options outstanding under the 2006 Option Plan, respectively.

Restricted Stock Units. In connection with the initial public offering, 275,000 restricted stock units were granted under the 2014 Plan. At September 30, 2017 and December 31, 2016, there were 322,375 and 288,500 restricted stock units outstanding under the 2014 Plan, respectively. Total restricted stock units compensation expense was $186 thousand and $193 thousand for the three months ended September 30, 2017 and 2016, respectively, and $592 thousand and $595 thousand for the nine months ended September 30, 2017 and 2016, respectively.

Stock Appreciation Rights Plan — On May 18, 2007, the Company's Board of Directors adopted the Green Bancorp Stock Appreciation Rights Plan (the "SAR Plan"). The SAR Plan provided for the issuance of up to 200,000 units to plan participants at an exercise price of no less than the fair market value of the common stock of the Company at the time of grant. Units are redeemable by SAR Plan participants under certain circumstances whereby the participant will be paid the excess, if any, of the market value of the Company's common stock at the time of exercise over the exercise price. The SAR Plan provides for a 10-year maximum term for units issued, vesting and exercisability limitations and accelerated vesting and deemed exercise in the event of a change of control. The SAR Plan was frozen to further issuance upon approval of the 2014 Omnibus Plan. As of September 30, 2017 and December 31, 2016, there were 63,000 and 93,000 units outstanding under the SAR Plan, respectively.

For the three and nine months ended September 30, 2017, $285 thousand and $642 thousand of stock based compensation expense to reflect the fair value of the SARs was recorded. For the three and nine months ended September 30, 2016, $114 thousand and $2 thousand stock based compensation expense to reflect the fair value of the SARs was recorded, respectively.

Benefit Plan — The Company sponsors a 401(k) plan (the "401k Plan"), which is a defined contribution plan available to substantially all employees. Participants in the 401k Plan may make salary deferral contributions up to the amount allowed by law.

The Company makes safe harbor matching contributions to the 401k Plan equal to 100% of the participant's elective contribution for the plan year up to a maximum of 6% of the participant's salary. The Company contributions are fully vested at the date of contribution. The total of Company contributions for the three months ended September 30, 2017 and 2016, were $349 thousand and $325 thousand, respectively, and for the nine months ended September 30, 2017 and 2016, were $1.1 million and $976 thousand, respectively.

16. OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of the date indicated (other than securities sold under agreements to repurchase). The Company's future cash payments associated with its contractual obligations pursuant to its certificates and other time deposits, FHLB advances, subordinated debentures and subordinated notes and operating leases, as of the date indicated are as follows:

	September 30, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Certificates and other time deposits	$ 929,168	$ 368,429	$ 42,813	$ -	$ 1,340,410
Federal Home Loan Bank advances	215,796	-	-	-	215,796
Subordinated debentures and subordinated notes	3,795	3,671	8,650	81,375	97,491
Operating leases	2,218	2,947	2,014	3,120	10,299
Total	$ 1,150,977	$ 375,047	$ 53,477	$ 84,495	$ 1,663,996

Payments for the FHLB advances includes interest of $796 thousand that will be paid in future years. Payments for subordinated debentures and subordinated notes includes interest of $40.3 million that will be paid in future years. The future interest payments were calculated using the current rate in effect at September 30, 2017. Payments related to leases are based on actual payments specified in underlying contracts.

Leases — The Company's noncancelable future operating lease commitments as of the date indicated is as follows:

	September 30, 2017 (Dollars in thousands)
2017	$ 591
2018	2,034
2019	1,610
2020	1,237
2021	1,099
Thereafter	3,728
Total	$ 10,299

The Company leases certain office facilities and equipment under operating leases. Rent expense under all noncancelable operating lease obligations, net of income from noncancelable subleases aggregated, was approximately $581 thousand and $627 thousand for the three months ended September 30, 2017 and 2016, respectively, and was $1.7 million for both the nine months ended September 30, 2017 and 2016, respectively.

Litigation — The Company from time to time is involved in routine litigation arising from the normal course of business. Management does not believe that there are any pending or threatened proceedings against the Company which, upon resolution, would have a material effect on the consolidated financial statements.

Financial Instruments with Off-Balance Sheet Risk — In the normal course of business, the Company is a party to various financial instruments with off-balance sheet risk to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual or notional amount of these instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments.

The following is a summary of the various financial instruments outstanding as of the date set forth:

	September 30, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Commitments to extend credit	$ 319,979	$ 181,895	$ 64,645	$ 50,813	$ 617,332
Standby and commercial letters of credit	9,190	2,454	163	640	12,447
Total	$ 329,169	$ 184,349	$ 64,808	$ 51,453	$ 629,779

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company, upon extension of credit, is based on management's credit evaluation of the customer.

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

17. DERIVATIVE FINANCIAL INSTRUMENTS

In order to accommodate the borrowing needs of certain commercial customers, the Company entered into interest rate swap or cap agreements with those customers. These interest rate derivative contracts effectively allow our customers to convert a variable rate loan to a fixed rate. In order to offset the exposure and manage interest rate risk, at the time an agreement was entered into with a customer, the Company entered into an interest rate swap or cap with a correspondent bank counterparty with offsetting terms. These derivative instruments are not designated as accounting hedges and changes in the net fair value are recognized in noninterest income or expense. Because we act as an intermediary for our customers, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on our results of operations. The fair value amounts are included in other assets and other liabilities.

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The following is a summary of the interest rate swaps outstanding as of the dates set forth:

	September 30, 2017				
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
	(Dollars in thousands)				
Non-hedging derivative instruments:					
Customer interest rate swap:					
receive fixed/pay floating	$ 179,387	2.19 - 5.72%	LIBOR 1 month + 0.000% - 4.250%	Wtd. Avg. 3.0 years	$ 269
Correspondent interest rate swap:					
pay fixed/receive floating	$ 179,387	2.19 - 5.72%	LIBOR 1 month + 0.000% - 4.250%	Wtd. Avg. 3.0 years	$ (308)

	December 31, 2016				
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
	(Dollars in thousands)				
Non-hedging derivative instruments:					
Customer interest rate swap:					
receive fixed/pay floating	$ 185,637	2.19 - 5.72%	LIBOR 1 month + 0% - 4.25%	Wtd. Avg. 3.4 years	$ 609
Correspondent interest rate swap:					
pay fixed/receive floating	$ 185,637	2.19 - 5.72%	LIBOR 1 month + 0% - 4.25%	Wtd. Avg. 3.4 years	$ (691)

The estimated fair values of non-hedging derivative instruments are reflected within Company's consolidated balance sheet (included in other assets and other liabilities). The notional amounts and estimated fair values of the non-hedging derivative instruments by classification as the dates set forth were as follows:

	September 30, 2017			December 31, 2016		
		Estimated Fair Value			Estimated Fair Value	
	Notional Amount	Asset Derivative	Liability Derivative	Notional Amount	Fair Value	Liability Derivative
	(Dollars in thousands)					
Non-hedging interest rate derivatives:						
Financial institution counterparty:						
Interest rate swaps	$ 179,387	$ 735	$ 1,044	$ 185,637	$ 698	$ 1,389
Interest rate caps and collars	37,682	44	-	16,482	5	-
Commercial customer counterparty:						
Interest rate swaps	179,387	997	728	185,637	1,307	698
Interest rate caps and collars	37,682	-	43	16,482	-	5
Gross derivatives		1,776	1,815		2,010	2,092
Offsetting derivatives assets/liabilities		(802)	(802)		(698)	(698)
Net derivatives included in the consolidated balance sheets		$ 974	$ 1,013		$ 1,312	$ 1,394

The strike rate for the outstanding caps was 6.00% at both September 30, 2017 and December 31, 2016. The rates for the outstanding interest rate collars were 4.55% and 5.80% at September 30, 2017. There were no interest rate collars outstanding at December 31, 2016.

18. REGULATORY MATTERS

Capital Requirements — The Company is subject to various regulatory capital requirements administered by federal banking agencies. Any institution that fails to meet its minimum capital requirements is subject to actions by regulators that could have a direct material effect on its financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines based on the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s capital amount and classification under the regulatory framework for prompt corrective action are also subject to qualitative judgments by the regulators.

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" ("CET 1"), (ii) specify that Tier 1 capital consist of CET 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions to be fully phased in by January 1, 2019.

Beginning on January 1, 2016, the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios.

Financial institutions are categorized as “well capitalized” or “adequately capitalized”, based on minimum total risk-based, Tier 1 risk-based, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company’s capital ratios exceeded the regulatory definition of “adequately capitalized” as of September 30, 2017 and December 31, 2016. Based upon the information in its most recently filed call report, the Bank met the capital ratios necessary to be “well capitalized”. The regulatory authorities can apply changes in classification of assets and such changes may retroactively subject the Company to changes in capital ratios. Any such changes could result in reducing one or more capital ratios below “well-capitalized” status. In addition, a change may result in imposition of additional assessments by the FDIC or could result in regulatory actions that could have a material effect on condition and results of operations.

To meet the capital adequacy requirements, the Company and the Bank must maintain minimum capital amounts and ratios as defined in the regulations. Management believes, as of September 30, 2017 and December 31, 2016, that the Company and the Bank met all capital adequacy requirements to which they are subject.

The most recent notification from the regulatory banking agencies categorized Green Bank as “well capitalized” under the regulatory capital framework for prompt corrective action and there have been no events since that notification that management believes have changed the Bank’s category.

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The Company's consolidated capital ratios and the Bank's capital ratios as of the dates set forth are presented in the following table:

	September 30, 2017					
	Actual		For Capital Adequacy Purposes		To be Categorized as "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
The Company[1]:						
Total capital (to risk weighted assets)	$ 451,587	12.9 %	$ 278,989	8.0 %	N/A	N/A
Tier 1 capital (to risk weighted assets)	384,309	11.0	209,242	6.0	N/A	N/A
Common equity tier 1 capital	371,053	10.6	156,931	4.5	N/A	N/A
Tier I capital (to average assets)	384,309	9.5	161,610	4.0	N/A	N/A
The Bank[2]:						
Total capital (to risk weighted assets)	$ 435,278	12.6 %	$ 277,200	8.0 %	$ 346,499	10.0 %
Tier 1 capital (to risk weighted assets)	407,824	11.8	207,900	6.0	277,200	8.0
Common equity tier 1 capital	407,824	11.8	155,925	4.5	225,225	6.5
Tier I capital (to average assets)	407,824	10.1	161,067	4.0	201,334	5.0

	December 31, 2016					
	Actual		For Capital Adequacy Purposes		To be Categorized as "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
The Company[1]:						
Total capital (to risk weighted assets)	$ 413,666	11.8 %	$ 280,104	8.0 %	N/A	N/A
Tier 1 capital (to risk weighted assets)	352,371	10.1	210,078	6.0	N/A	N/A
Common equity tier 1 capital	339,430	9.7	157,559	4.5	N/A	N/A
Tier I capital (to average assets)	352,371	9.1	155,271	4.0	N/A	N/A
The Bank[2]:						
Total capital (to risk weighted assets)	$ 371,833	10.8 %	$ 276,144	8.0 %	$ 345,180	10.0 %
Tier 1 capital (to risk weighted assets)	344,423	10.0	207,108	6.0	276,144	8.0
Common equity tier 1 capital	344,423	10.0	155,331	4.5	224,367	6.5
Tier I capital (to average assets)	344,423	9.0	154,946	4.0	193,682	5.0

(1) The Federal Reserve may require the Company to maintain capital ratios above the required minimums.

(2) The FDIC or the Office of the Comptroller of the Currency (the "OCC") may require the Bank to maintain capital ratios above the required minimums.

Dividend Restrictions — Dividends paid by the Bank are subject to certain restrictions imposed by regulatory agencies. The Basel III Capital Rules further limit the amount of dividends that may be paid by our bank. No dividends were paid for the periods ended September 30, 2017 and December 31, 2016.

The Company is regarded as a legal entity separate and distinct from the Bank. The principal source of the Company's revenues is dividends received from the Bank. Federal law currently imposes limitations upon certain capital distributions by national banks, such as certain cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The Federal Reserve and the OCC regulate all capital distributions by the Bank directly or indirectly to the Company, including dividend payments. For example, under applicable regulations, the Bank must file an application for OCC approval of a capital distribution if the total capital distributions for the applicable calendar year exceed the sum of the Bank's net income for that year to date plus the Bank's retained net income for the preceding two years. Additionally, the Bank may not pay dividends to the Company if, after paying those dividends, it would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements, or in the event the OCC notified the Bank that it was in need of more than normal supervision. Under the Federal Deposit Insurance Act, an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become "undercapitalized." Payment of dividends by the Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. In addition, the Bank may become subject to supervisory limits on its ability to declare or pay a dividend or reduce its capital unless certain conditions are satisfied.

19. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 — Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 — Inputs other than those quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 2 assets and liabilities include available-for-sale securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Available-for-sale securities are valued using observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, prepayment speeds, credit information, and the bond's terms and conditions, among other things. Derivative valuations utilize certain Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. The significance of the impact of these credit valuation adjustments on the overall valuation of derivative positions are not significant to the overall valuation and result in all derivative valuations being classified in Level 2 of the fair value hierarchy.

Level 3 — Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. This category includes certain interest-only strip securities where independent pricing information was not able to be obtained for a significant portion of the underlying assets and loans held for sale.

The tables below present the Company's assets and liabilities measured at fair value on a recurring basis as of the dates set forth aggregated by the level in the fair value hierarchy within which those measurements fall.

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Financial Assets:				
Available-for-sale securities	$ -	$ 694,259	$ -	$ 694,259
Correspondent interest rate swaps	-	735	-	735
Customer interest rate swaps	-	997	-	997
Correspondent interest rate caps and collars	-	44	-	44
Financial Liabilities:				
Correspondent interest rate swaps	$ -	$ 1,044	$ -	$ 1,044
Customer interest rate swaps	-	728	-	728
Customer interest rate caps and collars	-	43	-	43

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Financial Assets:				
Available-for-sale securities	$ 112,881	$ 161,738	$ -	$ 274,619
Correspondent interest rate swaps	-	698	-	698
Customer interest rate swaps	-	1,307	-	1,307
Correspondent interest rate caps	-	5	-	5
Financial Liabilities:				
Correspondent interest rate swaps	$ -	$ 1,389	$ -	$ 1,389
Customer interest rate swaps	-	698	-	698
Customer interest rate caps	-	5	-	5

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Assets measured on a nonrecurring basis include impaired loans, real estate acquired by foreclosure and other repossessed assets.

A loan is defined as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, according to the contractual terms of the loan agreement. The allowance for loan losses related to impaired loans is determined based on the difference between the carrying value of the impaired loan and its fair value. The fair value of impaired loans is determined based on the fair value of the collateral if repayment is expected solely from the collateral. Fair value of the loan's collateral is determined by appraisals and third party estimates for real estate collateral and by appraisals or independent valuations for non-real estate collateral such as inventory, accounts receivable, equipment or other business assets. The fair value of real estate acquired by foreclosure is measured using appraisals and third party estimates. These values may be adjusted based on current information available to management, therefore the values are considered Level 3 inputs within the fair value hierarchy.

The following tables present the assets that were carried on the consolidated balance sheet at the end of the reporting period for which a nonrecurring change in the fair value was recorded during the reporting period:

	September 30, 2017		Losses for the Nine Months Ended September 30, 2017
	Level 3	**Total**	
	(Dollars in thousands)		
Assets Measured on a Nonrecurring Basis:			
Impaired loans	$ 18,916	$ 18,916	$ 7,459
Other real estate owned	802	802	118
Loans held for sale	15,503	15,503	1,847

	September 30, 2016		Losses for the Nine Months Ended September 30, 2016
	Level 3	**Total**	
	(Dollars in thousands)		
Assets Measured on a Nonrecurring Basis:			
Impaired loans	$ 54,123	$ 54,123	$ 14,999
Other real estate owned	-	-	-

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

Cash and Short-Term Investments — The carrying amount of these short term investments is a reasonable estimate of fair value.

Securities — The fair value of securities are obtained from an independent pricing service. Securities are valued based on quoted prices in an active market when available. These securities are classified in Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated and classified as Level 2 of the valuation hierarchy. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Loans Held for Sale — The fair value of loans held-for-sale is based on commitments from investors.

Loans Held for Investment — The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Real Estate Acquired by Foreclosure — Real estate acquired by foreclosure is adjusted to fair value less estimated costs to sell at the time of foreclosure. Subsequently, these assets are carried at the lower of carrying value or fair value less estimated costs to sell. Fair value is generally based upon market prices or appraised values of the property, which may be discounted based on internal criteria and accordingly, the Company classifies real estate acquired by foreclosure as Level 3.

Deposit Liabilities — The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Other Borrowed Funds — The carrying amount of securities sold under agreements to repurchase is a reasonable estimate of fair value because these borrowings reprice at market rates generally daily. The fair value of long term FHLB advances is estimated using the rates currently offered for advances of similar remaining maturities.

Subordinated debentures and subordinated notes—The fair value of the subordinated debentures and subordinated notes were calculated using the quoted market prices, if available. If quoted market prices are not available, fair value is estimated using quoted market prices for similar subordinated debentures and subordinated notes. Subordinated debentures and subordinated notes fair value measurements utilize Level 2 inputs.

Off-Balance Sheet Financial Instruments — The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. These amounts were not significant at the reporting dates. The fair value of interest rate swaps is derived from pricing models based on past, present and projected future market conditions, quoted market prices of instruments with similar characteristics or discounted cash flows, classified in Level 2 of the fair value hierarchy.

The following table presents quantitative information about significant unobservable inputs used in the fair value measurements for Level 3 assets at the date indicated:

	Fair Value at 9/30/2017 (Dollars in thousands)	Valuation Technique	Unobservable Input	Range [(1)] (Weighted Average)
Loans held for investment	$ 3,119,653	Discounted cash flow	Prepayment Speed	0% to 99.14% (17.23%)
			Discount Rates	0% - 18.16% (4.08%)
Real estate acquired by foreclosure	802	Appraisal	Adjustments for comparable properties	8.00%

(1) Represents range of factors applied to determine fair value.

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The estimated fair values of the Company's financial instruments as of the dates indicated are as follows:

	September 30, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
	(Dollars in thousands)				
Financial Assets:					
Cash and short term investments	$ 179,463	$ 179,463	$ -	$ -	$ 179,463
Available-for-sale securities	694,259	-	694,259	-	694,259
Held-to-maturity securities	13,730	-	13,701	-	13,701
Other securities	21,777	21,777	-	-	21,777
Loans held for sale	17,673	-	2,170	15,503	17,673
Loans held for investment	3,071,761	-	-	3,119,653	3,119,653
Real estate acquired by foreclosure	802	-	-	802	802
Total	$ 3,999,465	$ 201,240	$ 710,130	$ 3,135,958	$ 4,047,328
Financial Liabilities:					
Deposits	$ 3,408,253	$ -	$ 3,407,620	$ -	$ 3,407,620
Securities sold under agreements to repurchase	5,867	-	5,867	-	5,867
Other borrowed funds	215,000	-	214,858	-	214,858
Subordinated debentures and subordinated notes	47,596	-	44,262	-	44,262
Total	$ 3,676,716	$ -	$ 3,672,607	$ -	$ 3,672,607

	December 31, 2016				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
	(Dollars in thousands)				
Financial Assets:					
Cash and short term investments	$ 389,007	$ 389,007	$ -	$ -	$ 389,007
Available-for-sale securities	274,619	112,881	161,738	-	274,619
Held-to-maturity securities	35,505	-	34,845	-	34,845
Other securities	17,983	17,983	-	-	17,983
Loans held for sale	23,989	24,144	-	-	24,144
Loans held for investment	3,098,220	-	-	3,128,966	3,128,966
Real estate acquired by foreclosure	5,220	-	-	5,220	5,220
Total	$ 3,844,543	$ 544,015	$ 196,583	$ 3,134,186	$ 3,874,784
Financial Liabilities:					
Deposits	$ 3,374,700	$ -	$ 3,375,047	$ -	$ 3,375,047
Securities sold under agreements to repurchase	3,493	-	3,493	-	3,493
Other borrowed funds	150,000	-	148,921	-	148,921
Subordinated debentures and subordinated notes	47,492	-	47,492	-	47,492
Total	$ 3,575,685	$ -	$ 3,574,953	$ -	$ 3,574,953

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's interim consolidated financial statements and the accompanying notes included elsewhere in this report and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company's Annual Report on Form 10-K for year ended December 31, 2016.

Except where the context otherwise requires or where otherwise indicated, in this Quarterly Report on Form 10-Q the terms "Company," "we," "us," "our," "our company" and "our business" refer to Green Bancorp, Inc. and our subsidiaries, including our banking subsidiary; Green Bank, N.A., a national banking association, and the term "Bank" refers to Green Bank, N.A. In this Quarterly Report on Form 10-Q, we refer to the Houston—Sugar Land—Baytown and Dallas—Fort Worth—Arlington metropolitan statistical areas as the Houston and Dallas MSAs.

Overview

We are a Texas focused bank holding company headquartered in Houston, Texas. Our wholly owned subsidiary, Green Bank, N.A., a nationally chartered commercial bank, provides commercial and private banking services primarily to Texas based customers through twenty-two full service branches in the Houston and Dallas MSAs and other markets. The Houston and Dallas MSAs are our target markets, and we believe their growing economies and attractive demographics, together with our scalable platform, provide us with opportunities for long-term and sustainable growth. Our emphasis is on continuing to expand our existing business by executing on our proven business model as well as pursuing select strategic acquisitions and attracting additional talented portfolio bankers.

We generate the majority of our revenues from interest income on loans, customer service and loan fees and income from investment in securities. The revenues are partially offset by interest expense paid on deposits and other borrowings and noninterest expenses such as administrative and occupancy expenses. Net interest income is the difference between interest income on earning assets such as loans and securities and interest expense on liabilities such as deposits and borrowings which are used to fund those assets. Net interest income is our largest source of revenue. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread, (4) our net interest margin and (5) our provision for loan losses. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Total assets were $4.2 billion as of September 30, 2017 compared with $4.0 billion as of December 31, 2016, an increase of $136.1 million or 3.4%. Total deposits were $3.4 billion as of September 30, 2017 compared with $3.4 billion as of December 31, 2016, an increase of $33.6 million or 1.0%. Total loans held for investment were $3.1 billion at September 30, 2017, a decrease of $26.5 million, or 0.9%, compared with $3.1 billion as of December 31, 2016. Loans held for sale were $17.7 million at September 30, 2017 compared with $24.0 million as of December 31, 2016, a decrease of $6.3 million or 26.3%. At September 30, 2017, energy loans totaled $70.8 million, or 2.3% of total loans, excluding loans held for sale. At September 30, 2017 and December 31, 2016, we had $54.2 million and $76.8 million, respectively, in non-accrual loans and our allowance for loan losses was $33.5 million and $26.4 million, respectively. Shareholders' equity was $462.3 million and $430.5 million at September 30, 2017 and December 31, 2016, respectively.

Critical Accounting Policies

Our significant accounting policies are integral to understanding the results reported. Our accounting policies are described in detail in Note 1 to the consolidated financial statements included in the Company's Annual Report on the Form 10-K for the year ended December 31, 2016. We believe that of our significant accounting policies, the following may involve a higher degree of judgment and complexity:

Allowance for loan losses—The allowance for loan losses is maintained at a level that management estimates to be appropriate to absorb probable credit losses in the portfolio as of the balance sheet date. This estimate involves numerous assumptions and judgments. Management utilizes a calculation methodology that includes both quantitative and qualitative factors and applies judgment when establishing the factors utilized in the methodology and in assessing the overall adequacy of the calculated results.

The allowance for loan losses is a valuation allowance for losses incurred on loans. All losses are charged to the allowance when the loss actually occurs or when a determination is made that a loss is probable. Recoveries are credited to the allowance at the time of recovery. Our allowance for loan losses consists of two components: a general component based upon probable but unidentified losses inherent in the portfolio and a specific component on individual loans that are considered impaired.

The general component of the allowance for loan losses related to probable but unidentified losses inherent in the portfolio is based on our actual historical loss experience and various qualitative factors. The qualitative factors include lending policies and procedures, loan volume and terms, experience, depth and ability of lending management, volume and severity of past due loans and monitored loans, quality of loan review system, concentrations, value of collateral underlying collateral dependent loans, economic conditions and other factors. Additional factors considered include the actual historical loss experience at the total portfolio level, a comparison of the allowance ratios to peer data, an analysis of the allowance by risk rating and other factors.

To arrive at the general component of the allowance, loans are first separated into originated and acquired groups and then further separated by loan type for each group. On a quarterly basis, the trends in various metrics related to each of the factors described above are reviewed to determine the appropriate level of change to be applied to each factor for the period. The factors described above are calculated for the applicable loan groups and for each loan type within the applicable group and then applied to the loan balance by type to calculate the general reserve. The actual loss factor is based on our loss migration analysis, which calculates the weighted average of actual losses by loan type and within each risk rating over the prior three years.

The specific component of the allowance for loan losses is calculated based on a review of individual loans considered impaired. The analysis of impaired losses may be based on the present value of expected future cash flows discounted at the effective loan rate, an observable market price or the fair value of the underlying collateral on collateral dependent loans. In determining the collectability of certain loans, management also considers the fair value of any underlying collateral. The amount ultimately realized may differ from the carrying value of these assets because of economic, operating, or other conditions beyond our control.

Throughout the year, management estimates the probable level of losses to determine whether the allowance for loan losses is adequate to absorb inherent losses in the existing portfolio. Based on these estimates, an amount is recorded to the provision for loan losses and credited to the allowance for loan losses in order to adjust the allowance to a level determined to be adequate to absorb inherent losses. If economic conditions or borrower behavior deviate substantially from the assumptions utilized in the allowance calculation, increases in the allowance may be required.

Estimates of loan losses involve an exercise of judgment. While it is reasonably possible that in the near term we may sustain losses which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses reflected in the consolidated balance sheets is adequate to absorb probable losses that exist in the current loan portfolio.

Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and the use of subjective measurements, including management's assessment of overall portfolio quality. We maintain the allowance at an amount that management believes is sufficient to provide for estimated losses inherent in our loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses may result from management's assessment of the adequacy of the allowance. Changes in these estimates and assumptions are possible and may have a material impact on our allowance, and therefore our financial position, liquidity or results of operations.

Accounting for Acquired Loans and the Allowance for Acquired Loan Losses—Acquisitions are accounted for using the acquisition method of accounting. Accordingly, the assets, including loans, and liabilities of the acquired entity were recorded at their fair values at the acquisition date. No allowance for credit losses related to the acquired loans is recorded on the acquisition date, as the fair value of the acquired loans incorporates assumptions regarding credit risk. These fair value estimates associated with acquired loans, and based on a discounted cash flow model, include estimates related to market interest rates and undiscounted projections of future cash flows that incorporate expectations of prepayments and the amount and timing of principal, interest and other cash flows, as well as any shortfalls thereof. The excess of cash flows expected at acquisition over the estimated fair value is considered the accretable discount and is recognized in interest income over the remaining life of the loan using the interest method.

Acquired loans with evidence of credit deterioration and the probability that all contractually required payments will not be collected as of the date of acquisition are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310-30. The difference between contractually required payments at acquisition and the cash flows expected to be collected is considered the non-accretable discount. The non-accretable discount represents the future credit losses expected to be incurred over the life of the loan. Subsequent increases in the expected cash flows will result in a recovery of any previously recorded allowance for loan losses and a reclassification from non-accretable discount to accretable discount.

At period-end after acquisition, the fair-valued acquired loans from each acquisition are reassessed to determine whether an addition to the allowance for credit losses is appropriate due to further credit quality deterioration. Methods utilized to estimate any subsequently required allowance for credit losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent that the calculated loss is greater than the remaining unaccreted purchase discount, an allowance is recorded for such difference. For further discussion of the methodology used in the determination of the allowance for credit losses for acquired loans, see "Financial Condition – Allowance for loan losses" section below.

Business combinations—The Company applies the acquisition method of accounting for business combinations in accordance with ASC 805, *Business Combinations*. Under the acquisition method, the acquiring entity in a business combination recognizes all of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. The excess of the purchase price over the estimated fair value of the net assets, including identifiable intangible assets, for tax-free acquisitions is recorded as goodwill, none of which is deductible for tax purposes. The excess of the purchase price over the estimated fair value of the net assets, including identifiable intangible assets, for taxable acquisitions was also recorded as goodwill, and is deductible for tax purposes. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred. The results of operations for each acquisition have been included in the Company's consolidated financial results beginning on the respective acquisition date.

Determining the fair value of assets acquired and liabilities assumed is considered a critical accounting estimate because the allocation of the fair value to the assets acquired and liabilities assumed requires significant management judgment and the use of subjective measurements. Variability in the market and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on our financial position, liquidity or results of operations.

Goodwill—Goodwill has an indefinite useful life and is subject to an annual impairment test and more frequently if a triggering event occurs indicating that it is more likely than not that the fair value of the Company, which is our only reporting unit, is below the carrying value of its equity. We completed our annual impairment analysis of goodwill as of December 31, 2016, and based on this analysis, we do not believe any of our goodwill is impaired as of such date because the fair value of our equity substantially exceeded our carrying value. The goodwill impairment test involves a two-step process. Under the first step, the estimation of fair value of the reporting unit is compared with its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the implied fair value of goodwill is less than its carrying value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. As part of our impairment analysis, we use a variety of methodologies in determining the fair value of the reporting unit, including cash flow analyses that are consistent with the assumptions management believes hypothetical marketplace participants would use.

Fair Value of Financial Instruments—The Company determines the fair market values of financial instruments based on the fair value hierarchy established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value. Level 1 inputs include quoted market prices, where available. If such quoted market prices are not available, Level 2 inputs are used. These inputs are based upon internally developed models that primarily use observable market-based parameters. Level 3 inputs are unobservable inputs which are typically based on an entity's own assumptions, as there is little, if any, related market activity. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Emerging Growth Company—Pursuant to the Jumpstart Our Business Startups Act, an emerging growth company can elect to opt in to any new or revised accounting standards that may be issued by the FASB or the SEC otherwise applicable to non-emerging growth companies. We have elected to opt in to such standards, which election is irrevocable.

We will likely take advantage of some of the reduced regulatory and reporting requirements that are available to us so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

Hurricane Harvey

In late August 2017, Hurricane Harvey, a Category 4 hurricane, caused catastrophic flooding and unprecedented damage to residences and businesses across Southeast Texas, including Houston. The Company currently operates 11 branches in the greater Houston area. As of September 30, 2017, the Company has not experienced any material financial impact related to Hurricane Harvey.

Results of Operations

Three months ended September 30, 2017 compared with three months ended September 30, 2016. Net income was $11.4 million for the three months ended September 30, 2017 compared with net loss of $9.0 million for the three months ended September 30, 2016, an increase of $20.4 million. Net earnings per diluted common share was $0.31 for the three months ended September 30, 2017 compared with net loss per diluted common share of ($0.25) for the same period in 2016, an increase of $0.56. The Company recorded a provision for loan losses of $2.3 million for the three months ended September 30, 2017, which included $1.0 million in general reserves for the potential impact from Hurricane Harvey and $1.0 million in specific reserves. The provision decreased $25.9 million from the same period in 2016, due to a $24.9 million decrease in provision for energy loans. We experienced returns on average common equity of 9.90% and (8.23%), returns on average assets of 1.10% and (0.92%) and efficiency ratios of 50.6% and 61.9% for the three months ended September 30, 2017 and 2016, respectively. The efficiency ratio is calculated as noninterest expense divided by the sum of net interest income and noninterest income.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016. For the nine months ended months ended September 30, 2017 net income was $31.5 million compared with a net loss of $3.5 million for the same period in 2016, an increase of $35.0 million. Earnings per common share on a diluted basis was $0.85 for the nine months ended September 30, 2017 compared with net loss per diluted common share of ($0.10) for the same period in 2016, an increase of $0.95. The Company recorded a provision for loan losses of $10.0 million for the nine months ended September 30, 2017, which included $7.3 million in reserves on the energy portfolio. The provision decreased $45.2 million from the same period in 2016, due to a $34.9 million decrease in provision for energy loans. We experienced returns on average common equity of 9.44% and (1.07%), returns on average assets of 1.03% and (0.12%) and efficiency ratios of 50.9% and 56.0% for the nine months ended September 30, 2017 and 2016, respectively.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets, including loans and securities, and interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of earning assets and liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a “volume change.” It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a “rate change.”

Three months ended September 30, 2017 compared with three months ended September 30, 2016. Net interest income before the provision for loan losses for the three months ended September 30, 2017 was $36.3 million compared with $33.7 million for the three months ended September 30, 2016, an increase of $2.6 million, or 7.7%. The increase was primarily due to an increase of $3.3 million, or 338.5%, in interest income on securities and a $1.7 million, or 4.4%, increase in the interest earned on loans, offset by a $965 thousand increase in interest expense on transaction and saving deposits, a $813 thousand increase in interest expense related to the subordinated notes issued during the fourth quarter of 2016 and a $473 thousand increase in expense for other borrowed funds. Interest income was $44.5 million for the three months ended September 30, 2017, an increase of $5.1 million, or 13.0%, compared with the three months ended September 30, 2016. Interest income on loans was $39.5 million for the three months ended September 30, 2017, an increase of $1.7 million, or 4.4%, compared with the three months ended September 30, 2016, primarily due to a 34 basis point increase in the in average loan yield, offset by a $90.9 million decrease in average loans outstanding. Interest income on securities was $4.3 million for the three months ended September 30, 2017, an increase of $3.3 million compared with the three months ended September 30, 2016, primarily due to a $463.3 million, or 185.9%, increase in the average securities balance and a 84 basis point increase in the average securities yield. Interest income earned on deposits in financial institutions and federal funds sold increased $85 thousand to $432 thousand for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due to a 76 basis point increase in average yield, offset by a $134.7 million decrease in the average balance. Interest expense was $8.3 million for the three months ended September 30, 2017, an increase of $2.5 million, or 43.5%, compared with the three months ended September 30, 2016. Interest expense on deposits was $6.5 million for the three months ended September 30, 2017, an increase of $1.2 million, or 22.8%, compared with the three months ended September 30, 2016, primarily due to a 17 basis point increase in the average cost of interest-bearing deposits and an increase of $30.8 million in the average balance. Interest expense on subordinated debentures and subordinated notes was $1.1 million for the three months ended September 30, 2017, an increase of $813 thousand, or 330.5%, compared with the three months ended September 30, 2016, primarily due to the December 2016 issuance of $35.0 million in subordinated notes. For the three months ended September 30, 2017, average noninterest-bearing deposits increased $70.3 million from $609.6 million during the three months ended September 30, 2016 to $679.9 million for the three months ended September 30, 2017. Total cost of funds, including noninterest-bearing deposits, increased 23 basis points to 0.90% for the three months ended September 30, 2017 compared to 0.67% for the same period in 2016.

Net interest margin, defined as net interest income divided by average interest-earning assets, for the three months ended September 30, 2017 was 3.65%, an increase of 3 basis points compared with 3.62% for the same period in 2016.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016. Net interest income before the provision for loan losses for the nine months ended September 30, 2017 was $104.2 million compared with $101.4 million for the nine months ended September 30, 2016, an increase of $2.8 million, or 2.7%. The increase was primarily due to an increase of $7.8 million, or 254.7%, in interest income on securities and a $1.4 million, or 1.3%, increase in the interest earned on loans, offset by a $3.9 million increase in interest expense on deposits, a $2.4 million increase in interest expense related to the subordinated notes issued during the fourth quarter of 2016 and a $706 thousand increase in expense for other borrowed funds. Interest income was $127.0 million for the nine months ended September 30, 2017, an increase of $9.8 million, or 8.4%, compared with the nine months ended September 30, 2016. Interest income on loans was $114.4 million for the nine months ended September 30, 2017, an increase of $1.4 million, or 1.3%, compared with the nine months ended September 30, 2016 primarily due to a 22 basis point increase in the in average loan yield, offset by a $98.6 million decrease in average loans outstanding. Interest income on securities was $10.8 million for the nine months ended September 30, 2017, an increase of $7.8 million, or 254.7%, compared with the nine months ended September 30, 2016, due primarily to a $378.7 million increase in the average securities balance and a 74 basis point increase in the average securities yield. Interest income earned on deposits in financial institutions and federal funds sold increased $542 thousand to $1.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to a 54 basis point increase in average yield, offset by a $15.0 million decrease in the average balance. Interest expense was $22.8 million for the nine months ended September 30, 2017, an increase of $7.0 million, or 44.5%, compared with the nine months ended September 30, 2016. Interest expense on deposits was $18.1 million for the nine months ended September 30, 2017, an increase of $3.9 million, or 27.3%, compared with the nine months ended September 30, 2016, primarily due to a 15 basis point increase in the average cost of interest-bearing deposits and an increase of $141.0 million in the average balance. Interest expense on subordinated debentures and subordinated notes was $3.2 million for the nine months ended September 30, 2017, an increase of $2.4 million, or 334.0%, compared with the nine months ended September 30, 2016, primarily due to the December 2016 issuance of $35.0 million in subordinated notes. For the nine months ended September 30, 2017, average noninterest-bearing deposits increased $73.2 million from $599.1 million during the nine months ended September 30, 2016 to $672.3 million for the nine months ended September 30, 2017. Total cost of funds, including noninterest-bearing deposits, increased 21 basis points to 0.84% for the nine months ended September 30, 2017 compared to 0.63% for the same period in 2016.

Net interest margin, defined as net interest income divided by average interest-earning assets, for the nine months ended September 30, 2017 was 3.59%, a decrease of 16 basis points compared with 3.74% for the same period in 2016.

The following tables present, for the periods indicated, the total dollar amount of average balances, interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. All average balances are daily average balances. Any nonaccruing loans have been included in the table as loans carrying a zero yield.

	For the Three Months Ended September 30,					
	2017			2016		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-Earning Assets:						
Loans[1]	$ 3,071,039	$ 39,549	5.11 %	$ 3,161,987	$ 37,897	4.77 %
Securities	712,431	4,337	2.42	249,174	989	1.58
Other investments	26,009	221	3.37	18,593	199	4.26
Interest earning deposits in financial institutions and federal funds sold	134,868	432	1.27	269,541	347	0.51
Total interest-earning assets	3,944,347	44,539	4.48 %	3,699,295	39,432	4.24 %
Allowance for loan losses	(32,395)			(47,534)		
Noninterest-earning assets	219,754			242,366		
Total assets	$ 4,131,706			$ 3,894,127		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction and savings deposits	$ 1,349,701	$ 2,502	0.74 %	$ 1,253,333	$ 1,537	0.49 %
Certificates and other time deposits	1,343,732	4,042	1.19	1,409,269	3,791	1.07
Securities sold under agreements to repurchase	5,943	2	0.13	3,158	1	0.13
Other borrowed funds	227,936	655	1.14	150,000	182	0.48
Subordinated debentures and subordinated notes	47,531	1,059	8.84	13,451	246	7.28
Total interest-bearing liabilities	2,974,843	8,260	1.10 %	2,829,211	5,757	0.81 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	679,851			609,553		
Other liabilities	19,709			20,743		
Total liabilities	3,674,403			3,459,507		
Shareholders' equity	457,303			434,620		
Total liabilities and shareholders' equity	$ 4,131,706			$ 3,894,127		
Net interest rate spread			3.38 %			3.43 %
Net interest income and margin[2]		$ 36,279	3.65 %		$ 33,675	3.62 %

(1) Loans held for sale and nonaccrual loans are included in the loan averages.

(2) The net interest margin is equal to net interest income divided by average interest-earning assets.

	For the Nine Months Ended September 30,					
	2017			2016		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-Earning Assets:						
Loans[1]	$ 3,059,750	$ 114,396	5.00 %	$ 3,158,391	$ 112,953	4.78 %
Securities	654,913	10,848	2.21	276,252	3,058	1.48
Other investments	22,642	606	3.58	21,865	577	3.52
Interest earning deposits in financial institutions and federal funds sold	148,461	1,172	1.06	163,459	630	0.51
Total interest-earning assets	3,885,766	127,022	4.37 %	3,619,967	117,218	4.33 %
Allowance for loan losses	(30,717)			(40,902)		
Noninterest-earning assets	226,984			243,657		
Total assets	$ 4,082,033			$ 3,822,722		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Interest-bearing transaction and savings deposits	$ 1,364,649	$ 6,710	0.66 %	$ 1,157,704	$ 3,999	0.46 %
Certificates and other time deposits	1,326,247	11,435	1.15	1,392,152	10,256	0.98
Securities sold under agreements to repurchase	4,640	5	0.14	3,651	1	0.04
Other borrowed funds	202,449	1,494	0.99	198,693	792	0.53
Subordinated debentures and subordinated notes	47,486	3,151	8.87	13,347	726	7.27
Total interest-bearing liabilities	2,945,471	22,795	1.03 %	2,765,547	15,774	0.76 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	672,278			599,120		
Other liabilities	18,094			18,062		
Total liabilities	3,635,843			3,382,729		
Shareholders' equity	446,190			439,993		
Total liabilities and shareholders' equity	$ 4,082,033			$ 3,822,722		
Net interest rate spread			3.34 %			3.57 %
Net interest income and margin[2]		$ 104,227	3.59 %		$ 101,444	3.74 %

(1) Loans held for sale and nonaccrual loans are included in the loan averages.

(2) The net interest margin is equal to net interest income divided by average interest-earning assets.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes in interest rates. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated to rate.

	For the Three Months Ended September 30, 2017 vs. 2016			For the Nine Months Ended September 30, 2017 vs. 2016		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest-Earning assets:						
Loans, including fees	$ (1,093)	$ 2,745	$ 1,652	$ (3,524)	$ 4,967	$ 1,443
Securities	1,844	1,504	3,348	4,188	3,602	7,790
Other investments	80	(58)	22	20	9	29
Interest-earning deposits in financial institutions and federal funds sold	(174)	259	85	(58)	600	542
Total increase in interest income	657	4,450	5,107	626	9,178	9,804
Interest-bearing liabilities:						
Interest-bearing transaction and savings deposits	$ 119	$ 846	$ 965	$ 714	$ 1,997	$ 2,711
Certificates and other time deposits	(177)	428	251	(485)	1,664	1,179
Securities sold under agreements to repurchase	1	-	1	-	4	4
Other borrowings	95	378	473	15	687	702
Subordinated debentures and subordinated notes	625	188	813	1,855	570	2,425
Total increase in interest expense	663	1,840	2,503	2,099	4,922	7,021
(Decrease) Increase in net interest income	$ (6)	$ 2,610	$ 2,604	$ (1,473)	$ 4,256	$ 2,783

Provision for loan losses

Our provision for loan losses are charged to income in order to bring our total allowance for loan losses to a level deemed appropriate by management based on the factors discussed under "—Critical Accounting Policies—Allowance for loan losses." The allowance for loan losses at September 30, 2017 was $33.5 million, representing 1.09% of total loans, excluding loans held for sale, as of such date.

Three months ended September 30, 2017 compared with three months ended September 30, 2016. We recorded $2.3 million in provision for loan losses for the three months ended September 30, 2017 compared with $28.2 million in provision for the same period in 2016. The decrease in the provision is primarily related to a $24.9 million decrease in provision for energy loans. Net charge-offs for the three months ended September 30, 2017 were $811 thousand compared with net charge offs of $39.7 million for the three months ended September 30, 2016. This decrease reflected a decrease in gross charge-offs from $39.8 million to $850 thousand for the three months ended September 30, 2016 and 2017, respectively, and a decrease in recoveries from $116 thousand to $39 thousand for the three months ended September 30, 2016 and 2017, respectively. Net charge-offs related to energy loans totaled $418 thousand for the three months ended September 30, 2017, in comparison to $38.1 million for the three months ended September 30, 2016.

Nine months ended September 30, 2017 compared with nine months ended September 30, 2016. The provision for loan losses for the nine months ended September 30, 2017 million was $10.0 million compared with $55.2 million for the same period in 2016. The provision recorded for the nine months ended September 30, 2016, included $7.3 million in reserves on the energy portfolio. Net charge offs for the nine months ended September 30, 2017 were $2.8 million compared with $52.2 million for the nine months ended September 30, 2016. This decrease reflected a decrease in gross charge-offs from $53.3 million to $3.8 million, and a decrease in recoveries from $1.0 million to $979 thousand for the nine months ended September 30, 2016 and 2017, respectively. Net charge-offs related to energy loans totaled $1.7 million for the nine months ended September 30, 2017, in comparison to $50.9 million for the nine months ended September 30, 2016.

Noninterest Income

Our primary sources of recurring noninterest income are customer service fees, loan fees, gains on sale of the guaranteed portion of loans and available for sale securities and other service fees. Noninterest income does not include loan origination fees which are recognized over the life of the related loan as an adjustment to yield.

For the three months ended September 30, 2017, noninterest income totaled $3.4 million, a decrease of $701 thousand, or 17.1%, compared with the three months ended September 30, 2016. The decrease was primarily due to a $1.3 million increase in net loss on held for sale loans, a $332 thousand increase in net loss on sale of available for sale securities and a $396 thousand decrease in derivative income, offset by increases of $842 thousand in customer service fees and $334 thousand in gain on sale of the guaranteed portion of loans.

For the nine months ended September 30, 2017, noninterest income totaled $14.6 million, an increase of $2.6 million, or 21.3%, compared with the nine months ended September 30, 2016. This increase was primarily due to a $2.5 million increase in customer service fees, a $1.1 million increase in gain on sale of the guaranteed portion of loans and a $587 thousand increase in loan fees, offset by a $1.2 million net loss on loans held for sale.

The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Customer service fees	$ 2,365	$ 1,523	$ 6,830	$ 4,374
Loan fees	871	806	2,811	2,224
(Loss) gain on sale of available-for-sale securities, net	(332)	-	(38)	-
(Loss) gain on loans held-for-sale, net	(1,294)	-	(1,210)	41
Gain on sale of guaranteed portion of loans	1,302	968	4,107	2,964
Other	478	794	2,084	2,425
Total noninterest income	$ 3,390	$ 4,091	$ 14,584	$ 12,028

Noninterest Expense

For the three months ended September 30, 2017, noninterest expense totaled $20.1 million, a decrease of $3.3 million, or 14.2%, compared with the three months ended September 30, 2016. The decrease was primarily due to a $1.9 million decrease in real estate acquired by foreclosure, a $1.0 million decrease in loan-related expenses and a $779 thousand favorable change in the reserve for unfunded commitments, offset by a $562 thousand increase in salaries and employee benefits.

For the nine months ended September 30, 2017, noninterest expense totaled $60.5 million, a decrease of $3.0 million, or 4.8%, compared with the nine months ended September 30, 2016. The decrease is primarily due to decreases of $2.1 million in real estate acquired by foreclosure and $1.2 million in loan related expenses and a $1.9 million favorable change in the reserve for unfunded commitments, offset by a $2.2 million increase in salaries and employee benefits.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
	(Dollars in thousands)			
Salaries and employee benefits [1]	$ 12,487	$ 11,925	$ 37,546	$ 35,365
Non-staff expenses:				
Occupancy	2,080	2,194	6,125	6,259
Professional and regulatory fees	2,331	2,180	6,627	6,537
Data processing	924	921	2,827	2,836
Software license and maintenance	464	580	1,391	1,584
Marketing	154	283	516	882
Loan related	271	1,287	1,172	2,331
Real estate acquired by foreclosure, net	159	2,105	674	2,786
Other	1,197	1,908	3,639	4,965
Total noninterest expense	$ 20,067	$ 23,383	$ 60,517	$ 63,545

(1) Total salaries and employee benefits include stock based compensation expense of $641 thousand and $442 thousand for the three months ended September 30, 2017 and 2016, respectively, and $1.7 million and $951 thousand for the nine months ended September 30, 2017 and 2016, respectively.

Efficiency Ratio. The efficiency ratio is a supplemental financial measure utilized in our internal evaluation of our performance. Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources. Our efficiency ratio was 50.6% for the three months ended September 30, 2017, compared with 61.9% for the three months ended September 30, 2016. The improvement was primarily due to the increase in net interest income and decrease in noninterest expense. Our efficiency ratio was 50.9% and 56.0% for the nine months ended September 30, 2017 and 2016, respectively. The improvement was due to the increases in net interest income and noninterest income plus the decrease in noninterest expense.

Income Taxes

For the three months ended September 30, 2017, income tax expense was $5.9 million, an increase of $10.7 million or 222.0%, compared with income tax benefit of $4.8 million for the same period in 2016. The increase was primarily attributable to higher pre-tax earnings for the three months ended September 30, 2017 compared with the same period in 2016. The effective income tax rate for the three months ended September 30, 2017 and 2016 was 34.1% and 35.0%, respectively, as compared to the U.S. statutory rate of 35%.

For the nine months ended September 30, 2017, income tax expense was $16.8 million, an increase of $18.6 million, compared with income tax benefit of $1.8 million for the same period in 2016. The increase was primarily attributable to higher pre-tax net earnings for the nine months ended September 30, 2017 compared with the same period in 2016. The effective income tax rate for the nine months ended months ended September 30, 2017 and 2016 was 34.8% and 33.3%, respectively.

Financial Condition

Loan Portfolio

At September 30, 2017, total loans held for investment were $3.1 billion, a decrease of $26.5 million, or 0.9%, compared with December 31, 2016. The decrease was primarily due to the resolution of energy and nonperforming loans and the decrease in commercial real estate loans, which offset new loan production.

At September 30, 2017, total loans held for sale were $17.7 million, a decrease of $6.3 million, or 26.3%, compared with December 31, 2016. The September 30, 2017 balance included $15.5 million of energy loans transferred to held for sale during 2016.

The following tables summarize our loan portfolio by type of loan as of the dates indicated:

	September 30, 2017			
	Originated	Acquired	Total	Percent
	(Dollars in thousands)			
Commercial & industrial	$ 1,066,715	$ 82,135	$ 1,148,850	37.4 %
Real estate:				
Owner occupied commercial real estate	312,162	96,236	408,398	13.3
Commercial real estate	806,327	262,415	1,068,742	34.8
Construction, land & land development	146,522	47,334	193,856	6.3
Residential mortgage	138,095	96,994	235,089	7.7
Consumer and other	15,418	1,408	16,826	0.5
Total loans held for investment	$ 2,485,239	$ 586,522	$ 3,071,761	100.0 %
Total loans held for sale	$ 17,673	$ -	$ 17,673	100.0 %

	December 31, 2016			
	Originated	Acquired	Total	Percent
	(Dollars in thousands)			
Commercial & industrial	$ 904,331	$ 149,594	$ 1,053,925	34.0 %
Real estate:				
Owner occupied commercial real estate	264,876	129,334	394,210	12.7
Commercial real estate	816,029	327,722	1,143,751	36.9
Construction, land & land development	179,999	69,705	249,704	8.1
Residential mortgage	127,445	117,746	245,191	7.9
Consumer and other	9,248	2,191	11,439	0.4
Total loans held for investment	$ 2,301,928	$ 796,292	$ 3,098,220	100.0 %
Total loans held for sale	$ 23,989	$ -	$ 23,989	100.0 %

At September 30, 2017, total energy exposure was $86.3 million, which included $70.8 million in loans held for investment and $15.5 million in loans held for sale. This represents energy exposure of 2.8% of total gross loans and 2.3% of loans held for investment. Reserved-based energy loans held for investment represented approximately 0.4% and 0.5% of total funded loans as of September 30, 2017 and December 31, 2016, respectively. Energy-related service industry loans represented approximately 1.9% and 2.6% of total funded loans as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017 and December 31, 2016, $12.1 million and $14.0 million of reserved-based energy loans and $34.3 million and $42.2 million of energy-related service industry loans were nonperforming, respectively.

Nonperforming Loans

Nonperforming loans include loans on nonaccrual status, accruing loans 90 or more days past due and restructured loans. Impaired loans do not include purchased loans that were identified upon acquisition as having experienced credit deterioration since origination ("purchased credit impaired loans" or "PCI loans"). We had $77.3 million in nonperforming loans at September 30, 2017, compared with $94.5 million at December 31, 2016. The ratio of nonperforming loans to total loans was 2.52% at September 30, 2017 compared with 3.05% at December 31, 2016.

We generally place a loan on nonaccrual status and cease accruing interest when a loan displays problems that may jeopardize full and timely collection of principal and/or interest, evidenced by one or more of the following: (i) full payment of principal and interest becomes questionable; (ii) the loan becomes 90 days past due as to principal or interest; (iii) the loan is graded as doubtful; (iv) the borrower files bankruptcy and does not reaffirm its indebtedness to us; or (v) foreclosure proceedings are initiated against collateral property. An exception to this is if the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan.

The following tables present information regarding nonperforming loans at the dates indicated:

	September 30, 2017		
	Originated	Acquired	Total
		(Dollars in thousands)	
Nonaccrual loans	$ 34,632	$ 9,024	$ 43,656
Accruing loans past due 90 days or more	1,069	3,759	4,828
Restructured loans - nonaccrual	7,755	2,800	10,555
Restructured loans - accruing	4,137	14,114	18,251
Total nonperforming loans	$ 47,593	$ 29,697	$ 77,290

	December 31, 2016		
	Originated	Acquired	Total
		(Dollars in thousands)	
Nonaccrual loans	$ 32,805	$ 33,868	$ 66,673
Accruing loans past due 90 days or more	1,169	-	1,169
Restructured loans - nonaccrual	6,959	3,174	10,133
Restructured loans - accruing	5,267	11,251	16,518
Total nonperforming loans	$ 46,200	$ 48,293	$ 94,493

Allowance for loan losses

Our allowance for loan losses is established through charges to income in the form of the provision in order to bring our allowance for loan losses to a level deemed appropriate by management based on the factors discussed under "—Critical Accounting Policies—Allowance for loan losses." The allowance for loan losses at September 30, 2017 was $33.5 million, representing 1.09% of total loans, excluding loans held for sale, compared with $26.4 million, or 0.85% of total loans, excluding loans held for sale, at December 31, 2016. Loans acquired were recorded at fair value based on a discounted cash flow valuation methodology.

The following tables present, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

	As of and for the Nine Months Ended September 30, 2017		
	Originated	Acquired	Total
	(Dollars in thousands)		
Average loans outstanding [1]	$ 2,351,056	$ 689,870	$ 3,040,926
Total loans outstanding at end of period [1]	2,485,239	586,522	3,071,761
Allowance for loan losses at beginning of period	23,855	2,509	26,364
Provision for loan losses	9,986	(31)	9,955
Charge-offs:			
Commercial and industrial	(2,280)	(338)	(2,618)
Owner occupied commercial real estate	-	(961)	(961)
Construction, land & land development	-	(95)	(95)
Consumer and Other	(142)	(2)	(144)
Total charge-offs	(2,422)	(1,396)	(3,818)
Recoveries:			
Commercial and industrial	593	77	670
Owner occupied commercial real estate	-	4	4
Commercial real estate	-	7	7
Construction, land & land development	-	75	75
Residential mortgage	47	47	94
Consumer and Other	122	7	129
Total recoveries	762	217	979
Net charge-offs	(1,660)	(1,179)	(2,839)
Allowance for loan losses at end of period	$ 32,181	$ 1,299	$ 33,480
Ratio of allowance to end of period loans	1.29 %	0.22 %	1.09 %
Ratio of net charge-offs to average loans	(0.07)%	(0.17)%	(0.09)%

(1) Excluding loans held for sale

	As of and for the Nine Months Ended September 30, 2016		
	Originated	Acquired	Total
	(Dollars in thousands)		
Average loans outstanding [1]	$ 2,095,472	$ 1,062,258	$ 3,157,730
Total loans outstanding at end of period [1]	2,152,059	895,559	3,047,618
Allowance for loan losses at beginning of period	32,723	224	32,947
Provision for loan losses	46,533	8,667	55,200
Charge-offs:			
Commercial and industrial	(49,201)	(1,804)	(51,005)
Owner occupied commercial real estate	-	(1,155)	(1,155)
Residential mortgage	-	(518)	(518)
Consumer and Other	(96)	(15)	(111)
Total charge-offs	(49,323)	(3,958)	(53,281)
Recoveries:			
Commercial and industrial	702	92	794
Construction, land & land development	-	79	79
Residential mortgage	26	96	122
Consumer and Other	15	18	33
Total recoveries	743	302	1,045
Net charge-offs	(48,580)	(3,656)	(52,236)
Allowance for loan losses at end of period	$ 30,676	$ 5,235	$ 35,911
Ratio of allowance to end of period loans	1.43 %	0.58 %	1.18 %
Ratio of net charge-offs to average loans	(2.32)%	(0.34)%	(1.65)%

(1) Excluding loans held for sale

Please see "—Critical Accounting Policies—Allowance for loan losses" for additional discussion of our allowance policy.

In connection with our review of the loan portfolio, we consider risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements include:

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for one-to-four family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan-to-value ratio, and the age, condition and marketability of collateral; and
- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan-to-value ratio.

Acquired loans are recorded at fair value as of the date of acquisition. Determining the fair value of the acquired loans involves estimating the amount and timing of future expected cash flows and discounting those cash flows at a market rate of interest. Acquired loans with evidence of credit deterioration and the probability that all contractually required payments will not be collected as of the date of acquisition are accounted for in accordance with ASC 310-30, and the difference between contractually required payments at acquisition and the cash flows expected to be collected is considered the non-accretable discount. The non-accretable discount represents the future credit losses expected to be incurred over the life of the loan. No corresponding allowance for loan losses is recorded for these loans at acquisition.

We believe that the allowance for loan losses at September 30, 2017 was adequate to cover probable losses in the loan portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance at September 30, 2017.

Securities

We use our securities portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements. At September 30, 2017, the carrying amount of investment securities totaled $708.0 million, an increase of $397.9 million, or 128.3%, compared with $310.1 million at December 31, 2016. At September 30, 2017, securities represented 17.0% of total assets compared with 7.7% at December 31, 2016.

The following table summarizes the amortized cost and fair value by classification of securities as of the dates shown:

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
SBA guaranteed securities	$ 106,284	$ 252	$ (350)	$ 106,186
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	259,045	1,197	(307)	259,935
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: commercial	66,069	-	(611)	65,458
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	214,898	-	(2,921)	211,977
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	31,138	-	(30)	31,108
Corporate debt securities	1,788	3	-	1,791
Obligations of municipal subdivisions	6,686	7	-	6,693
CRA qualified investment fund	11,337	-	(226)	11,111
Total	$ 697,245	$ 1,459	$ (4,445)	$ 694,259
Held-to-maturity:				
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	$ 11,103	$ 97	$ (131)	$ 11,069
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	2,627	5	-	2,632
Total	$ 13,730	$ 102	$ (131)	$ 13,701

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
Obligations of the U.S. Treasury and other U.S. government agencies or sponsored enterprises	$ 118,272	$ 17	$ (403)	$ 117,886
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	99,876	452	(430)	99,898
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	42,379	96	(563)	41,912
Corporate debt securities	3,788	1	(14)	3,775
Obligations of municipal subdivisions	236	-	(1)	235
CRA qualified investment fund	11,183	-	(270)	10,913
Total	$ 275,734	$ 566	$ (1,681)	$ 274,619
Held-to-maturity:				
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	$ 14,358	$ 140	$ (267)	$ 14,231
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	21,147	2	(536)	20,613
Total	$ 35,505	$ 142	$ (803)	$ 34,844

Certain investment securities are valued at less than their historical cost. Management evaluates securities for other than temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

In determining OTTI, management considers many factors, including the severity and the duration of time that the fair value has been less than cost, the credit quality of the issuer and whether it is more likely than not that we will be required to sell the security before a recovery in value. The assessment of whether an other than temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. Securities within the available for sale portfolio may be used as part of our asset and liability management strategy and may be sold in response to changes in interest rate risk, prepayment risk or other factors.

Management does not intend to sell any debt securities classified as held to maturity and it is more likely than not that we will not be required to sell any such debt securities before their anticipated recovery of cost, if a loss currently exists, at which time we expect to receive full value for the securities. As of September 30, 2017, management believes any impairment in our securities is temporary and no impairment loss has been realized in our consolidated statement of income. We recorded no other than temporary impairment charges in the first nine months of 2017 or the 2016 fiscal year.

Deposits

Total deposits at September 30, 2017 were $3.4 billion, an increase of $33.6 million, or 1.0%, compared to $3.4 billion at December 31, 2016, comprised of a $34.3 million increase in noninterest-bearing deposits and a $24.3 million increase in interest-bearing transaction and savings deposits, offset by a $25.0 million decrease in time deposits. Noninterest bearing deposits at September 30, 2017 were $684.3 million compared with $650.1 million at December 31, 2016, an increase of $34.3 million, or 5.3%. Interest bearing deposits at September 30, 2017 were $2.7 billion a decrease of $712 thousand compared with December 31, 2016.

The Company had $180.6 million and $97.9 million in brokered time deposits at September 30, 2017 and December 31, 2016, respectively. In addition the Company had $49.9 million in brokered non-interest bearing deposits at September 30, 2017. Brokered deposits represented 6.8% and 2.9% of total deposits at September 30, 2017 and December 31, 2016, respectively. The Company utilizes brokered deposits to enhance liquidity.

The following table presents the daily average balances and weighted average rates paid on deposits for the periods indicated:

	Nine Months Ended September 30,			
	2017		2016	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Interest-bearing transaction deposits	$ 182,996	0.14 %	$ 172,783	(1.79)%
Money market and savings deposits	1,181,653	0.74	984,921	0.52
Certificates and other time deposits	1,326,247	1.15	1,392,152	0.98
Total interest-bearing deposits	$ 2,690,896	0.90	$ 2,549,856	0.75
Noninterest-bearing deposits	672,278	-	599,120	-
Total deposits	$ 3,363,174	0.72 %	$ 3,148,976	0.60 %

Other Borrowed Funds

The following table presents our borrowings at the dates indicated. There were no borrowings outstanding under our arrangement with the Dallas Fed and there were no federal funds purchased outstanding at the dates indicated.

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Federal Home Loan Bank advances	$ 215,000	$ 150,000
Repurchase agreements	5,867	3,493
Total	$ 220,867	$ 153,493

FHLB advances—We have an available borrowing arrangement with the FHLB, which allows the Company to borrow on a collateralized basis. At September 30, 2017 and December 31, 2016, total unused borrowing capacity of $1.1 billion and $608.8 million, respectively, was available under this arrangement. At September 30, 2017, $215.0 million was outstanding with an average interest rate of 1.15% and all of the Company's FHLB advances will mature within one year. At December 31, 2016, $150.0 million was outstanding with an average interest rate of 0.59% and all of the Company's FHLB advances will mature within two years. These borrowings are collateralized by a blanket lien on certain loans and unpledged securities held in safekeeping. The increase in total borrowing capacity is primarily due to the purchase of securities, offset by pay downs in loans. We utilize these borrowings to meet liquidity needs and to fund certain loans in our portfolio.

Securities Sold Under Agreements to Repurchase—Securities sold under agreements to repurchase represent the purchase of interests in securities by banking customers. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We do not account for any of our repurchase agreements as sales for accounting purposes in our financial statements. Repurchase agreements with banking customers are settled on the following business day. All securities sold under agreements to repurchase are collateralized by pledged securities. The securities underlying the repurchase agreements are held in safekeeping by the Bank's safekeeping agent.

Dallas Fed—We have an available borrower in custody arrangement with the Dallas Fed, which allows us to borrow on a collateralized basis. Certain commercial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. At September 30, 2017 and December 31, 2016, $53.8 million and $330.0 million, respectively, were available under this arrangement and no borrowings were outstanding. The available capacity decreased temporarily at September 30, 2017 due to a delay in providing loan data. The availability was $373.3 million effective October 5, 2017.

Federal Funds Purchased—We have available federal funds lines of credit with our correspondent banks. As of September 30, 2017 and December 31, 2016, there were no federal funds purchased outstanding.

Subordinated Debentures and Subordinated Notes

Subordinated Notes — During the fourth quarter 2016, the Company issued $35.0 million of 8.50% Fixed-to-Floating Rate Subordinated Notes (the "Notes") that mature on December 15, 2026 through a private placement to certain institutional accredited investors. The Notes, which qualify as Tier 2 capital under the Federal Reserve's capital guidelines in effect at September 30, 2017, have an interest rate of 8.50% per annum, during the fixed-rate period from date of issuance through December 15, 2021. Interest is payable semi-annually on each June 15 and December 15, commencing on June 15, 2017.

During the floating rate period from December 15, 2021, but excluding the maturity date or date of earlier redemption, the Notes will bear interest at a rate per annum equal to three-month LIBOR for the related interest period plus 6.685%, payable quarterly on each March 15, June 15, September 15 and December 15. The Notes are subordinated in right of payment to all of the Company's senior indebtedness and effectively subordinated to all existing and future debt and all other liabilities of the Company's subsidiary bank. The Company may elect to redeem the Notes (subject to regulatory approval), in whole or in part, on any early redemption date which is any interest payment date on or after December 15, 2021 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest. Other than on an early redemption date, the Notes cannot be accelerated except in the event of bankruptcy or the occurrence of certain other events of bankruptcy, insolvency or reorganization. The sale of the Notes yielded net proceeds of approximately $33.9 million. The Company utilized $32.8 million of the proceeds to transfer several energy loans to the holding company to provide flexibility to resolve these loans.

Unamortized debt issuance costs related to these Notes, which are included in Subordinated Debentures and Subordinated Notes, totaled $1.3 million at September 30, 2017. Net issuance costs associated with issuing these Notes are amortized to interest expense over the respective terms using the straight-line method.

A summary of pertinent information related to the Company's issues of subordinated Notes outstanding at September 30, 2017 is set forth in the table below:

	September 30, 2017	December 31, 2016
	(Dollars in thousands)	
Subordinated notes fixed to floating rate, 8.50% per annum, maturity date December 15, 2026	$ 35,000	$ 35,000
Less: unamortized debt issuance costs	(1,327)	(1,115)
Total subordinated notes	$ 33,673	$ 33,885

Subordinated Debentures Trust Preferred Securities — At September 30, 2017, the Company had outstanding $22.2 million in subordinated debentures, which is offset by a $8.2 million purchase discount. On October 1, 2015, the Company acquired Patriot Bancshares, Inc., and assumed the obligations related to the subordinated debentures issued to Patriot Bancshares Capital Trust I and Capital Trust II.

A summary of pertinent information related to the Company's issues of subordinated debentures outstanding at September 30, 2017 is set forth in the table below:

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate[(1)]	Subordinated Debt Owed to Trusts	Maturity Date[(2)]
			(Dollars in thousands)		
Patriot Bancshares Capital Trust I	March 31, 2006	$ 5,000	3 month LIBOR +1.85%, not to exceed 11.90%	$ 5,155	April 7, 2036
Patriot Bancshares Capital Trust II	August 2, 2007	$ 16,500	3 month LIBOR +1.80%, not to exceed 11.90%	$ 17,011	September 15, 2037

(1) The 3-month LIBOR in effect as of September 30, 2017 was 1.334%.
(2) All debentures are callable five years from issuance date.

Each of the trusts is a capital trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company's junior subordinated debentures. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of the Company's present and future senior indebtedness. The Company has fully and unconditionally guaranteed each trust's obligations under the trust securities issued by such trust to the extent not paid or made by each trust, provided such trust has funds available for such obligations.

Under the provisions of each issue of the debentures, the Company has the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on either issue of the debentures are deferred, the distributions on the applicable trust preferred securities and common securities will also be deferred.

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. During the three months ended September 30, 2017 and the 2016 fiscal year, our liquidity needs have primarily been met by core deposits, security and loan maturities and amortizing investment and loan portfolios. We expect capital resources and liquidity will be sufficient for at least the next twelve months.

As of September 30, 2017, we had outstanding $617.3 million in commitments to extend credit and $12.4 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of September 30, 2017, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

As of September 30, 2017, we had cash and cash equivalents of $179.5 million, a decrease of $209.5 million compared with $389.0 million as of December 31, 2016. Net proceeds of $462.5 million were utilized to purchase securities during the nine months ended September 30, 2017.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of September 30, 2017 (other than securities sold under repurchase agreements), which consist of our future cash payments associated with our contractual obligations pursuant to our certificates and other time deposits, Federal Home Loan Bank advances, subordinated debentures and subordinated notes, and noncancelable future operating leases. Payments for the Federal Home Loan Bank advances includes interest of $796 thousand that will be paid in future years. Payments for subordinated debentures and subordinated notes includes interest of $40.3 million that will be paid in future years. The future interest payments were calculated using the current rate in effect at September 30, 2017. Payments related to leases are based on actual payments specified in underlying contracts.

	September 30, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Certificates and other time deposits	$ 929,168	$ 368,429	$ 42,813	$ -	$ 1,340,410
Federal Home Loan Bank advances	215,796	-	-	-	215,796
Subordinated debentures and subordinated notes	3,795	3,671	8,650	81,375	97,491
Operating leases	2,218	2,947	2,014	3,120	10,299
Total	$ 1,150,977	$ 375,047	$ 53,477	$ 84,495	$ 1,663,996

Off Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of September 30, 2017 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	September 30, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Commitments to extend credit	$ 319,979	$ 181,895	$ 64,645	$ 50,813	$ 617,332
Standby and commercial letters of credit	9,190	2,454	163	640	12,447
Total	$ 329,169	$ 184,349	$ 64,808	$ 51,453	$ 629,779

Capital Resources

Total shareholders' equity was $462.3 million at September 30, 2017, an increase of $31.8 million, or 7.4%, compared with $430.5 million at December 31, 2016. The increase was the result of net income of $31.5 million for the nine month period, plus the net change for proceeds from the exercise of stock options and increase due to stock compensation expense, offset by the change in the value of available for sale securities recognized in other accumulated comprehensive earnings.

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III Capital Rules. The Basel III Capital Rules, among other things, (i) introduced CET 1, a new capital measure, (ii) specify that Tier 1 capital consist of CET 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions to be fully phased in by January 1, 2019.

The following table provides a comparison of the Company's and the Bank's leverage and risk weighted capital ratios as of September 30, 2017 and December 31, 2016 to the minimum and well capitalized regulatory standards:

	September 30, 2017					
	Actual		For Capital Adequacy Purposes		To be Categorized as "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
The Company[1]:						
Total capital (to risk weighted assets)	$ 451,587	12.9 %	$ 278,989	8.0 %	N/A	N/A
Tier 1 capital (to risk weighted assets)	384,309	11.0	209,242	6.0	N/A	N/A
Common equity tier 1 capital	371,053	10.6	156,931	4.5	N/A	N/A
Tier I capital (to average assets)	384,309	9.5	161,610	4.0	N/A	N/A
The Bank[2]:						
Total capital (to risk weighted assets)	$ 435,278	12.6 %	$ 277,200	8.0 %	$ 346,499	10.0 %
Tier 1 capital (to risk weighted assets)	407,824	11.8	207,900	6.0	277,200	8.0
Common equity tier 1 capital	407,824	11.8	155,925	4.5	225,225	6.5
Tier I capital (to average assets)	407,824	10.1	161,067	4.0	201,334	5.0

	December 31, 2016					
	Actual		For Capital Adequacy Purposes		To be Categorized as "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
The Company[1]:						
Total capital (to risk weighted assets)	$ 413,666	11.8 %	$ 280,104	8.0 %	N/A	N/A
Tier 1 capital (to risk weighted assets)	352,371	10.1	210,078	6.0	N/A	N/A
Common equity tier 1 capital	339,430	9.7	157,559	4.5	N/A	N/A
Tier I capital (to average assets)	352,371	9.1	155,271	4.0	N/A	N/A
The Bank[2]:						
Total capital (to risk weighted assets)	$ 371,833	10.8 %	$ 276,144	8.0 %	$ 345,180	10.0 %
Tier 1 capital (to risk weighted assets)	344,423	10.0	207,108	6.0	276,144	8.0
Common equity tier 1 capital	344,423	10.0	155,331	4.5	224,367	6.5
Tier I capital (to average assets)	344,423	9.0	154,946	4.0	193,682	5.0

(1) The Federal Reserve may require the Company to maintain capital ratios above the required minimums.
(2) The FDIC or the OCC may require the Bank to maintain capital ratios above the required minimums.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company manages market risk, which for the Company is primarily interest rate risk, through its Asset Liability Committee, which is composed of certain members of its board of directors in accordance with asset liability and funds management policies approved by the Company's board of directors.

The Company uses an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net income and the balance sheet, respectively. See the Company's Annual Report on Form 10-K for year ended December 31, 2016 "Management Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Interest Rate Sensitivity and Market Risk".

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures — As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting — There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2017 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 from time to time subject to claims and litigation arising in the ordinary course of business. At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors.

In addition to the Company's risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, you should note the following risk factor:

Catastrophic weather events can have an adverse impact on the Company's business, financial condition and operations.

Hurricanes, tornadoes, wildfires, earthquakes and other natural disasters and severe weather events have caused, and in the future may cause, widespread property damage and significantly and negatively affect the local economies in which the Company operates. For example, in late August 2017, Hurricane Harvey, a Category 4 hurricane, caused catastrophic flooding and unprecedented damage to residences and businesses across Southeast Texas, including Houston. The Company currently operates 11 branches in the greater Houston area. The effect of Hurricane Harvey, and other catastrophic weather events if they were to occur, could have a materially adverse impact on the Company's financial condition, results of operations and business, as well as potentially increase the Company's exposure to credit losses and liquidity risks. If the local economies in which the Company operates experience an overall decline as a result of a catastrophic event, demand for loans and our other products and services could be reduced. In addition, the rates of delinquencies, foreclosures, bankruptcies and losses within our loan portfolio may increase substantially, as uninsured property losses or sustained job interruption or loss may materially impair the ability of borrowers to repay their loans. Moreover, the value of real estate or other collateral that secures the loans could be materially and adversely affected by a catastrophic event. A natural disaster or other catastrophic event could, therefore, result in decreased revenue and increased loan losses that could have an adverse effect on our business, financial condition and results of operations.

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

(a) None.

(b) None.

(c) See “Note 2 – Earnings per Common Share” in Part I Item 1 in this quarterly report on Form 10-Q.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	Interactive Financial Data

* Filed with this Quarterly Report on Form 10-Q

** Furnished with this Quarterly Report on Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Green Bancorp, Inc.
(Registrant)

Date: November 8, 2017	/s/ Manuel J. Mehos Manuel J. Mehos Chairman and Chief Executive Officer
Date: November 8, 2017	/s/ Terry S. Earley Terry S. Earley Executive Vice President and Chief Financial Officer