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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from ______ to ______.

Commission File Number: 001-36682

VERITEX HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Texas	**27-0973566**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
8214 Westchester Drive, Suite 400	
Dallas, Texas	**75225**
(Address of principal executive offices)	(Zip code)

(972) 349-6200

(Registrant's telephone number, including area code)

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

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

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

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 October 25, 2017, there were 22,648,718 outstanding shares of the registrant's common stock, par value $0.01 per share.

VERITEX HOLDINGS, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets (Unaudited)
September 30, 2017 and December 31, 2016
(Dollars in thousands, except par value information)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 21,879	$ 15,631
Interest bearing deposits in other banks	129,497	219,160
Total cash and cash equivalents	151,376	234,791
Investment securities	204,788	102,559
Loans held for sale	2,179	5,208
Loans, net of allowance for loan losses of $10,492 and $8,524, respectively	1,896,989	983,318
Accrued interest receivable	6,387	2,907
Bank-owned life insurance	20,517	20,077
Bank premises, furniture and equipment, net	40,129	17,413
Non-marketable equity securities	10,283	7,366
Investment in unconsolidated subsidiary	352	93
Other real estate owned	738	662
Intangible assets, net of accumulated amortization of $2,783 and $2,198, respectively	10,531	2,181
Goodwill	135,832	26,865
Other assets	14,760	5,067
Total assets	$ 2,494,861	$ 1,408,507
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 495,627	$ 327,614
Interest-bearing	1,490,031	792,016
Total deposits	1,985,658	1,119,630
Accounts payable and accrued expenses	4,017	2,914
Accrued interest payable and other liabilities	4,368	534
Advances from Federal Home Loan Bank	38,200	38,306
Junior subordinated debentures	11,702	3,093
Subordinated notes	4,987	4,942
Total liabilities	2,048,932	1,169,419
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, $0.01 par value; 75,000,000 shares authorized at September 30, 2017 and December 31, 2016; 22,643,713 and 15,195,328 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively (excluding 10,000 shares held in treasury)	227	152
Additional paid-in capital	404,900	211,173
Retained earnings	41,143	29,290
Unallocated Employee Stock Ownership Plan shares; 18,783 shares at September 30, 2017 and December 31, 2016	(209)	(209)
Accumulated other comprehensive loss	(62)	(1,248)
Treasury stock, 10,000 shares at cost	(70)	(70)
Total stockholders' equity	445,929	239,088
Total liabilities and stockholders' equity	$ 2,494,861	$ 1,408,507

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Income (Unaudited)
For the Three and Nine Months Ended September 30, 2017 and 2016
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans	$ 20,706	$ 11,589	$ 45,613	$ 32,996
Interest on investment securities	941	335	2,251	1,014
Interest on deposits in other banks	629	129	1,787	302
Interest on other	3	1	4	2
Total interest income	22,279	12,054	49,655	34,314
Interest expense:				
Interest on deposit accounts	2,812	1,381	6,201	3,388
Interest on borrowings	338	156	696	491
Total interest expense	3,150	1,537	6,897	3,879
Net interest income	19,129	10,517	42,758	30,435
Provision for loan losses	752	238	2,585	1,610
Net interest income after provision for loan losses	18,377	10,279	40,173	28,825
Noninterest income:				
Service charges and fees on deposit accounts	669	433	1,733	1,309
Gain on sales of investment securities	205	—	205	15
Net gain on sales of loans and other assets owned	705	1,036	2,259	2,318
Bank-owned life insurance	188	193	561	577
Other	210	231	520	460
Total noninterest income	1,977	1,893	5,278	4,679
Noninterest expense:				
Salaries and employee benefits	5,921	3,920	13,471	10,683
Occupancy and equipment	1,596	923	3,622	2,718
Professional fees	1,973	785	3,959	1,861
Data processing and software expense	719	296	1,451	850
FDIC assessment fees	410	179	1,061	447
Marketing	436	293	905	704
Other assets owned expenses and write-downs	71	9	109	139
Amortization of intangibles	223	95	413	285
Telephone and communications	230	98	438	295
Other	943	431	2,325	1,323
Total noninterest expense	12,522	7,029	27,754	19,305
Net income from operations	7,832	5,143	17,697	14,199
Income tax expense	2,650	1,768	5,802	4,837
Net income	$ 5,182	$ 3,375	$ 11,895	$ 9,362
Preferred stock dividends	42	—	42	—
Net income available to common stockholders	$ 5,140	$ 3,375	$ 11,853	$ 9,362
Basic earnings per share	$ 0.26	$ 0.32	$ 0.70	$ 0.88
Diluted earnings per share	$ 0.25	$ 0.31	$ 0.69	$ 0.85

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
For the Three and Nine Months Ended September 30, 2017 and 2016
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income	$ 5,182	$ 3,375	$ 11,895	$ 9,362
Other comprehensive income:				
Unrealized gains (losses) on securities available for sale arising during the period, net	378	(9)	2,000	653
Reclassification adjustment for net gains included in net income	205	—	205	15
Other comprehensive income (loss) before tax	173	(9)	1,795	638
Income tax expense (benefit)	60	(3)	609	217
Other comprehensive income (loss), net of tax	113	(6)	1,186	421
Comprehensive income	$ 5,295	$ 3,369	$ 13,081	$ 9,783

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016
(Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unallocated Employee Stock Ownership Plan Shares	Treasury Stock	Total
	Shares	Amount						
Balance at December 31, 2016	15,195,328	$ 152	$ 211,173	$ 29,290	$ (1,248)	$ (209)	$ (70)	$ 239,088
Restricted stock units vested, net of 7,667 shares withheld to cover tax withholdings	27,744	—	(206)	—	—	—	—	(206)
Exercise of employee stock options, net of 1,095 shares withheld to cover tax withholdings	17,949	—	169	—	—	—	—	169
Issuance of common stock for acquisition of Sovereign Bancshares, Inc., net of offering costs of $426	5,117,642	51	135,908	—	—	—	—	135,959
Sale of common stock in public offering, net of offering costs of $304	2,285,050	24	56,657					56,681
Issuance of preferred stock, series D in connection with the acquisition of Sovereign Bancshares, Inc.	—	—	24,500	—	—	—	—	24,500
Redemption of preferred stock, series D	—	—	(24,500)	—	—	—	—	(24,500)
Stock based compensation	—	—	1,199	—	—	—	—	1,199
Net income	—	—	—	11,895	—	—	—	11,895
Preferred stock, series D dividend	—	—	—	(42)	—	—	—	(42)
Other comprehensive income	—	—	—	—	1,186	—	—	1,186
Balance at September 30, 2017	22,643,713	$ 227	$ 404,900	$ 41,143	$ (62)	$ (209)	$ (70)	$ 445,929

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unallocated Employee Stock Ownership Plan Shares	Treasury Stock	Total
	Shares	Amount						
Balance at December 31, 2015	10,712,472	$ 107	$ 115,721	$ 16,739	$ (142)	$ (309)	$ (70)	$ 132,046
Restricted stock units vested, net 6,398 shares withheld to cover tax withholdings	23,565	—	(108)	—	—	—	—	(108)
Stock based compensation	—	—	702	—	—	—	—	702
Net income	—	—	—	9,362	—	—	—	9,362
Other comprehensive income	—	—	—	—	421	—	—	421
Balance at September 30, 2016	10,736,037	$ 107	$ 116,315	$ 26,101	$ 279	$ (309)	$ (70)	$ 142,423

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016
(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$ 11,895	$ 9,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,588	1,212
Provision for loan losses	2,585	1,610
Accretion of loan purchase discount	(828)	(363)
Stock-based compensation expense	1,199	702
Excess tax benefit from stock compensation	(233)	—
Net amortization of premiums on investment securities	1,217	710
Change in cash surrender value of bank-owned life insurance	(440)	(463)
Net gain on sales of investment securities	(205)	(15)
Gain on sales of loans held for sale	(705)	(2,318)
Gain on sales of SBA loans	(1,562)	—
Net loss on sales of other real estate owned	8	—
Amortization of subordinated note discount	45	1
Net originations of loans held for sale	(30,975)	(50,673)
Proceeds from sales of loans held for sale	34,709	49,708
Write down on foreclosed assets	37	114
Increase in accrued interest receivable and other assets	(312)	(1,410)
(Decrease) increase in accounts payable, accrued expenses, accrued interest payable and other liabilities	(1,683)	339
Net cash provided by operating activities	16,340	8,516
Cash flows from investing activities:		
Cash paid in excess of cash received for the acquisition of Sovereign Bancshares, Inc.	(11,440)	—
Purchases of securities available for sale	(70,621)	(34,420)
Sales of securities available for sale	118,165	8,378
Proceeds from maturities, calls and pay downs of investment securities	17,317	15,026
Sales of non-marketable equity securities, net	3,834	(3,191)
Net loans originated	(187,283)	(105,098)
Proceeds from sale of SBA loans	24,273	—
Net additions to bank premises and equipment	(2,208)	(879)
Proceeds from sales of other real estate owned	161	—
Net cash used in investing activities	(107,802)	(120,184)
Cash flows from financing activities:		
Net change in deposits	56,662	208,807
Net (decrease) increase in advances from Federal Home Loan Bank	(80,106)	9,897
Net proceeds from sale of common stock in public offering	56,681	—
Redemption of preferred stock - series D	(24,500)	—
Dividends paid on preferred stock - series D	(227)	—
Proceeds from exercise of employee stock options	175	—
Payments to tax authorities for stock-based compensation	(212)	—
Offering costs paid in connection with acquisition	(426)	—
Net cash provided by financing activities	8,047	218,704
Net (decrease) increase in cash and cash equivalents	(83,415)	107,036
Cash and cash equivalents at beginning of period	234,791	71,551
Cash and cash equivalents at end of period	$ 151,376	$ 178,587

See accompanying notes to condensed consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Organization

Veritex Holdings, Inc. (“Veritex” or the “Company”), a Texas corporation and bank holding company, was incorporated in July 2009 and was formed for the purpose of acquiring one or more financial institutions located in Dallas, Texas and surrounding areas.

Veritex through its wholly-owned subsidiary, Veritex Community Bank, formerly known as Veritex Community Bank, National Association (the “Bank”), is a Texas state banking organization, with corporate offices in Dallas, Texas, and currently operates 21 branches and one mortgage office, 17 of which are located in the Dallas-Fort Worth metroplex, with two branches in the Austin, Texas metropolitan area and two branches in the Houston, Texas metropolitan area. The Bank provides a full range of banking services to individual and corporate customers, which include commercial and retail lending, and the acceptance of checking and savings deposits. The Texas Department of Banking and the Board of Governors of the Federal Reserve System are the primary regulators of the Company and the Bank, which perform periodic examinations to ensure regulatory compliance.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Veritex and the Bank as its wholly-owned subsidiary.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), but do not include all of the information and footnotes required for complete financial statements. In management’s opinion, these interim unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair statement of the Company’s condensed consolidated financial position at September 30, 2017 and December 31, 2016, condensed consolidated results of operations for the three and nine months ended September 30, 2017 and 2016, condensed consolidated stockholders’ equity for the nine months ended September 30, 2017 and 2016 and condensed consolidated cash flows for the nine months ended September 30, 2017 and 2016.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end and the results for the interim periods shown in this report are not necessarily indicative of results to be expected for the full year due in part to global economic and financial market conditions, interest rates, access to sources of liquidity, market competition and interruptions of business processes. These interim unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2016 included within the Company’s Form 10-K as filed with the Securities and Exchange Commission on March 10, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Segment Reporting

The Company has one reportable segment. All of the Company’s activities are interrelated, and each activity is dependent on the other and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit. The Company’s chief operating decision-maker, the CEO, uses the consolidated results to make operating and strategic decisions.

Reclassifications

Effective January 1, 2017, the Company adopted ASU 2016-09. Per ASU 2016-09 cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity and for presentation purposes be applied retrospectively.

Earnings Per Share

Earnings per share ("EPS") are based upon the weighted-average shares outstanding. The table below sets forth the reconciliation between weighted average shares used for calculating basic and diluted EPS for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Earnings (numerator)				
Net income	$ 5,182	$ 3,375	$ 11,895	$ 9,362
Less: preferred stock dividends	42	—	42	—
Net income available to common stockholders	$ 5,140	$ 3,375	$ 11,853	$ 9,362
Shares (denominator)				
Weighted average shares outstanding for basic EPS (thousands)	19,976	10,705	16,813	10,698
Dilutive effect of employee stock-based awards	416	320	419	294
Adjusted weighted average shares outstanding	20,392	11,025	17,232	10,992
Earnings per share:				
Basic	$ 0.26	$ 0.32	$ 0.70	$ 0.88
Diluted	$ 0.25	$ 0.31	$ 0.69	$ 0.85

For the three and nine months ended September 30, 2017 and 2016, there were no exclusions from the diluted EPS weighted average shares.

Recent Accounting Pronouncements

ASU 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04") eliminates Step 2 from the goodwill impairment test. In addition, the amendment eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. For public companies, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01") changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is deemed to be a business. Determining whether a transferred set constitutes a business is important because the accounting for a business combination differs from that of an asset acquisition. The definition of a business also affects the accounting for dispositions. Under the new standard, when substantially all of the fair value of assets acquired is concentrated in a single asset, or a group of similar assets, the assets acquired would not represent a business and business combination accounting would not be required. The new standard may result in more transactions being accounted for as asset acquisitions rather than business combinations. For public companies, ASU 2017-01 is effective for interim and annual periods beginning after December 15, 2017 and shall be applied prospectively. The Company early adopted ASU 2017-01 as of July 1, 2017, which had no significant impact on the Company's financial statements as of and for the three and nine months ended September 31, 2017.

ASU 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”) requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public companies, ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

ASU 2016-13 “Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”) amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This Accounting Standards Update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities, this ASU is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods therein. The Company is continuing to evaluate the impact of the adoption of ASU 2016-13 and is uncertain of the impact on the consolidated financial statements at this point in time.

ASU 2016-02 “Leases (Topic 842)” (“ASU 2016-02”) is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

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

ASU 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. The original effective date for ASU 2014-09 was for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year, therefore it is now effective for interim and annual reporting periods beginning after December 15, 2017. The Company will adopt the guidance in the first quarter of 2018 using the modified retrospective application with a cumulative-effect adjustment, if such adjustment is significant. While the guidance will replace most existing revenue recognition guidance in GAAP, the ASU is not applicable to financial instruments and, therefore, will not impact a majority of the Company’s revenue, including net interest income. Our implementation efforts to date include identification of non-interest income revenue streams within the scope of the guidance and review of revenue contracts. Based on our evaluation, the Company does not believe the adoption of ASU 2014-09 will have a significant impact on our financial statements.

2. Statement of Cash Flows

Other supplemental cash flow information is presented below:

	Nine Months Ended September 30,	
	2017	2016
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 6,714	$ 3,858
Cash paid for income taxes	6,025	6,100
Supplemental Disclosures of Non-Cash Flow Information:		
Net foreclosure of other real estate owned and repossessed assets	$ —	$ 283
Non-cash assets acquired		
Investment securities	$ 166,307	$ —
Loans	750,856	—
Accrued interest receivable	3,437	—
Bank premises, furniture and equipment	21,512	—
Non-marketable equity securities	6,751	—
Other real estate owned	282	—
Intangible assets	8,662	—
Goodwill	108,967	—
Other assets	10,331	—
Total assets	$ 1,077,105	$ —
Non-cash liabilities assumed		
Deposits	$ 809,366	$ —
Accounts payable and accrued expenses[(1)]	5,189	—
Accrued interest payable and other liabilities	1,616	—
Advances from Federal Home Loan Bank	80,000	—
Junior subordinated debentures	8,609	—
Total liabilities	$ 904,780	$ —
Non-cash equity assumed		
Preferred stock - series D	24,500	—
Total equity assumed	$ 24,500	$ —
5,117,642 shares of common stock issued in connection with acquisition	$ 136,385	$ —

[(1)] Accounts payable and accrued expenses includes accrued preferred stock dividends of $185.

3. Investment Securities

Debt and equity securities have been classified in the condensed consolidated balance sheets according to management's intent. The amortized cost, related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss), and the fair value of securities are as follows:

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agencies	$ 10,827	$ 92	$ 11	$ 10,908
Corporate bonds	7,500	330	—	$ 7,830
Municipal securities	52,392	269	141	52,520
Mortgage-backed securities	81,454	98	447	81,105
Collateralized mortgage obligations	52,062	99	395	51,766
Asset-backed securities	649	10	—	659
	$ 204,884	$ 898	$ 994	$ 204,788

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agencies	$ 732	$ —	$ 36	$ 696
Municipal securities	14,540	2	500	14,042
Mortgage-backed securities	49,907	83	871	49,119
Collateralized mortgage obligations	38,507	32	612	37,927
Asset-backed securities	764	11	—	775
	$ 104,450	$ 128	$ 2,019	$ 102,559

The following tables disclose the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	September 30, 2017					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for Sale						
U.S. government agencies	$ —	$ —	$ 633	$ 11	$ 633	$ 11
Municipal securities	7,059	76	5,118	65	12,177	141
Mortgage-backed securities	54,852	398	4,029	49	58,881	447
Collateralized mortgage obligations	32,784	372	1,412	23	34,196	395
	$ 94,695	$ 846	$ 11,192	$ 148	$ 105,887	$ 994

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for Sale						
U.S. government agencies	$ —	$ —	$ 696	$ 36	$ 696	$ 36
Municipal securities	12,060	478	518	22	12,578	500
Mortgage-backed securities	37,274	802	6,848	69	44,122	871
Collateralized mortgage obligations	29,618	584	1,618	28	31,236	612
	$ 78,952	$ 1,864	$ 9,680	$ 155	$ 88,632	$ 2,019

The number of investment positions in an unrealized loss position totaled 79 and 72 at September 30, 2017 and December 31, 2016, respectively. The Company does not believe these unrealized losses are “other than temporary” as (i) the Company does not have the intent to sell investment securities prior to recovery and (ii) it is more likely than not that the Company will not have to sell these securities prior to recovery. The unrealized losses noted are interest rate related due to the level of interest rates at September 30, 2017. The Company has reviewed the ratings of the issuers and has not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

The amortized costs and estimated fair values of securities available for sale, by contractual maturity, as of the dates indicated, are shown in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayments penalties. Mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgage loans and other loans that have varying maturities. The term of mortgage-backed, collateralized mortgage obligations and asset-backed securities thus approximates the term of the underlying mortgages and loans and can vary significantly due to prepayments. Therefore, these securities are not included in the maturity categories below.

	September 30, 2017	
	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due from one year to five years	27,145	27,649
Due from five years to ten years	24,408	24,432
Due after ten years	19,166	19,177
	70,719	71,258
Mortgage-backed securities	81,454	81,105
Collateralized mortgage obligations	52,062	51,766
Asset-backed securities	649	659
	$ 204,884	$ 204,788

	December 31, 2016	
	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —
Due from one year to five years	4,009	3,974
Due from five years to ten years	3,522	3,346
Due after ten years	7,741	7,418
	15,272	14,738
Mortgage-backed securities	49,907	49,119
Collateralized mortgage obligations	38,507	37,927
Asset-backed securities	764	775
	$ 104,450	$ 102,559

Proceeds from sales of investment securities available for sale and gross gains and losses for the nine months ended September 30, 2017 and 2016 were as follows:

	Nine Months Ended September 30,	
	2017	2016
Proceeds from sales	$ 118,165	$ 8,378
Gross realized gains	335	43
Gross realized losses	130	40

There were no gross gains from calls of investment securities included in gain on sale of investment securities in the accompanying condensed consolidated statements for the nine months ended September 30, 2017 and $12 gross gains from calls of investment securities included in the condensed consolidated statements for the nine months ended September 30, 2016.

There was a blanket floating lien on all securities held by the Company to secure Federal Home Loan Bank advances as of September 30, 2017 and December 31, 2016.

4. Loans and Allowance for Loan Losses

Loans in the accompanying condensed consolidated balance sheets are summarized as follows:

	September 30, 2017	December 31, 2016
Real estate:		
Construction and land	$ 276,670	$ 162,614
Farmland	6,572	8,262
1 - 4 family residential	185,473	140,137
Multi-family residential	54,475	14,683
Commercial Real Estate	802,432	370,696
Commercial	577,758	291,416
Consumer	4,129	4,089
	1,907,509	991,897
Deferred loan fees	(28)	(55)
Allowance for loan losses	(10,492)	(8,524)
	$ 1,896,989	$ 983,318

Included in the net loan portfolio as of September 30, 2017 and December 31, 2016 is an accretable discount related to loans acquired within a business combination in the approximate amounts of $6,432 and $566, respectively. The discount is being accreted into income using the interest method over the life of the loans.

The majority of the loan portfolio is comprised of loans to businesses and individuals in the Dallas-Fort Worth metroplex and the Houston metropolitan area. This geographic concentration subjects the loan portfolio to the general economic conditions within these areas. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses was adequate to cover estimated losses on loans as of September 30, 2017 and December 31, 2016.

Non-Accrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-accrual loans aggregated by class of loans, as of September 30, 2017 and December 31, 2016, are as follows:

	Non-Accrual Loans	
	September 30, 2017 [(1)]	December 31, 2016
Real estate:		
Construction and land	$ —	$ —
Farmland	—	—
1 - 4 family residential	—	—
Multi-family residential	—	—
Commercial Real Estate	794	—
Commercial	1,048	930
Consumer	14	11
	$ 1,856	$ 941

[(1)] Excludes purchased credit impaired ("PCI") loans measured at fair value at September 30, 2017. PCI loans are generally reported as accrual loans unless significant concerns exist related to the predictability of the timing and amount of future cash flows. The fair value on these PCI loans are subject to change based on management finalizing its purchase accounting adjustments.

An aging analysis of past due loans, aggregated by class of loans, as of September 30, 2017 and December 31, 2016 is as follows:

	September 30, 2017						
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current [(1)]	Total Loans	Total 90 Days Past Due and Still Accruing[(2)]
Real estate:							
Construction and land	$ —	$ —	$ —	$ —	$ 276,670	$ 276,670	$ —
Farmland	—	—	—	—	6,572	6,572	—
1 - 4 family residential	366	—	54	420	185,053	185,473	54
Multi-family residential	—	—	—	—	54,475	54,475	—
Commercial Real Estate	66	—	727	793	801,639	802,432	—
Commercial	2,138	447	1,037	3,622	574,136	577,758	
Consumer	27	15	6	48	4,081	4,129	—
	$ 2,597	$ 462	$ 1,824	$ 4,883	$ 1,902,626	$ 1,907,509	$ 54

[(1)] Includes PCI loans measured at fair value as of September 30, 2017. The fair value on these PCI loans are subject to change based on management finalizing its purchase accounting adjustments.

[(2)] Loans 90 days past due and still accruing excludes $3.3 million of PCI loans as of September 30, 2017. No PCI loans were considered non-performing loans as of September 30, 2017.

	December 31, 2016						
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due and Still Accruing
Real estate:							
Construction and land	$ 1,047	$ —	$ —	$ 1,047	$ 161,567	$ 162,614	$ —
Farmland	—	—	—	—	8,262	8,262	—
1 - 4 family residential	510	214	—	724	139,413	140,137	—
Multi-family residential	—	—	—	—	14,683	14,683	—
Commercial Real Estate	—	—	754	754	369,942	370,696	754
Commercial	1,344	438	532	2,314	289,102	291,416	81
Consumer	41	—	—	41	4,048	4,089	—
	$ 2,942	$ 652	$ 1,286	$ 4,880	$ 987,017	$ 991,897	$ 835

Loans past due 90 days and still accruing decreased from $835 as of December 31, 2016 to $54 as of September 30, 2017. These loans are also considered well-secured and in the process of collection with plans in place for the borrowers to bring the notes fully current. The Company believes that it will collect all principal and interest due on each of the loans past due 90 days and still accruing.

Impaired Loans

Impaired loans are those loans where it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. All troubled debt restructurings ("TDRs") are considered impaired loans. Impaired loans are measured based on either the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's observable market price; or the fair value of the collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired loans, including TDRs, at September 30, 2017 and December 31, 2016 are summarized in the following tables.

	September 30, 2017 [1]					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment YTD
Real estate:						
Construction and land	$ —	$ —	$ —	$ —	$ —	$ —
Farmland	—	—	—	—	—	—
1 - 4 family residential	162	162	—	162	—	191
Multi-family residential	—	—	—	—	—	—
Commercial Real Estate	1,169	1,169	—	1,169	—	1,191
Commercial	1,071	855	216	1,071	156	1,122
Consumer	83	83	—	83	—	94
Total	$ 2,485	$ 2,269	$ 216	$ 2,485	$ 156	$ 2,598

[1] Excludes PCI loans measured at fair value at September 30, 2017 that have not experienced further deterioration in credit quality subsequent to the acquisition date. The fair value on these PCI loans are subject to change based on management finalizing its purchase accounting adjustments.

	December 31, 2016					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment YTD
Real estate:						
Construction and land	$ —	$ —	$ —	$ —	$ —	$ —
Farmland	—	—	—	—	—	—
1 - 4 family residential	164	164	—	164	—	265
Multi-family residential	—	—	—	—	—	—
Commercial Real Estate	382	382	—	382	—	440
Commercial	955	381	574	955	246	463
Consumer	92	81	11	92	4	12
Total	$ 1,593	$ 1,008	$ 585	$ 1,593	$ 250	$ 1,180

Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

During the nine months ended September 30, 2017 and 2016, total interest income and cash-based interest income recognized on impaired loans was minimal.

Troubled Debt Restructuring

Modifications of terms for the Company's loans and their inclusion as TDRs are based on individual facts and circumstances. Loan modifications that are included as TDRs may involve a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or deferral of principal payments, regardless of the period of the modification. The recorded investment in TDRs was $626 and $822 as of September 30, 2017 and December 31, 2016, respectively.

There were no loans restructured during the nine months ended September 30, 2017 and two loans restructured during the nine months ended September 30, 2016. The terms of certain loans modified as TDRs during the nine months ended September 30, 2016 are summarized in the following table:

	During the nine months ended September 30, 2016					
			Post-Modification Outstanding Recorded Investment			
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Adjusted Interest Rate	Extended Maturity	Extended Maturity and Restructured Payments	Extended Maturity, Restructured Payments and Adjusted Interest Rate
Real estate loans:						
Construction and land	—	$ —	$ —	$ —	$ —	$ —
Farmland	—	—	—	—	—	—
1 - 4 family residential	—	—	—	—	—	—
Multi-family residential	—	—	—	—	—	—
Nonfarm nonresidential	—	—	—	—	—	—
Commercial	2	175	—	—	169	—
Consumer	—	—	—	—	—	—
Total	2	$ 175	$ —	$ —	$ 169	$ —

The two loans restructured during the nine months ended September 30, 2016 were performing as agreed to the modified terms. A specific allowance of $38 for loan losses was recorded for one of the loans that were modified during the nine months ended September 30, 2016.

There were no loans modified as TDR loans within the previous 12 months and for which there was a payment default during the nine months ended September 30, 2017 and 2016. A default for purposes of this disclosure is a TDR loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

The Company has not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of September 30, 2017 or December 31, 2016.

Credit Quality Indicators

From a credit risk standpoint, the Company classifies its non-PCI loans in the following categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Non-PCI loans classified as loss are charged-off.

The classifications of loans reflect a judgment by management about the risks of default and loss associated with the loan. The Company reviews the ratings on criticized credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is believed to be inherent in each credit as of each monthly reporting period. All classified credits are evaluated for impairments. If impairment is determined to exist, a specific reserve is established. The Company's methodology is structured so that specific reserves are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated "special mention" show clear signs of financial weaknesses or deterioration in credit worthiness; however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms, and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in the collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and in which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

Credits classified as purchased credit impaired are those that, at acquisition date, had the characteristics of substandard loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

The following tables summarize the Company's internal ratings of its loans, including purchased credit impaired loans, as of September 30, 2017 and December 31, 2016:

	September 30, 2017					
	Pass	Special Mention	Substandard	Doubtful	PCI[1]	Total
Real estate:						
Construction and land	$ 276,060	$ 610	$ —	$ —	—	$ 276,670
Farmland	6,572	—	—	—	—	6,572
1 - 4 family residential	185,216	—	257	—	—	185,473
Multi-family residential	54,475	—	—	—	—	54,475
Commercial Real Estate	775,129	8,142	13,403	—	5,758	802,432
Commercial	528,803	16,328	6,065	116	26,446	577,758
Consumer	4,043	—	86	—	—	4,129
Total	$ 1,830,298	$ 25,080	$ 19,811	$ 116	$ 32,204	$ 1,907,509

[1] Management is continuing to evaluate the fair value of Sovereign acquired PCI loans. The fair value on these PCI loans are subject to change based on management finalizing its purchase accounting adjustments.

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Construction and land	$ 162,614	$ —	$ —	$ —	$ 162,614
Farmland	8,262	—	—	—	8,262
1 - 4 family residential	139,212	710	215	—	140,137
Multi-family residential	14,683	—	—	—	14,683
Commercial Real Estate	368,370	2,326	—	—	370,696
Commercial	289,589	686	1,034	107	291,416
Consumer	4,078	—	11	—	4,089
Total	$ 986,808	$ 3,722	$ 1,260	$ 107	$ 991,897

An analysis of the allowance for loan losses for the nine months ended September 30, 2017 and 2016 and year ended December 31, 2016 is as follows:

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016	Nine Months Ended September 30, 2016
Balance at beginning of year	$ 8,524	$ 6,772	$ 6,772
Provision charged to earnings	2,585	2,050	1,610
Charge-offs	(622)	(333)	(309)
Recoveries	5	35	29
Net charge-offs	(617)	(298)	(280)
Balance at end of year	$ 10,492	$ 8,524	$ 8,102

The allowance for loan losses as a percentage of total loans was 0.55%, 0.86% and 0.87% as of September 30, 2017, December 31, 2016, and September 30, 2016, respectively.

The following tables summarize the activity in the allowance for loan losses by portfolio segment for the periods indicated:

	For the Nine Months Ended September 30, 2017					
	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Balance at beginning of period	$ 1,415	$ 1,116	$ 3,003	$ 2,955	$ 35	$ 8,524
Provision (recapture) charged to earnings	(252)	415	973	1,462	(13)	2,585
Charge-offs	—	(11)	—	(611)	—	(622)
Recoveries	—	—	—	5	—	5
Net charge-offs (recoveries)	—	(11)	—	(606)	—	(617)
Balance at end of period	$ 1,163	$ 1,520	$ 3,976	$ 3,811	$ 22	$ 10,492
Period-end amount allocated to:						
Specific reserves:						
Impaired loans	$ —	$ —	$ —	$ 156	$ —	$ 156
Total specific reserves	—	—	—	156	—	156
General reserves	1,163	1,520	3,976	3,655	22	10,336
Total	$ 1,163	$ 1,520	$ 3,976	$ 3,811	$ 22	$ 10,492

	For the Year Ended December 31, 2016					
	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Balance at beginning of period	$ 1,104	$ 1,124	$ 2,189	$ 2,324	$ 31	$ 6,772
Provision (recapture) charged to earnings	311	(8)	814	913	20	2,050
Charge-offs	—	—	—	(314)	(19)	(333)
Recoveries	—	—	—	32	3	35
Net charge-offs (recoveries)	—	—	—	(282)	(16)	(298)
Balance at end of period	$ 1,415	$ 1,116	$ 3,003	$ 2,955	$ 35	$ 8,524
Period-end amount allocated to:						
Specific reserves:						
Impaired loans	$ —	$ —	$ —	$ 246	$ 4	$ 250
Total specific reserves	—	—	—	246	4	250
General reserves	1,415	1,116	3,003	2,709	31	8,274
Total	$ 1,415	$ 1,116	$ 3,003	$ 2,955	$ 35	$ 8,524

	For the Nine Months Ended September 30, 2016					
	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Balance at beginning of year	$ 1,104	$ 1,124	$ 2,189	$ 2,324	$ 31	$ 6,772
Provision (recapture) charged to earnings	368	(38)	532	741	7	1,610
Charge-offs	—	—	—	(300)	(9)	(309)
Recoveries	—	—	—	28	1	29
Net charge-offs (recoveries)	—	—	—	(272)	(8)	(280)
Balance at end of year	$ 1,472	$ 1,086	$ 2,721	$ 2,793	$ 30	$ 8,102
Period-end amount allocated to:						
Specific reserves:						
Impaired loans	$ —	$ —	$ —	$ 221	$ 4	$ 225
Total specific reserves	—	—	—	221	4	225
General reserves	1,472	1,086	2,721	2,572	26	7,877
Total	$ 1,472	$ 1,086	$ 2,721	$ 2,793	$ 30	$ 8,102

The Company’s recorded investment in loans as of September 30, 2017 and December 31, 2016 related to the balance in the allowance for loan losses on the basis of the Company’s impairment methodology is as follows:

	September 30, 2017					
	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Loans individually evaluated for impairment	$ —	$ 162	$ 1,169	$ 1,071	$ 83	$ 2,485
Loans collectively evaluated for impairment	283,242	239,786	795,505	550,241	4,046	$ 1,872,820
PCI loans	—	—	5,758	26,446	—	32,204
Total	$ 283,242	$ 239,948	$ 802,432	$ 577,758	$ 4,129	$ 1,907,509

	December 31, 2016					
	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Loans individually evaluated for impairment	$ —	$ 164	$ 382	$ 955	$ 92	$ 1,593
Loans collectively evaluated for impairment	170,876	154,656	370,314	290,461	3,997	990,304
PCI loans	—	—	—	—	—	—
Total	$ 170,876	$ 154,820	$ 370,696	$ 291,416	$ 4,089	$ 991,897

The Company has acquired certain loans which experienced credit deterioration since origination which are PCI loans. Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity.

Servicing Assets

At September 30, 2017, the Company was servicing loans of approximately $70,392. A summary of the changes in the related servicing assets are as follows:

	Nine Months Ended September 30,	
	2017	2016
Balance at beginning of year	$ 601	$ 426
Servicing asset acquired through acquisition	454	—
Increase from loan sales	273	231
Amortization charged to income	(130)	(81)
Balance at end of period	$ 1,198	$ 576

The estimated fair value of the servicing assets approximated the carrying amount at September 30, 2017, December 31, 2016, and September 30, 2016. Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. At September 30, 2017, there was no valuation allowance recorded.

The Company may also receive a portion of subsequent interest collections on loans sold that exceed the contractual servicing fee. In that case, the Company records an interest-only strip based on its relative fair market value and the other components of the loans. There was no interest-only strip receivable recorded at September 30, 2017 and December 31, 2016.

5. Income Taxes

The Company's estimated annual effective tax rate, before the net impact of discrete items, was approximately 34.4% and 34.2% for the nine months ended September 30, 2017 and 2016, respectively. The Company's effective tax rate, after including the net impact of discrete tax items, was approximately 32.8% and 34.1%, respectively, for the nine months ended September 30, 2017 and 2016. The Company's provision was impacted by a net discrete tax benefit of $285 primarily associated with the recognition of excess tax benefit on share-based payment awards for the nine months ended September 30, 2017.

The Company's estimated annual effective tax rate, before the net impact of discrete items, was approximately 34.2% and 34.4% for the three months ended September 30, 2017 and 2016, respectively. The Company's effective tax rate, after including the net impact of discrete tax items, was approximately 33.8% and 34.4%, respectively, for the three months ended September 30, 2017 and 2016. The Company's provision was impacted by a net discrete tax benefit of $30 primarily associated with the recognition of excess tax benefit on share-based payment awards for the three months ended September 30, 2017.

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. Included in the accompanying condensed consolidated balance sheet as of September 30, 2017 is a current tax receivable of approximately $4,878 and a net deferred tax asset of approximately $7,566 in other assets. Included in the accompanying condensed consolidated balance sheets as of December 31, 2016 is a current tax receivable of $91 and a net deferred tax asset of $3,467 in other assets.

6. Commitments and Contingencies

Litigation

The Company may from time to time be involved in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial position or results of operations of the Company.

Operating Leases

The Company leases several of its banking facilities under operating leases. Rental expense related to these leases was approximately $1,595 and $1,051 for the nine months ended September 30, 2017 and 2016, respectively.

Qualified Affordable Housing Investment

On July 26, 2017, the Company began investing in a qualified housing project. At September 30, 2017, the balance of the investment for qualified affordable housing projects was $1,991. This balance is reflected in non-marketable equity securities on the condensed consolidated balance sheets. The total unfunded commitment related to the investment in a qualified housing project totaled $1,875 at September 30, 2017. The Company expects to fulfill this commitment during the year ending 2031.

7. Fair Value Disclosures

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

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

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

Level 2 Inputs. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities.

Level 3 Inputs. Significant unobservable inputs that reflect an entity’s own assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Assets and liabilities measured at fair value on a recurring basis include the following:

Investment Securities Available For Sale: Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For those securities classified as Level 2, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels or trade execution data for similar securities, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

The following table summarizes assets measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			
	Level 1 Inputs	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
As of September 30, 2017				
Investment securities available for sale	$ —	$ 204,788	$ —	$ 204,788
As of December 31, 2016				
Investment securities available for sale	$ —	$ 102,559	$ —	$ 102,559

There were no liabilities measured at fair value on a recurring basis as of September 30, 2017 or December 31, 2016.

There were no transfers between Level 2 and Level 3 during the nine months ended September 30, 2017 and 2016.

Certain assets and liabilities are measured at fair value on a non-recurring 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 at fair value on a non-recurring basis include impaired loans and other real estate owned. The fair value of impaired loans with specific allocations of the allowance for loan losses and other real estate owned is based upon recent real estate appraisals less estimated costs of sale. For residential real estate impaired loans and other real estate owned, appraised values are based on the comparative sales approach. For commercial and commercial real estate impaired loans and other real estate owned, appraisers may use either a single valuation approach or a combination of approaches such as comparative sales, cost or the income approach. A significant unobservable input in the income approach is the estimated income capitalization rate for a given piece of collateral. Adjustments to appraisals may be made to reflect local market conditions or other economic factors and may result in changes in the fair value of a given asset over time. As such, the fair value of impaired loans and other real estate owned are considered a Level 3 in the fair value hierarchy.

The Company recovers the carrying value of other real estate owned through the sale of the property. The ability to affect future sales prices is subject to market conditions and factors beyond the Company's control and may impact the estimated fair value of a property.

Appraisals for impaired loans and other real estate owned are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once reviewed, a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparisons to independent data sources such as recent market data or industry wide-statistics. On a periodic basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustments, if any, should be made to the appraisal value to arrive at fair value.

The following table summarizes assets measured at fair value on a non-recurring basis as of September 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
As of September 30, 2017				
Assets:				
Impaired loans	$ —	$ —	$ 2,329	$ 2,329
As of December 31, 2016				
Assets:				
Impaired loans	$ —	$ —	$ 1,343	$ 1,343

At September 30, 2017, impaired loans had a carrying value of $2,485, with $156 specific allowance for loan loss allocated.

At December 31, 2016, impaired loans had a carrying value of $1,593, with $250 specific allowance for loan loss allocated.

There were no liabilities measured at fair value on a non-recurring basis as of September 30, 2017 or December 31, 2016.

For Level 3 financial assets measured at fair value as of September 30, 2017 and December 31, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

September 30, 2017

Assets/Liabilities	Fair Value	Valuation Technique	Unobservable Input(s)	Weighted Average
Impaired loans	$ 2,329	Collateral Method	Adjustments for selling costs	8%

December 31, 2016

Assets/Liabilities	Fair Value	Valuation Technique	Unobservable Input(s)	Weighted Average
Impaired loans	$ 1,343	Collateral Method	Adjustments for selling costs	8%

Fair Value of Financial Instruments

The Company is required under current authoritative guidance to disclose the estimated fair value of its financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments, as defined. Many of the Company’s financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop an estimate of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, Financial Instruments, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:

Cash and cash equivalents: The carrying amount of cash and cash equivalents approximates their fair value.

Loans and loans held for sale: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, 1-4 family residential), commercial real estate and commercial loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest: The carrying amounts of accrued interest approximate their fair values due to short-term maturity.

Bank-owned life insurance: The carrying amounts of bank-owned life insurance approximate their fair value.

Servicing assets: The estimated fair value of the servicing assets approximated the carrying amount at September 30, 2017 and December 31, 2016. Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. At September 30, 2017 and December 31, 2016 no valuation allowance was recorded.

Non-marketable equity securities: The carrying value of restricted securities such as stock in the Federal Home Loan Bank of Dallas and Independent Bankers Financial Corporation approximates fair value.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate certificates of deposit ("CDs") approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Advances from Federal Home Loan Bank: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company's current borrowing rate for similar arrangements.

Junior subordinated debentures and subordinated notes: The fair values are based upon prevailing rates on similar debt in the market place.

Off-balance sheet instruments: Commitments to extend credit and standby letters of credit are generally priced at market at the time of funding and were not material to the Company's condensed consolidated financial statements.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance as of September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	$ 151,376	$ 151,376	$ 234,791	$ 234,791
Level 2 inputs:				
Loans held for sale	2,179	2,179	5,208	5,208
Accrued interest receivable	6,387	6,387	2,907	2,907
Bank-owned life insurance	20,517	20,517	20,077	20,077
Servicing asset	1,198	1,198	601	601
Non-marketable equity securities	10,283	10,283	7,366	7,366
Level 3 inputs:				
Loans, net	1,896,989	1,907,203	983,318	987,021
Financial liabilities:				
Level 2 inputs:				
Deposits	$ 1,985,658	$ 1,986,342	$ 1,119,630	$ 1,085,888
Advances from FHLB	38,200	38,244	38,306	38,570
Accrued interest payable	324	324	141	141
Junior subordinated debentures	11,702	11,702	3,093	3,093
Subordinated notes	4,987	4,987	4,942	4,942

8. Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the condensed 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 and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

The following table sets forth the approximate amounts of these financial instruments as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Commitments to extend credit	$ 545,999	$ 236,919
Standby and commercial letters of credit	6,417	6,933
	$ 552,416	$ 243,852

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 may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

9. Employee Benefits

Defined Contribution Plan

The Company maintains a retirement savings 401(k) profit sharing plan ("Plan") in which substantially all employees may participate. The Plan provides for "before tax" employee contributions through salary reductions under section 401(k) of the Internal Revenue Code. The Company may make a discretionary match of employees' contributions based on a percentage of salary deferrals and certain discretionary profit sharing contributions. No matching contributions to the Plan were made for the nine months ended September 30, 2017 and 2016.

ESOP

Effective January 1, 2012, the Company adopted the Veritex Community Bank Employee Stock Ownership Plan ("ESOP") covering all employees that meet certain age and service requirements. Plan assets are held and managed by the Company. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the participant's 401(k) contribution made during that year. Compensation expense is measured based upon the expected amount of the Company's discretionary contribution that is determined on an annual basis and is accrued ratably over the year. Shares are committed to be released to settle the liability upon formal declaration of the contribution at the end of the year. The number of shares released to settle the liability is based upon fair value of the shares and become outstanding shares for earnings per share computations. The cost of shares issued to the ESOP, but not yet committed to be released, is shown as a reduction of stockholders' equity. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is charged or credited to stockholders' equity as additional paid in capital.

In January 2014, the ESOP borrowed $500 from the Company and purchased 46,082 shares of the Company's common stock. The ESOP debt is secured by shares of the Company. The loan will be repaid from contributions to the ESOP from the Company. As the debt is repaid, shares are released from collateral and allocated to employees' accounts. The shares pledged as collateral are reported as unearned ESOP shares in the condensed consolidated balance sheets.

Compensation expense attributed to the ESOP contributions recorded in the accompanying condensed consolidated statements of income for the nine months ended September 30, 2017 and 2016 was approximately $171 and $143, respectively.

The following is a summary of ESOP shares as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Allocated shares	44,257	44,257
Unearned shares	18,783	18,783
Total ESOP shares	63,040	63,040
Fair value of unearned shares	$ 506	$ 502

10. Stock and Incentive Plan

2010 Stock Option and Equity Incentive Plan

In 2010, the Company adopted the 2010 Stock Option and Equity Incentive Plan (the "2010 Incentive Plan"), which the Company's shareholders approved in 2011. The maximum number of shares of common stock that may be issued pursuant to grants or options under the 2010 Incentive Plan is 1,000,000. The 2010 Incentive Plan is administered by the Board of Directors and provides for both the direct award of stock and the grant of stock options to eligible directors, officers, employees and outside consultants of the Company or its affiliates as defined in the 2010 Incentive Plan. The Company may grant either incentive stock options or nonqualified stock options as directed in the 2010 Incentive Plan.

The Board of Directors authorized the 2010 Incentive Plan to provide for the award of 100,000 shares of direct stock awards (restricted shares) and 900,000 shares of stock options, of which 500,000 shares are performance-based stock options. Options are generally granted with an exercise price equal to the market price of the Company's stock at the date of the grant; those option awards generally vest based on 5 years of continuous service and have 10-year contractual terms for non-controlling participants as defined by the 2010 Incentive Plan, and forfeiture of unexercised options upon termination of employment with the Company. Other grant terms can vary for controlling participants as defined by the 2010 Incentive Plan. Restricted share awards generally vest after 4 years of continuous service. The terms of the Incentive Plan include a provision whereby all unearned non-performance options and restricted shares become immediately exercisable and fully vested upon a change in control.

With the adoption of the 2014 Omnibus Plan, which is discussed below, the Company does not plan to award any additional grants or options under the 2010 Incentive Plan.

During the nine months ended September 30, 2017 and 2016, the Company did not award any restricted stock units, non-performance-based stock options or performance-based stock options under the 2010 Incentive Plan.

Stock based compensation expense is measured based upon the fair market value of the award at the grant date and is recognized ratably over the period during which the shares are earned (the requisite service period). Stock compensation expense related to the 2010 Incentive Plan recognized in the accompanying condensed consolidated statements of income totaled $20 and $62 for the three and nine months ended September 30, 2017 and $29 and $86 for the three and nine months ended September 30, 2016, respectively.

A summary of option activity under the 2010 Incentive Plan for the nine months ended September 30, 2017 and 2016, and changes during the period then ended is presented below:

	For the Nine Months Ended September 30, 2017		
	Non-performance-based Stock Options		
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term
Outstanding at beginning of year	325,500	$ 10.15	4.56 years
Granted during the period	—	—	
Forfeited during the period	—	—	
Canceled during the period	—	—	
Exercised during the period	(17,500)	10.00	
Outstanding at the end of period	308,000	$ 10.16	3.84 years
Options exercisable at end of period	300,000	$ 10.12	3.77 years
Weighted average fair value of options granted during the period		$ —	

	For the Nine Months Ended September 30, 2016			
	Non-performance-based Stock Options			
	Shares Underlying Options		Weighted Exercise Price	Weighted Average Contractual Term
Outstanding at beginning of year	325,500	$	10.15	5.56 years
Granted during the period	—		—	
Forfeited during the period	—		—	
Exercised during the period	—		—	
Outstanding at the end of period	325,500	$	10.15	4.81 years
Options exercisable at end of period	303,700	$	10.09	4.68 years
Weighted average fair value of options granted during the period		$	—	

As of September 30, 2017, December 31, 2016 and September 30, 2016, the aggregate intrinsic value was $5,174, $5,390 and $2,357, respectively, for outstanding non-performance-based stock options, and $5,052, $5,086 and $2,217, respectively, for exercisable non-performance-based stock options.

As of September 30, 2017, December 31, 2016 and September 30, 2016, there was approximately $12, $21 and $28, respectively, of unrecognized compensation expense related to non-performance-based stock options. The unrecognized compensation expense at September 30, 2017 is expected to be recognized over the remaining weighted average requisite service period of 1.44 years.

A summary of the status of the Company's restricted stock units under the 2010 Incentive Plan as of September 30, 2017 and 2016, and changes during the nine months then ended is as follows:

	2017			2016		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1,	27,750	$	11.92	39,750	$	11.34
Granted during the period	—		—	—		—
Vested during the period	(1,000)		10.85	(12,000)		10.00
Forfeited during the period	(500)		10.85	—		—
Nonvested at September 30,	26,250	$	11.98	27,750	$	11.92

As of September 30, 2017, December 31, 2016 and September 30, 2016, there was $37, $90, and $111, respectively, of total unrecognized compensation expense related to nonvested restricted stock units. The unamortized compensation expense as of September 30, 2017 is expected to be recognized over the remaining weighted average requisite service period of 0.49 years.

The fair value of non-performance-based stock options that were exercised during the nine months ended September 30, 2017 and 2016 was $488 and $0, respectively. The fair value of restricted stock units that vested during the nine months ended September 30, 2017 and 2016 was $26 and $194, respectively.

2014 Omnibus Plan

In September of 2014, the Company adopted an omnibus incentive plan or the 2014 Omnibus Plan (the "2014 Omnibus Plan"). The purpose of the 2014 Omnibus Plan is to align the long-term financial interests of the employees, directors, consultants and other service providers with those of the shareholders, to attract and retain those employees, directors, consultants and other service providers by providing compensation opportunities that are competitive with other companies and to provide incentives to those individuals who contribute significantly to the Company's long-term performance and growth. To accomplish these goals, the 2014 Omnibus Plan permits the issuance of stock options, share appreciation rights, restricted shares, restricted share units, deferred shares, unrestricted shares and cash-based awards. The maximum number of shares of the Company's common stock that may be issued pursuant to grants or options under the 2014 Omnibus Plan is 1,000,000.

During the nine months ended September 30, 2017, the Company awarded 37,625 non-performance restricted stock units, 25,522 performance based restricted stock units, and 70,440 non-performance-based stock options under the 2014 Omnibus Plan. During the nine months ended September 30, 2016, the Company awarded 25,060 non-performance based restricted stock units, and 34,190 market condition restricted stock units, and 76,286 non-performance-based stock options under the 2014 Omnibus Plan.

The non-performance options generally vest equally over three years from the grant date. The performance-based restricted stock units include a market condition based on the Company's total shareholder return relative to a market index that determines the number of restricted stock units that may vest equally over a three-year period from the date of grant. The non-performance restricted stock units fully vest over the requisite service period generally ranging from one to five years.

Stock based compensation expense is measured based upon the fair market value of the award at the grant date and is recognized ratably over the period during which the shares are earned (the requisite service period). For the three and nine months ended September 30, 2017, compensation expense for option awards granted under the 2014 Omnibus Plan was approximately $102 and $296, respectively. For the three and nine months ended September 30, 2017, compensation expense for restricted stock unit awards granted under the 2014 Omnibus Plan was approximately $286 and $841 respectively.

For the three and nine months ended September 30, 2016, compensation expense for option awards granted under the 2014 Omnibus Plan was approximately $55 and $159, respectively. For the three and nine months ended September 30, 2016, compensation expense for restricted stock unit awards granted under the 2014 Omnibus Plan was approximately $198 and $302, respectively.

The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions used for the grants:

	For the Nine Months Ended September 30,	
	2017	2016
Dividend yield	0.00%	0.00%
Expected life	5.0 to 7.5 years	5.0 to 6.5 years
Expected volatility	31.60% to 37.55%	33.37% to 37.55%
Risk-free interest rate	1.06% to 2.32%	1.06% to 2.01%

The expected life is based on the amount of time that options granted are expected to be outstanding. The dividend yield assumption is based on the Company's history. The expected volatility is based on historical volatility of the Company as well as the volatility of certain comparable public company peers. The risk-free interest rates are based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued.

A summary of the status of the Company's stock options under the 2014 Omnibus Plan as of September 30, 2017 and 2016, and changes during the nine months ended is as follows:

	2017			2016		
	Non-performance-based Stock Options			Non-performance-based Stock Options		
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Contractual Term
Outstanding at beginning of year	128,366	$ 15.32	8.69 years	52,080	$ 14.35	9.12 years
Granted during the period	70,440	26.87		76,286	15.98	
Forfeited during the period	(3,465)	21.24		—	—	
Canceled during the period	—	—		—	—	
Exercised during the period	(1,544)	15.00		—	—	
Outstanding at the end of period	193,797	$ 19.34	8.45 years	128,366	$ 15.32	8.94 years
Options exercisable at end of period	53,804	$ 15.01	7.74 years	16,293	$ 14.28	8.33 years
Weighted average fair value of options granted during the period		$ 11.38			$ 5.69	

As of September 30, 2017, December 31, 2016 and September 30, 2016 the aggregate intrinsic value was $1,482, $1,462 and $266, respectively, for outstanding stock options under the 2014 Omnibus Plan. As of September 30, 2017, December 31, 2016 and September 30, 2016 the aggregate intrinsic value was $643, $203, and $51, respectively, for exercisable stock options outstanding under the 2014 Omnibus Plan.

A summary of the status of the Company's non-performance based restricted stock units under the 2014 Omnibus Plan as of September 30, 2017 and 2016, and changes during the nine months ended is as follows:

	2017		2016	
	Non-performance Based Restricted Stock Units		Non-performance Based Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1,	67,956	$ 13.79	70,919	$ 13.29
Granted during the period	37,625	27.37	25,060	15.83
Vested during the period	(14,550)	24.67	(9,716)	16.04
Forfeited during the period	(2,250)	27.93	—	—
Nonvested at September 30,	88,781	$ 17.41	86,263	$ 13.72

A summary of the status of the Company's performance based restricted stock units under the 2014 Omnibus Plan as of September 30, 2017 and 2016, and changes during the nine months ended is as follows:

	2017		2016	
	Performance Based Restricted Stock Units		Performance Based Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1,	51,197	$ 8.72	25,474	$ 9.45
Granted during the period	25,522	24.34	34,190	9.52
Vested during the period	(19,861)	15.34	(8,467)	14.17
Forfeited during the period	(2,014)	15.68	—	—
Nonvested at September 30,	54,844	$ 13.33	51,197	$ 8.72

As of September 30, 2017, December 31, 2016 and September 30, 2016 there was $832, $425 and $478 of total unrecognized compensation expense related to options awarded under the 2014 Omnibus Plan, respectively. As of September 30, 2017, December 31, 2016 and September 30, 2016 there was $1,805, $1,089 and $1,373 of total unrecognized compensation related to restricted stock units awarded under the 2014 Omnibus Plan, respectively.

The fair value of the exercised non-performance-based stock options, vested non-performance restricted stock units, and vested performance based restricted stock units during the nine months ended September 30, 2017 was $41, $395, and $530, respectively. For the same period in 2016 the fair value of exercised non-performance-based stock options, vested non-performance restricted stock units, and vested performance based restricted stock units was $0, $159, and $137, respectively.

The compensation expense related to these options and restricted stock units is expected to be recognized over the remaining weighted average requisite service periods of 2.28 years and 2.21 years, respectively.

11. Significant Concentrations of Credit Risk

Most of the Company's business activity is with customers located within the Dallas-Fort Worth metroplex and Houston metropolitan area. Such customers are normally also depositors of the Company.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The contractual amounts of credit related financial instruments such as commitments to extend credit, credit card arrangements, and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

12. Capital Requirements and Restrictions on Retained Earnings

Under U.S. banking law, there are legal restrictions limiting the amount of dividends the Company can declare. Approval of the regulatory authorities is required if the effect of the dividends declared would cause regulatory capital of the Company to fall below specified minimum levels.

The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 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 the Company on January 1, 2015 with certain transition provisions to be fully phased in by January 1, 2019.

Starting in January 2016, the implementation of the capital conservation buffer became effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, 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. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CET1 and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

Management believes, as of September 30, 2017 and December 31, 2016 that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of September 30, 2017 and December 31, 2016, the Company's and the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Company and the Bank must maintain minimum total risk-based, CET1, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since September 30, 2017 that management believes have changed the Company's categorization as "well capitalized."

A comparison of the Company's and Bank's actual capital amounts and ratios to required capital amounts and ratios is presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2017						
Total capital (to risk-weighted assets)						
Company	$ 328,915	14.87%	$ 176,955	8.0%	n/a	n/a
Bank	255,756	11.57%	176,841	8.0%	$ 221,051	10.0%
Tier 1 capital (to risk-weighted assets)						
Company	313,437	14.17%	132,719	6.0%	n/a	n/a
Bank	245,264	11.10%	132,575	6.0%	176,767	8.0
Common equity tier 1 to risk-weighted assets						
Company	301,735	13.65%	99,473	4.5%	n/a	n/a
Bank	245,264	11.10%	99,431	4.5%	143,623	6.5
Tier 1 capital (to average assets)						
Company	313,437	15.26%	82,159	4.0%	n/a	n/a
Bank	245,264	11.95%	82,097	4.0%	102,621	5.0
As of December 31, 2016						
Total capital (to risk-weighted assets)						
Company	$ 228,566	22.02%	$ 83,039	8.0%	n/a	n/a
Bank	130,237	12.55%	83,020	8.0%	$ 103,775	10.0%
Tier 1 capital (to risk-weighted assets)						
Company	215,057	20.72%	62,275	6.0%	n/a	n/a
Bank	121,713	11.73%	62,257	6.0%	83,010	8.0
Common equity tier 1 to risk-weighted assets						
Company	211,964	20.42%	46,711	4.5%	n/a	n/a
Bank	121,713	11.73%	46,693	4.5%	67,445	6.5
Tier 1 capital (to average assets)						
Company	$ 215,057	16.82%	51,143	4.0%	n/a	n/a
Bank	121,713	9.52%	51,140	4.0%	63,925	5.0

13. Business Combinations

Merger with Sovereign Bancshares, Inc.

On August 1, 2017, the Company acquired Sovereign Bancshares, Inc. ("Sovereign"), a Texas corporation and parent company of Sovereign Bank ("the Merger"). The Company issued 5,117,642 shares of its common stock and paid out $56,215 in cash to Sovereign in consideration for the Merger. Additionally, under the terms of the merger agreement, each of Sovereign's 24,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C, ("Sovereign Series C Preferred Stock") no par value issued and outstanding immediately prior to the effective time was converted into one share of Senior Non-Cumulative Perpetual, Series D Preferred Stock of the Company ("Veritex Series D Preferred Stock").

The business combination was accounted for under the acquisition method of accounting. Under this method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. As the consideration paid for Sovereign exceeded the provisional value of the net assets acquired, goodwill of $108,967 was recorded related to the Merger. This goodwill resulted from the combination of expected operational synergies and increased market share in the Dallas-Fort Worth and Houston metroplexes. Goodwill is not tax deductible. The Merger also resulted in a core deposit intangible of $8,662, which will be amortized on an accelerated basis over the estimated life, currently expected to be 10 years.

Fair Value

The measurement period for the Company to determine the fair values of acquired identifiable assets and assumed liabilities will end at the earlier of (i) twelve months from the date of the acquisition or (ii) 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. Provisional estimates for loans, goodwill, intangible assets, deferred tax assets and deposits have been recorded for the acquisition as independent valuations have not been finalized. The Company does not expect any significant differences from estimated values upon completion of the valuations. Estimated fair values of the assets acquired and liabilities assumed in this transaction as of the closing date are as follows:

		As of August 1, 2017
Assets		
Cash and cash equivalents	$	44,775
Investment securities		166,307
Loans		750,856
Accrued interest receivable		3,437
Bank premises, furniture and equipment		21,512
Non-marketable equity securities		6,751
Other real estate owned		282
Intangible assets		8,662
Goodwill		108,967
Other assets		10,331
Total Assets	$	1,121,880
Liabilities		
Deposits	$	809,366
Accounts payable and accrued expenses		5,189
Accrued interest payable and other liabilities		1,616
Advances from Federal Home Loan Bank		80,000
Junior subordinated debentures		8,609
Total liabilities	$	904,780
Preferred stock - series D		24,500
Total stockholders' equity		24,500
Consideration		
Market value of common stock issued	$	136,385
Cash paid		56,215
Total fair value of consideration	$	192,600

Merger-related Expenses

For the nine months ended September 31, 2017 and 2016, the Company incurred $1,435 and $195, respectively, of pre-tax merger and acquisition expenses related to the Merger. Merger and acquisition expenses are included in other non-interest expense on the Company's statement of income.

Acquired Loans and Purchased Credit Impaired Loans

Acquired loans were preliminarily recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, loss given defaults and recovery rates. No allowance for credit losses was carried over from Sovereign.

The Company has identified certain acquired loans as PCI. PCI loan identification considers payment history and past due status, debt service coverage, loan grading, collateral values and other factors that may indicate deterioration of credit quality since origination. Accretion of purchase discounts on PCI loans is based on estimated future cash flows, regardless of contractual maturities, that include undiscounted expected principal and interest payments and use credit risk, interest rate and prepayment risk models to incorporate management's best estimate of current key assumptions such as default rates, loss severity and payment speeds. Accretion of purchase discounts on acquired non-impaired loans will be recognized on a level-yield basis based on contractual maturity of individual loans per ASC 310-20.

The following table discloses the preliminary fair value and contractual value of loans acquired from Sovereign on August 1, 2017:

	PCI loans	Other acquired loans	Total Acquired Loans
Real Estate	$ 5,906	$ 532,119	$ 538,025
Commercial	27,115	184,473	211,588
Consumer	—	1,243	1,243
Total fair value	33,021	717,835	750,856
Contractual principal balance	$ 50,527	$ 724,529	$ 775,056

The following table presents additional preliminary information about PCI loans acquired from Sovereign on August 1, 2017:

	PCI Loans
Contractually required principal and interest	$ 56,809
Non-accretable and accretable difference [1]	23,788
Fair value of PCI loans	$ 33,021

[1] Management is still evaluating the non-accretable and accretable difference. The values allocated to accretable and non-accretable are subject to change.

Intangible Assets

The following table discloses the preliminary fair value of intangible assets acquired from Sovereign on August 1, 2017:

	Gross Intangible Asset
Core deposit intangibles	$ 7,703
Servicing asset	454
Intangible lease assets	505
	$ 8,662

Advances from Federal Home Loan Bank

The Company assumed from Sovereign $80,000 in advances from the Federal Home Loan Bank as of August 1, 2017 that matured in full from August 1, 2017 to September 30, 2017.

Junior Subordinated Debentures

In connection with the acquisition of Sovereign on August 1, 2017, the Company assumed $8,609 in floating rate junior subordinated debentures underlying common securities and preferred capital securities, or the Trust Securities, issued by SovDallas Capital Trust I ("Trust"), a statutory business trust and acquired wholly-owned subsidiary of the Company. The Company assumed the guarantor position and as such, unconditionally guarantees payment of accrued and unpaid distributions required to be paid on the Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if a trust is liquidated or terminated. The Company also owns all of the outstanding common securities of the Trust.

The Trust invested the total proceeds from the sale of the Trust Securities and the investment in common shares in floating rate Junior Subordinated Debentures (the "Debentures") originally issued by Sovereign. Interest on the Trust Securities is payable quarterly at a rate equal to three-month LIBOR plus 4.0%. Principal payments are due at maturity in July 2038. The Trust Securities are guaranteed by the Company and are subject to redemption. The Company may redeem the debt securities, in whole or in part, at any time at an amount equal to the principal amount of the debt securities being redeemed plus any accrued and unpaid interest.

The Trust Securities qualify as Tier 1 capital, subject to regulatory limitations, under guidelines established by the Federal Reserve.

Redemption of Veritex Series D Preferred Stock

On August 8, 2017, the Company redeemed all 24,500 shares of the Veritex Series D Preferred Stock at its liquidation value of $1,000 per share plus accrued dividends for a total redemption amount of $24,727. The Company assumed $185 of accrued dividends in connection with the acquisition of Sovereign on August 1, 2017 out of the $227 in dividends paid in the quarter ended September 30, 2017. The redemption was approved by the Company's primary federal regulator and was funded with the Company's surplus capital. The redemption terminates the Company's participation in the Small Business Lend Fund ("SBLF") program.

Pending Merger with Liberty Bancshares, Inc.

On August 1, 2017, the Company entered into a definitive agreement ("the merger agreement") with Fort Worth-based Liberty Bancshares, Inc. ("Liberty") and its wholly-owned subsidiary Liberty Bank. The merger agreement provides for the merger of Freedom Merger Sub, Inc., a wholly owned subsidiary of the Company, with and into Liberty. Following the merger, Liberty will merge with and into the Company with the Company surviving and Liberty Bank will merge with and into Veritex Community Bank with Veritex Community Bank surviving. As of June 30, 2017, Liberty reported, on a consolidated basis, total assets of $459.3 million and total deposits of $389.4 million. Upon the completion of the proposed merger with Liberty, the Company expects to acquire Liberty's five branches in the Dallas-Forth Worth metroplex. Under the terms of the merger agreement, the Company will issue 1,450,000 shares of its common stock and will pay approximately $25.0 million in cash for all of the shares of Liberty's common stock, subject to certain conditions and potential adjustments as described in the merger agreement. The merger agreement contains customary representations, warranties and covenants by the Company and Liberty. The transaction received regulatory approval on October 18, 2017 and is subject to customary closing conditions, including approval of the merger agreement by the shareholders of Liberty and the approval by the shareholders of the Company of issuance of the shares of the Company's common stock. The transaction is expected to close during the fourth quarter of 2017.

14. Intangible Assets and Goodwill

Intangible assets in the accompanying consolidated balance sheets are summarized as follows:

	September 30, 2017			
	Weighted Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	9.4 years	$ 11,162	$ 2,340	$ 8,822
Servicing asset	6.7 years	1,541	343	1,198
Intangible lease assets	3.8 years	611	100 —	511
		$ 13,314	$ 2,783	$ 10,531

	December 31, 2016			
	Weighted Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangibles	6.2 years	$ 3,459	$ 1,914	$ 1,545
Servicing asset	7.9 years	814	213	601
Intangible lease assets	4.3 years	106	71	35
		$ 4,379	$ 2,198	$ 2,181

For the nine months ended September 30, 2017 and September 30, 2016, amortization expense related to intangible assets of approximately $585 and $421, respectively, is included within amortization of intangibles, occupancy and equipment, and other income within the consolidated statements of income.

Changes in the carrying amount of goodwill are summarized as follows:

	September 30, 2017	December 31, 2016
Beginning of year	$ 26,865	$ 26,865
Effect of acquisition	108,967	—
End of period	$ 135,832	$ 26,865

15. Subsequent Events

On October 23, 2017, the Company announced that Veritex Community Bank entered into a Purchase and Assumption Agreement with Horizon Bank, SSB to sell certain assets associated with its Austin and Cedar Park branches located in Austin, Texas, which is expected to close in the fourth quarter of 2017.

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 our condensed consolidated financial statements and notes thereto appearing in Item 1 of Part I of this Quarterly Report on Form 10-Q (this "Report") as well as with our condensed financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2016. Except where the content otherwise requires or when otherwise indicated, the terms "Company," "we," "us," "our," and "our business" refer to Veritex Holdings, Inc. and our banking subsidiary, Veritex Community Bank.

This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under "Special Cautionary Notice Regarding Forward-Looking Statements", may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements. For additional information concerning forward-looking statements, please read "—Special Cautionary Notice Regarding Forward-Looking Statements" below.

Overview

We are a bank holding company headquartered in Dallas, Texas. Through our wholly-owned subsidiary, Veritex Community Bank, a Texas state chartered bank, we provide relationship-driven commercial banking products and services tailored to meet the needs of small to medium-sized businesses and professionals. Since our inception, we have targeted customers and focused our acquisitions primarily in the Dallas metropolitan area, which we consider to be Dallas and the adjacent communities in North Dallas. As a result of our acquisition of Sovereign, our primary market includes the broader Dallas-Fort Worth metroplex, which also encompasses Fort Worth and Arlington, as well as the Houston and Austin metropolitan areas. We currently operate twenty-one branches and one mortgage office, 17 of which are located in the Dallas-Fort Worth metroplex, with two branches in the Austin, Texas metropolitan area and two branches in the Houston, Texas metropolitan area. As we continue to grow, we may expand to other metropolitan markets within the State of Texas.

On August 1, 2017, we acquired Sovereign, a Texas corporation and parent company of Sovereign Bank. We issued 5,117,642 shares of its common stock and paid out $56.2 million in cash to Sovereign in consideration for the acquisition. Additionally, under the terms of the merger agreement, each of Sovereign's 24,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C into one share of our Senior Non-Cumulative Perpetual, Series D Preferred Stock. We acquired an estimated $1.1 billion in assets and assumed $904.8 million of liabilities as a result of this acquisition as of the closing date. As of September 30, 2017, we had total assets of $2.5 billion, total loans of $1.9 billion, total deposits of $2.0 billion and total stockholders' equity of $445.9 million, which includes the fair value estimates from the Sovereign acquisition.

As a bank holding company operating through one segment, community banking, we generate most of our revenues from interest income on loans, customer service and loan fees, gains on sale of Small Business Administration ("SBA") guaranteed loans and mortgage loans, and interest income from securities. We incur interest expense on deposits and other borrowed funds and noninterest expense, such as salaries and employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and expense of our liabilities through our net interest margin. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and stockholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and specifically in the Dallas-Fort Worth metroplex, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target market and throughout the State of Texas.

Results of Operations for the Nine Months Ended September 30, 2017 and September 30, 2016

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a "volume change." Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as a "rate change."

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 and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

For the nine months ended September 30, 2017, net interest income totaled $42.8 million and net interest margin and net interest spread were 3.54% and 3.24%, respectively. For the nine months ended September 30, 2016, net interest income totaled $30.4 million and net interest margin and net interest spread were 3.82% and 3.58%, respectively. The increase in net interest income of $12.4 million was due to $12.6 million in increased interest income on loans resulting from organic growth, increased volumes in all loan categories resulting from loans acquired from Sovereign during the third quarter of 2017, as well as the associated increases in the targeted Fed Funds rate which resulted in increases in yields in prime-based loans since September 30, 2016. The increase of $12.6 million in interest income on loans also included $585 thousand in estimated accretion during the third quarter of 2017 on loans acquired from Sovereign. Average loan balances increased $334.2 million compared to the nine months ended September 30, 2016. The decline in net interest margin and net interest spread was primarily attributable to a 20 basis point decrease in the average yield on interest-earning assets. This decrease was due to a change in the mix of interest-earning assets as average interest-earning deposits in other banks as a percentage of total average interest-earning assets represented 13.7% for the nine months ended September 30, 2017 compared to 7.0% for the nine months ended September 30, 2016. Interest-earning deposits in other banks traditionally provide lower average yields than other interest earning assets such as loans and investment securities.

For the nine months ended September 30, 2017, interest expense totaled $6.9 million and the average rate paid on interest-bearing liabilities was 0.87%. For the nine months ended September 30, 2016, interest expense totaled $3.9 million and the average rate paid on interest-bearing liabilities was 0.73%. The increase in interest expense of $3.0 million was primarily due to a $2.8 million increase in deposit-related interest expense resulting from average interest-bearing deposit increases of $352.5 million to $1.0 billion for the nine months ended September 30, 2017 from $656.8 million for the nine months ended September 30, 2016.

The increase in interest expense was primarily the result of increases in money market accounts as balances increased $240.1 million and interest expense paid on these balances increased $2.2 million. The increase in the average rate paid on interest-bearing liabilities of 14 basis points was primarily due to a 13 basis point increase in the average cost of interest-bearing deposits to 0.82% for the nine months ended September 30, 2017 from 0.69% for the nine months ended September 30, 2016. This increase was the result of a 17 basis point increase in the average interest rate paid on money market accounts from 0.77% for the nine months ended September 30, 2016 to 0.94% for the nine months ended September 30, 2017.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest–bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as non-accrual is not recognized in income, however the balances are reflected in average outstanding balances for the period. For the nine months ended September 30, 2017 and 2016, interest income not recognized on non-accrual loans was minimal. Any non-accrual loans have been included in the table as loans carrying a zero yield.

	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:						
Total loans(1)	$ 1,242,706	$ 45,613	4.91%	$ 908,512	$ 32,996	4.85%
Securities available for sale	149,026	2,251	2.02	80,443	1,014	1.68
Investment in subsidiary	151	4	3.54	93	2	2.87
Interest-earning deposits in other banks	221,595	1,787	1.08	74,807	302	0.54
Total interest-earning assets	1,613,478	49,655	4.11	1,063,855	34,314	4.31
Allowance for loan losses	(9,200)			(7,539)		
Noninterest-earning assets	137,315			92,797		
Total assets	$ 1,741,593			$ 1,149,113		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,009,313	$ 6,201	0.82%	$ 656,811	$ 3,388	0.69%
Advances from FHLB	43,313	319	0.98	45,435	202	0.59
Other borrowings	9,995	377	5.04	8,077	289	4.78
Total interest-bearing liabilities	1,062,621	6,897	0.87	710,323	3,879	0.73
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	385,428			298,035		
Other liabilities	4,438			2,866		
Total noninterest-bearing liabilities	389,866			300,901		
Stockholders' equity	289,106			137,889		
Total liabilities and stockholders' equity	$ 1,741,593			$ 1,149,113		
Net interest rate spread(2)			3.24%			3.58%
Net interest income		$ 42,758			$ 30,435	
Net interest margin(3)			3.54%			3.82%

(1) Includes average outstanding balances of loans held for sale of $2,270 and $4,931 and deferred loan fees of $25 and $55 for the nine months ended September 30, 2017 and 2016, respectively.
(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.
(3) Net interest margin is equal to net interest income divided by average interest-earning assets.

The following table presents the 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 interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Nine Months Ended September 30, 2017 vs. 2016		
	Increase Due to Change in		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Total loans	$ 12,126	$ 491	$ 12,617
Securities available for sale	864	373	1,237
Investment in subsidiary	1	1	2
Interest-earning deposits in other banks	593	892	1,485
Total increase in interest income	13,584	1,757	15,341
Interest-bearing liabilities:			
Interest-bearing deposits	1,817	996	2,813
Advances from FHLB	(9)	126	117
Other borrowings	69	19	88
Total increase in interest expense	1,877	1,141	3,018
Increase in net interest income	$ 11,707	$ 616	$ 12,323

Provision for Loan Losses

Our provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for loan losses see "—Financial Condition—Allowance for Loan Losses." The provision for loan losses was $2.6 million for the nine months ended September 30, 2017, compared to $1.6 million for the same period in 2016, an increase of $975 thousand, or 60.6%. The increase in provision expense was due mainly to loan growth as well as an increase in general reserves due to changes in qualitative factors around the nature, volume and mix of the loan portfolio, which includes a qualitative risk factor adjustment related to the potential impact of Hurricane Harvey, for the nine months ended September 30, 2017 as compared to the same period in 2016. In addition, net charge-offs increased $337 thousand for the nine months ended September 30, 2017 compared to the same period in 2016.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, gains on the sale of loans, gains on the sale of investment securities, and income from bank-owned life insurance. Noninterest income does not include loan origination fees to the extent they exceed direct loan origination costs, which we generally recognize over the life of the related loan as an adjustment to yield using the interest method.

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

	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016	Increase (Decrease)
	(Dollars in thousands)		
Noninterest income:			
Service charges and fees on deposit accounts	$ 1,733	$ 1,309	$ 424
Gain on sales of investment securities	205	15	190
Gain on sales of loans	2,259	2,318	(59)
Bank-owned life insurance	561	577	(16)
Other	520	460	60
Total noninterest income	$ 5,278	$ 4,679	$ 599

Noninterest income for the nine months ended September 30, 2017 increased $599 thousand, or 12.8%, to $5.3 million compared to noninterest income of $4.7 million for the same period in 2016. The primary components of the increase were as follows:

Service charges and fees on deposit accounts. We earn service charges and fees from our customers for deposit-related activities. The income from these deposit activities constitute a significant and predictable component of our noninterest income. Service charges and fees from deposit account activities were $1.7 million for the nine months ended September 30, 2017, an increase of $424 thousand over the same period in 2016. The increase was primarily attributable to organic growth in the number of deposit accounts and accounts acquired from Sovereign.

Gain on sales of investment securities. Gain on sales of investment securities were $205 thousand for the nine months ended September 30, 2017 compared to $15 thousand for the same period of 2016. The increase of $190 thousand resulted from the sale of Sovereign investment securities that did not fit our investment strategy.

Gain on sales of loans. We originate SBA guaranteed loans and long-term fixed-rate mortgage loans for resale into the secondary market. Income from the sales of loans was $2.3 million for the nine months ended September 30, 2017 compared to $2.3 million for the same period of 2016. This decrease of $59 thousand was primarily due to a decrease in gain on sale of mortgage loans by $355 thousand and the absence of a one-time $193 thousand gain on sale of loans acquired with the IBT loan portfolio which was recorded in March 31, 2016, offset by an increase in sales of SBA-guaranteed loans resulting in incremental gains of $496 thousand.

Noninterest Expense

Noninterest expense is composed of all employee expenses and costs associated with operating our facilities, acquiring and retaining customer relationships and providing bank services. The major components of noninterest expense are salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of office equipment, professional and regulatory fees, including Federal Deposit Insurance Corporation ("FDIC") assessments, data processing expenses, and advertising and promotion expenses.

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

	For the Nine Months Ended September 30,		Increase (Decrease)
	2017	2016	2017 vs. 2016
	(Dollars in thousands)		
Salaries and employee benefits	$ 13,471	$ 10,683	$ 2,788
Non-staff expenses:			
Occupancy and equipment	3,622	2,718	904
Professional fees	3,959	1,861	2,098
Data processing and software expense	1,451	850	601
FDIC assessment fees	1,061	447	614
Marketing	905	704	201
Other assets owned expenses and write-downs	109	139	(30)
Amortization of intangibles	413	285	128
Telephone and communications	438	295	143
Other	2,325	1,323	1,002
Total noninterest expense	$ 27,754	$ 19,305	$ 8,449

Noninterest expense for the nine months ended September 30, 2017 increased $8.5 million, or 43.8%, to $27.8 million compared to noninterest expense of $19.3 million for the nine months ended September 30, 2016. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. The level of employee expense is impacted by the amount of direct loan origination costs which are required to be deferred in accordance with ASC 310-20 (formerly FAS91). Salaries and employee benefits were $13.5 million for the nine months ended September 30, 2017, an increase of $2.8 million, or 26.1%, compared to the same period in 2016. The increase was primarily attributable to increased employee compensation of $2.9 million resulting from higher headcount including the addition of 100 full-time equivalent employees related to the merger with Sovereign that closed during the third quarter of 2017 and annual merit increases given to employees during the nine months ended September 30, 2017. Incentive costs also increased $948 thousand which included lender incentive increases of $527 thousand as a result of organic loan growth during the period and employee stock compensation increases of $322 thousand. Employee benefits and payroll taxes also increased $213 thousand and $284 thousand, respectively, compared to the same period in 2016. These increases in salaries and employee benefits were partially offset by direct origination costs which increased $1.6 million as a result of the growth in loans during the nine months ended September 30, 2017 compared to the same period in 2016.

Occupancy and equipment. Occupancy and equipment expense includes lease expense, building depreciation and related facilities costs as well as furniture, fixture and equipment depreciation, small equipment purchases and maintenance expense. Our expense associated with occupancy and equipment was $3.6 million for the nine months ended September 30, 2017 compared to $2.7 million for the same period in 2016. The increase of $904 thousand was primarily due to the leasing of additional office space beginning June 1, 2016 at the corporate headquarters location, additional lease expense associated with the opening of the Turtle Creek branch beginning January 2017 and the addition of six owned buildings and five property leases from the Sovereign acquisition.

Professional fees. This category includes legal, investment bank, director, stock transfer agent fees and other public company services, information technology support, audit services and regulatory assessment expense. Professional services expenses were $4.0 million for the nine months ended September 30, 2017 compared to $1.9 million for the same period in 2016, an increase of $2.1 million or 112.7%. This increase was primarily the result of $1.7 million of legal and other professional services associated with the Sovereign and Liberty mergers.

FDIC assessment fees. FDIC assessment fees were $1.1 million for the nine months ended September 30, 2017 and $447 thousand for the same period in 2016. The increase in FDIC assessment fees is primarily a result of a catch-up in prior period assessments, the Sovereign acquisition and the resulting increase in average assets for the nine months ended September 30, 2017.

Other. This category includes operating and administrative expenses including loan operations and collections, supplies and printing, online and card interchange expense, ATM/debit card processing, postage and delivery, BOLI mortality expense, insurance and security expenses. Other noninterest expense increased $1.0 million, or 75.7%, to $2.3 million for the nine months ended September 30, 2017, compared to $1.3 million for the same period in 2016 primarily related to increases in ATM and interchange expense of $183 thousand, corporate insurance of $178 thousand and dues and memberships of $164 thousand.

Income Tax Expense

The amount of income tax expense is a function of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities reflect current statutory income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or statutory tax rates are enacted, deferred tax assets and liabilities are adjusted through the provision of income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of September 30, 2017, the Company did not believe a valuation allowance was necessary.

For the nine months ended September 30, 2017, income tax expense totaled $5.8 million, an increase of $965 thousand, or 20.0%, compared to $4.8 million for the same period in 2016. The change in income tax expense from the nine months ended September 30, 2016 was primarily due to the $3.5 million increase in net income from operations offset by the impact of the net discrete tax benefit of $285 primarily associated with the recognition of excess tax benefit on share-based payment awards during the nine months ended September 30, 2017 compared to no net discrete tax benefit during the nine months ended September 30, 2016.

The Company's estimated annual effective tax rate, before reporting the net impact of discrete items, was approximately 34.4% and 34.2% for the nine months ended September 30, 2017 and 2016, respectively. The Company's estimated effective tax rate, after including the net impact of discrete tax items, was approximately 32.8% and 34.1% for the nine months ended September 30, 2017 and 2016, respectively.

Results of Operations for the Three Months Ended September 30, 2017 and September 30, 2016

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a "volume change." Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as a "rate change."

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 and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Compared to the three months ended September 30, 2016, net interest income increased by $8.6 million from $10.5 million to $19.1 million for the three months ended September 30, 2017. The increase in net interest income before provision for loan losses was primarily due to a $9.1 million increase in interest income on loans resulting from average loan balance increases of $689.0 million compared to the three months ended September 30, 2016. The net interest margin increased to 3.78% for the three months ended September 30, 2017 from 3.70% for the same three-month period in 2016. The 8 basis point increase in net interest margin was primarily due to a change in mix of interest-earning assets resulting from increases in loan balances. The average yield on loan balances increased to 5.00% from 4.83% for the three months ended September 30, 2017 compared to the same period during 2016. The increase in the average yield for loans was primarily driven by $585 thousand in estimated accretion during the third quarter of 2017 on loans acquired from Sovereign. The estimated accretion on the estimated purchase discount for loans acquired from Sovereign increased the average yield on loans by approximately 14 basis points for the three months ended September 30, 2017.

For the three months ended September 30, 2017, interest expense totaled $3.2 million and the average rate paid on interest-bearing liabilities was 0.92%. For the three months ended September 30, 2016, interest expense totaled $1.5 million and the average rate paid on interest-bearing liabilities was 0.79%. The increase in interest expense of $1.7 million was primarily due to a $1.4 million increase in deposit-related interest expense resulting from average interest-bearing deposit increases of $567.2 million to $1.3 billion for the three months ended September 30, 2017 from $727.0 million for the three months ended September 30, 2016. The increase in interest expense was primarily the result of increases in money market accounts as interest expense paid on these balances increased $828 thousand. The increase in the average rate paid on interest-bearing liabilities of 13 basis points was primarily due to a 10 basis point increase in the average cost of interest-bearing deposits to 0.86% for the three months ended September 30, 2017 from 0.76% for the three months ended September 30, 2016. This increase was the result of a 18 basis point increase in the average interest rate paid on money market accounts from 0.82% for the three months ended September 30, 2016 to 1.00% for the three months ended September 30, 2017.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as non-accrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the three months ended September 30, 2017 and 2016, interest income not recognized on non-accrual loans was minimal. Any non-accrual 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:						
Total loans(1)	$ 1,643,077	$ 20,706	5.00%	$ 954,053	$ 11,589	4.83%
Securities available for sale	191,265	941	1.95	83,233	335	1.60
Investment in subsidiary	265	3	4.49	93	1	4.28
Interest-bearing deposits in other banks	171,461	629	1.46	94,596	129	0.54
Total interest-earning assets	2,006,068	22,279	4.41	1,131,975	12,054	4.24
Allowance for loan losses	(9,910)			(8,115)		
Noninterest-earning assets	202,352			95,901		
Total assets	$ 2,198,510			$ 1,219,761		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	$ 1,294,187	$ 2,812	0.86%	$ 726,958	$ 1,381	0.76%
Advances from FHLB	53,222	160	1.19	38,363	59	0.61
Other borrowings	13,793	178	5.12	8,078	97	4.78
Total interest-bearing liabilities	1,361,202	3,150	0.92	773,399	1,537	0.79
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	452,426			301,740		
Other liabilities	6,898			3,284		
Total noninterest-bearing liabilities	459,324			305,024		
Stockholders' equity	377,984			141,338		
Total liabilities and stockholders' equity	$ 2,198,510			$ 1,219,761		
Net interest rate spread(2)			3.49%			3.45%
Net interest income		$ 19,129			$ 10,517	
Net interest margin(3)			3.78%			3.70%

(1) Includes average outstanding balances of loans held for sale of $1,553 and $6,047 and deferred loan fees of $18 and $46 for the three months ended September 30, 2017 and 2016, respectively.

(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

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

The following table presents the 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 interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended September 30, 2017 vs. 2016		
	Increase Due to Change in		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Total loans	$ 8,393	$ 724	$ 9,117
Securities available for sale	436	170	606
Investment in subsidiary	2	—	2
Interest-bearing deposits in other banks	105	395	500
Total increase in interest income	8,936	1,289	10,225
Interest-bearing liabilities:			
Interest-bearing deposits	1,081	350	1,431
Advances from FHLB	23	78	101
Other borrowings	69	12	81
Total increase in interest expense	1,173	440	1,613
Increase in net interest income	$ 7,763	$ 849	$ 8,612

Provision for Loan Losses

Our provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for loan losses see "—Financial Condition—Allowance for Loan Losses." The provision for loan losses was $752 thousand for the three months ended September 30, 2017 and $238 thousand for the same period in 2016, an increase of $514 thousand. The increase in provision expense was due primarily to loan growth as well as an increase in general reserves due to changes in qualitative factors around the nature, volume, and mix of the loan portfolio, which includes a qualitative risk factor adjustment related to the potential impact of Hurricane Harvey.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, gains on the sale of loans, gain on the sale of investment securities, and income from bank-owned life insurance. Noninterest income does not include loan origination fees to the extent they exceed direct loan origination costs, which we generally recognize over the life of the related loan as an adjustment to yield using the interest method.

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

	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	Increase (Decrease) 2017 vs. 2016
	(Dollars in thousands)		
Service charges and fees on deposit accounts	$ 669	$ 433	$ 236
Gain on sales of investment securities	205	—	205
Gain on sales of loans	705	1,036	(331)
Bank-owned life insurance	188	193	(5)
Other	210	231	(21)
Total noninterest income	$ 1,977	$ 1,893	$ 84

Noninterest income for the three months ended September 30, 2017 increased $84 thousand, or 4.4%, to $2.0 million compared to noninterest income of $1.9 million for the same period in 2016. The primary components of the increase were as follows:

Service charges and fees on deposit accounts. We earn fees from our customers for deposit-related services, and these fees constitute a significant and predictable component of our noninterest income. Service charges on deposit accounts were $669 thousand and $433 thousand for the three months ended September 30, 2017 and 2016, respectively. The increase of $236 thousand was attributable to growth in the number of deposit accounts, accounts acquired from Sovereign and an increase transaction fees and service charges from new and existing customers.

Gain on sales of investment securities. Gain on sales of investment securities were $205 thousand for the nine months ended September 30, 2017 with no comparative gain for the same period of 2016. The increase of $205 thousand resulted from the sale of Sovereign investment securities that did not fit our investment strategy.

Gain on sales of loans. We originate SBA guaranteed loans and long-term fixed-rate mortgage loans for resale into the secondary market. Income from the sales of loans was $705 thousand for the three months ended September 30, 2017 compared to $1.0 million for the same period of 2016. The decrease of $331 thousand was primarily due to a decrease in gain on sale of mortgage loans by $287 thousand and decrease in gain on sale of SBA-guaranteed loans by $44 thousand.

Noninterest Expense

Noninterest expense is composed of all employee expenses and costs associated with operating our facilities, acquiring and retaining customer relationships and providing bank services. The major component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of office equipment, professional and regulatory fees, including Federal Deposit Insurance Corporation (“FDIC”) assessments, data processing expenses, and advertising and promotion expenses.

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

	For the Three Months Ended September 30,		Increase (Decrease)
	2017	2016	2017 vs. 2016
	(Dollars in thousands)		
Salaries and employee benefits	$ 5,921	$ 3,920	$ 2,001
Non-staff expenses:			
Occupancy and equipment	1,596	923	673
Professional fees	1,973	785	1,188
Data processing and software expense	719	296	423
FDIC assessment fees	410	179	231
Marketing	436	293	143
Other assets owned expenses and write-downs	71	9	62
Amortization of intangibles	223	95	128
Telephone and communications	230	98	132
Other	943	431	512
Total noninterest expense	$ 12,522	$ 7,029	$ 5,493

Noninterest expense for the three months ended September 30, 2017 increased $5.5 million, or 78.1%, to $12.5 million compared to noninterest expense of $7.0 million for the same period in 2016. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. The level of employee expense is impacted by the amount of direct loan origination costs which are required to be deferred in accordance with ASC 310-20 (formerly FAS91). Salaries and employee benefits were $5.9 million for the three months ended September 30, 2017, an increase of $2.0 million, or 51.0%, compared to the same period in 2016. The increase was primarily attributable to increased employee compensation of $2.7 million due to the addition of 100 full-time equivalent employees related to the merger with Sovereign. This increase in salaries and employee benefits was partially offset by the deferral of direct origination costs which increased $665 thousand as a result of the growth in loans during the three months ended September 30, 2017 compared to the same period in 2016.

Occupancy and equipment. Occupancy and equipment expense includes lease expense, building depreciation and related facilities costs as well as furniture, fixture and equipment depreciation, small equipment purchases and maintenance expense. Our expense associated with occupancy and equipment was $1.6 million for the three months ended September 30, 2017 compared to $923 thousand for the same period in 2016. The increase of $673 thousand was primarily due to the additional lease expense associated with the opening of the Turtle Creek branch beginning January 2017 and the addition of six owned buildings and five property leases from the Sovereign merger.

Data processing and software expenses. Data processing expenses were $719 thousand for the three months ended September 30, 2017, an increase of $423 thousand, or 142.9%, compared to the same period in 2016. The increase was attributable to the Company converting Sovereign’s operating systems into the Veritex information technology infrastructure.

Professional fees. This category includes legal, investment bank, director, stock transfer agent fees and other public company services, information technology support, audit services and regulatory assessment expense. Professional services expenses were $2.0 million for the three months ended September 30, 2017 compared to $785 thousand for the same period in 2016, an increase of $1.2 million or 151.3%. This increase was primarily the result of $1.4 million of legal and other professional services associated with the Sovereign and Liberty mergers.

Other. This category includes operating and administrative expenses including loan operations and collections, supplies and printing, online and card interchange expense, ATM/debit card processing, postage and delivery, BOLI mortality expense, insurance and security expenses. Other noninterest expense increased $512 thousand, or 118.8%, to $943 thousand for the three months ended September 30, 2017, compared to $431 thousand for the same period in 2016 primarily related to increases in corporate insurance of $93 thousand, auto and travel of $72 thousand and ATM and interchange expense of $68 thousand.

Income Tax Expense

The amount of income tax expense is influenced by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at currently enacted income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Income tax expense for the three months ended September 30, 2017 totaled $2.7 million, an increase of $882 thousand, or 49.9%, compared to $1.8 million for the same period in 2016. The change in income tax expense from the three months ended September 30, 2016 was primarily due to the $2.7 million increase in net income from operations offset by the impact of the net discrete tax benefit of $30 thousand primarily associated with the recognition of excess tax benefit on share-based payment awards during the three months ended September 30, 2017 compared to no net discrete tax benefit during the three months ended September 30, 2016.

The Company’s effective tax rate, before the net impact of discrete items, was approximately 34.2% for the three months ended September 30, 2017 compared to 34.4% for the three months ended September 30, 2016. The Company’s effective tax rate, after the net impact of discrete items, was approximately 33.8% and 34.4% for the three months ended September 30, 2017 and 2016, respectively.

Financial Condition

Our total assets increased $1.1 billion, or 77.1%, from $1.4 billion as of December 31, 2016 to $2.5 billion as of September 30, 2017. Our asset growth was due to the successful acquisition of Sovereign in which we acquired $1.1 billion in assets. Additionally, our asset growth was due to the successful execution of our strategy to establish deep relationships in the Dallas metropolitan area. We believe these relationships will bring in new customer accounts and grow balances from existing loan and deposit customers.

Loan Portfolio

Our primary source of income is interest on loans to individuals, professionals, small to medium-sized businesses and commercial companies located in the Dallas-Fort Worth metroplex. Our loan portfolio consists primarily of commercial loans and real estate loans secured by commercial real estate properties located in our primary market area. Our loan portfolio represents the highest yielding component of our earning asset base.

As of September 30, 2017, total loans were $1.9 billion, an increase of $915.6 million, or 92.3%, compared to $991.9 million as of December 31, 2016, with $750.9 million of growth resulting from loans acquired from Sovereign. In addition to these amounts, $2.2 million and $5.2 million in loans were classified as held for sale as of September 30, 2017 and December 31, 2016, respectively.

Total loans held for investment as a percentage of deposits were 96.1% and 88.6% as of September 30, 2017 and December 31, 2016, respectively. Total loans held for investment as a percentage of assets were 76.5% and 70.4% as of September 30, 2017 and December 31, 2016, respectively.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of September 30, 2017		As of December 31, 2016	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial	$ 577,758	30.3%	$ 291,416	29.4%
Real estate:				
Construction and land	276,670	14.5%	162,614	16.4%
Farmland	6,572	0.3%	8,262	0.8%
1 - 4 family residential	185,473	9.7%	140,137	14.1%
Multi-family residential	54,475	2.9%	14,683	1.5%
Commercial Real Estate	802,432	42.1%	370,696	37.4%
Consumer	4,129	0.2%	4,089	0.4%
Total loans held for investment	$ 1,907,509	100.0%	$ 991,897	100%
Total loans held for sale	$ 2,179		$ 5,208	

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management’s opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse trends. Nevertheless, our loan portfolio could become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets.

The following table presents information regarding non-performing assets at the dates indicated:

	As of September 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Non-accrual loans[1]	$ 1,856	$ 941
Accruing loans 90 or more days past due[1]	54	835
Total nonperforming loans	1,910	1,776
Other real estate owned:		
Commercial real estate, construction, land and land development	738	493
Residential real estate	—	169
Total other real estate owned	738	662
Total nonperforming assets	$ 2,648	$ 2,438
Restructured loans—non-accrual	19	170
Restructured loans—accruing	607	652
Ratio of nonperforming loans to total loans	0.10%	0.18%
Ratio of nonperforming assets to total assets	0.11%	0.17%

[1] Excludes PCI loans measured at fair value at September 30, 2017.

We had $2.6 million and $2.4 million in nonperforming assets as of September 30, 2017 and December 31, 2016, respectively. We had $1.9 million in nonperforming loans as of September 30, 2017 compared to $1.8 million as of December 31, 2016.

The following table presents information regarding non-accrual loans by category as of the dates indicated:

	As of September 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Real estate:		
Construction and land	$ —	$ —
Farmland	—	—
1 - 4 family residential	—	—
Multi-family residential	—	—
Commercial Real Estate	794	—
Commercial	1,048	930
Consumer	14	11
Total	$ 1,856	$ 941

Potential Problem Loans

From a credit risk standpoint, we classify non-PCI loans in one of four categories: pass, special mention, substandard or doubtful. Non-PCI loans classified as loss are charged-off. Non-PCI loans not rated special mention, substandard, doubtful or loss are classified as pass loans. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. We review the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that we expect to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits with a lower rating.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen our position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

Credits classified as purchased credit impaired are those that, at acquisition date, had the characteristics of substandard loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

The following tables summarize our internal ratings of our loans as of the dates indicated.

	September 30, 2017					
	Pass	Special Mention	Substandard	Doubtful	PCI[1]	Total
Real estate:						
Construction and land	$ 276,060	$ 610	$ —	$ —	—	$ 276,670
Farmland	6,572	—	—	—	—	6,572
1 - 4 family residential	185,216	—	257	—	—	185,473
Multi-family residential	54,475	—	—	—	—	54,475
Commercial Real Estate	775,129	8,142	13,403	—	5,758	802,432
Commercial	528,803	16,328	6,065	116	26,446	577,758
Consumer	4,043	—	86	—	—	4,129
Total	$ 1,830,298	$ 25,080	$ 19,811	$ 116	$ 32,204	$ 1,907,509

[1] Includes PCI loans measured at fair value as of September 30, 2017. The fair value on these PCI loans are subject to change based on management finalizing its purchase accounting adjustments.

	December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	PCI	Total
Real estate:						
Construction and land	$ 162,614	$ —	$ —	$ —	—	$ 162,614
Farmland	8,262	—	—	—	—	8,262
1 - 4 family residential	139,212	710	215	—	—	140,137
Multi-family residential	14,683	—	—	—	—	14,683
Commercial Real Estate	368,370	2,326	—	—	—	370,696
Commercial	289,589	686	1,034	107	—	291,416
Consumer	4,078	—	11	—	—	4,089
Total	$ 986,808	$ 3,722	$ 1,260	$ 107	—	$ 991,897

Allowance for loan losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in the loan portfolio. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. For additional discussion of our methodology, please refer to "—Critical Accounting Policies — Loans and Allowance for Loan Losses."

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 we consider 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 1-4 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 the 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.

As of September 30, 2017, the allowance for loan losses totaled $10.5 million, or 0.55%, of total loans. As of December 31, 2016, the allowance for loan losses totaled $8.5 million, or 0.86%, of total loans. The increase in the allowance compared to December 31, 2016 was primarily due to loan growth and an increase in the general reserves from changes in qualitative factors around the nature, volume and mix of the loan portfolio. Ending balances for the purchase discount related to non-impaired acquired loans were $6.4 million and $566 thousand, as of September 30, 2017 and December 31, 2016, respectively. Purchased credit impaired loans are not considered nonperforming loans.

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

	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016	For the Year Ended December 31, 2016
	(Dollars in thousands)		
Average loans outstanding[1]	$ 1,240,461	$ 903,581	$ 919,441
Gross loans outstanding at end of period[1]	$ 1,907,509	$ 926,712	$ 991,897
Allowance for loan losses at beginning of period	$ 8,524	$ 6,772	$ 6,772
Provision for loan losses	2,585	1,610	2,050
Charge-offs:			
Real estate:			
Construction, land and farmland	—	—	—
Residential	(11)	—	—
Commercial Real Estate	—	—	—
Commercial	(611)	(300)	(314)
Consumer	—	(9)	(19)
Total charge-offs	(622)	(309)	(333)
Recoveries:			
Real estate:			
Construction, land and farmland	—	—	—
Residential	—	—	—
Commercial Real Estate	—	—	—
Commercial	5	28	32
Consumer	—	1	3
Total recoveries	5	29	35
Net charge-offs	(617)	(280)	(298)
Allowance for loan losses at end of period	$ 10,492	$ 8,102	$ 8,524
Ratio of allowance to end of period loans	0.55%	0.87%	0.86%
Ratio of net charge-offs to average loans	0.05%	0.03%	0.03%

(1) Excluding loans held for sale and deferred loan fees.

We believe the successful execution of our growth strategy through key acquisitions, including Sovereign, and organic growth is demonstrated by the upward trend in loan balances from December 31, 2016 to September 30, 2017. Loan balances increased from $991.9 million as of December 31, 2016 to $1.9 billion as of September 30, 2017. The allowance for loan losses as a percentage of total loans was determined by the qualitative factors around the nature, volume and mix of the loan portfolio. The decrease in the allowance for loan loss as a percentage of loans as of September 30, 2017 from December 31, 2016 and September 30, 2016 was attributable to the Sovereign acquisition as acquired loans are recorded at fair value.

Although we believe that we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States ("GAAP") and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions will be subject to ongoing evaluations of the risks in our loan portfolio. If we experience economic declines or if asset quality deteriorates, material additional provisions could be required.

The following table shows the allowance for loan losses by loan category and certain other information as of the dates indicated. The allocation of the allowance for loan losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions. The total allowance is available to absorb losses from any loan category.

	As of September 30, 2017		As of December 31, 2016	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Real estate:				
Construction and land	$ 1,125	10.7%	$ 1,346	15.8%
Farmland	39	0.4	69	0.8
1 - 4 family residential	1,223	11.7	999	11.7
Multi-family residential	296	2.8	117	1.4
Commercial Real Estate	3,976	37.9	3,003	35.2
Total real estate	$ 6,659	63.5%	$ 5,534	64.9%
Commercial	3,811	36.3	2,955	34.7
Consumer	22	0.2	35	0.4
Total allowance for loan losses	$ 10,492	100.0%	$ 8,524	100.0%

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of September 30, 2017, the carrying amount of investment securities totaled $204.8 million, an increase of $102.2 million or 99.7% compared to $102.6 million as of December 31, 2016 which is primarily due to securities purchases of $70.6 million during 2017 and $48.1 million of acquired Sovereign securities remaining as of September 30, 2017. This increase is partially offset by paydowns and maturities of $17.3 million during 2017. Securities represented 8.2% and 7.3% of total assets as of September 30, 2017 and December 31, 2016, respectively.

Our investment portfolio consists entirely of securities classified as available for sale. As a result, the carrying values of our investment securities are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of accumulated other comprehensive income in stockholders' equity. The following table summarizes the amortized cost and estimated fair value of our investment securities as of the dates shown:

	As of September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government agencies	$ 10,827	$ 92	$ 11	$ 10,908
Corporate bonds	7,500	330	—	7,830
Municipal securities	52,392	269	141	52,520
Mortgage-backed securities	81,454	98	447	81,105
Collateralized mortgage obligations	52,062	99	395	51,766
Asset-backed securities	649	10	—	659
Total	$ 204,884	$ 898	$ 994	$ 204,788

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. government agencies	$ 732	$ —	$ 36	$ 696
Municipal securities	14,540	2	500	14,042
Mortgage-backed securities	49,907	83	871	49,119
Collateralized mortgage obligations	38,507	32	612	37,927
Asset-backed securities	764	11	—	775
Total	$ 104,450	$ 128	$ 2,019	$ 102,559

All of our mortgage-backed securities and collateralized mortgage obligations are agency securities. We do not hold any Fannie Mae or Freddie Mac preferred stock, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt– A, or second lien elements in our investment portfolio. As of September 30, 2017, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

Management evaluates securities for other-than-temporary impairment, at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

The following table sets forth the fair value, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our securities portfolio as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

	As of September 30, 2017									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	$ —	—%	$ 10,595	2.45%	$ 313	2.05%	$ —	—%	$ 10,908	2.44%
Corporate securities	—	—	7,830	5.63	—	—	—	—	7,830	5.63
Municipal securities	—	—	9,224	2.32	24,119	2.79	19,177	3.05	52,520	2.80
Mortgage-backed securities	—	—	48,789	1.87	32,316	2.32	—	—	81,105	2.05
Collateralized mortgage obligations	267	2.17	37,826	2.00	13,673	2.34	—	—	51,766	2.09
Asset-backed securities	—	—	659	2.18	—	—	—	—	659	2.18
Total	$ 267	2.17%	$ 114,923	1.88%	$ 70,421	2.48%	$ 19,177	3.05%	$ 204,788	2.20%

	As of December 31, 2016									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	$ —	—%	$ 345	1.62%	$ 351	2.02%	$ —	—%	$ 696	1.82%
Municipal securities	—	—	3,630	2.13	2,995	1.96	7,417	2.51	14,042	2.29
Mortgage-backed securities	—	—	37,307	1.63	11,731	2.22	81	2.10	49,119	1.77
Collateralized mortgage obligations	262	2.98	36,850	1.73	815	2.42	—	—	37,927	1.75
Asset-backed securities	—	—	775	1.40	—	—	—	—	775	1.40
Total	$ 262	2.98%	$ 78,907	1.70%	$ 15,892	2.18%	$ 7,498	2.51%	$ 102,559	1.83%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to pre-pay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 3.90 years and 4.39 years with an estimated effective duration of 3.00 years and 3.30 years as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017 and December 31, 2016, we did not own securities of any one issuer for which aggregate adjusted cost exceeded 10.0% of the condensed consolidated stockholders' equity as of such respective dates.

Deposits

We offer a variety of deposit accounts having a wide range of interest rates and terms including demand, savings, money market and time accounts. We rely primarily on competitive pricing policies, convenient locations and personalized service to attract and retain these deposits.

Total deposits as of September 30, 2017 were $2.0 billion, an increase of $866.0 million, or 77.3%, compared to $1.1 billion as of December 31, 2016. The increase from December 31, 2016 was primarily due to $809.4 million of deposits assumed from Sovereign.

Borrowings

We utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

Federal Home Loan Bank (FHLB) advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of September 30, 2017 and December 31, 2016, total borrowing capacity of $484.1 million and $369.4 million, respectively, was available under this arrangement and $38.2 million and $38.3 million, respectively, was outstanding with a weighted average interest rate of 1.19% for the three months ended September 30, 2017 and 0.60% for the year ended December 31, 2016. Our current FHLB advances mature within six years. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio.

The following table presents our FHLB borrowings at the dates indicated. Other than FHLB borrowings, we had no other short-term borrowings at the dates indicated.

		FHLB Advances
		(Dollars in thousands)
September 30, 2017		
Amount outstanding at period-end	$	38,200
Weighted average interest rate at period-end		1.26%
Maximum month-end balance during the period		38,294
Average balance outstanding during the period		43,313
Weighted average interest rate during the period		0.98%
December 31, 2016		
Amount outstanding at period-end	$	38,306
Weighted average interest rate at period-end		0.77%
Maximum month-end balance during the period		88,398
Average balance outstanding during the period		43,649
Weighted average interest rate during the period		0.60%

Federal Reserve Bank of Dallas. The Federal Reserve Bank of Dallas has an available borrower in custody arrangement, 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. As of September 30, 2017 and December 31, 2016, $214.7 million and $197.3 million, respectively, were available under this arrangement. As of September 30, 2017, approximately $282.2 million in commercial loans were pledged as collateral. As of September 30, 2017 and December 31, 2016, no borrowings were outstanding under this arrangement.

Junior subordinated debentures. As of September 30, 2017, we have $11.7 million in fixed/floating rate junior subordinated debentures underlying common securities and preferred capital securities, or the Trust Securities. In connection with the acquisition of Fidelity Resource Company during 2011, we assumed $3.1 million in Trust Securities issued by Parkway National Capital Trust I, a statutory business trust and acquired wholly-owned subsidiary. We assumed the guarantor position and as such, unconditionally guarantee payment of accrued and unpaid distributions required to be paid on the Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if a trust is liquidated or terminated.

We own all of the outstanding common securities of each trust. Parkway National Capital Trust I used the proceeds from the issuance of its Trust Securities to buy the debentures originally issued by Fidelity Resource Company. These debentures are the trust’s only assets and the interest payments from the debentures finance the distributions paid on the Trust Securities.

The Trust Securities pay cumulative cash distributions quarterly at a rate per annum equal to the three-month LIBOR plus 1.85% percent. The effective rate as of September 30, 2017 and December 31, 2016 was 1.67% and 2.70%, respectively. The Trust Securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures at the stated maturity in the year 2036 or their earlier redemption, in each case at a redemption price equal to the aggregate liquidation preference of the Trust Securities plus any accumulated and unpaid distributions thereon to the date of redemption. Prior redemption is permitted under certain circumstances.

The remaining $8.6 million in Trust Securities was assumed in the acquisition of Sovereign. Sovereign issued $8.4 million of Floating Rate Cumulative Trust Preferred Securities (TruPS) through a newly formed, unconsolidated, wholly-owned subsidiary, SovDallas Capital Trust I (the Trust). The Company had an investment of 100% of the common shares of the Trust, totaling $0.2 million.

The Trust invested the total proceeds from the sale of the TruPS and the investment in common shares in floating rate Junior Subordinated Debentures (the Debentures) issued by the Company. Interest on the TruPS is payable quarterly at a rate equal to three-month LIBOR plus 4.0%. Principal payments are due to maturity in July 2038. The TruPS are guaranteed by the Company and are subject to redemption. The Company may redeem the debt securities, in whole or in part, at any time at an amount equal to the principal amount of the debt securities being redeemed plus any accrued and unpaid interest.

The Trust Securities qualify as Tier 1 capital, subject to regulatory limitations, under guidelines established by the Federal Reserve.

Subordinated notes. On December 23, 2013, we completed a private offering of $5.0 million in aggregate principal amount of subordinated promissory notes. The notes were structured to qualify as Tier 2 capital under applicable rules and regulations of the Federal Reserve. The proceeds from the offering were used to support our continued growth. The notes are unsecured, with quarterly interest payable at a fixed rate of 6.0% per annum, and unpaid principal and interest on the notes is due at the stated maturity on December 31, 2023. We may redeem the notes in whole or in part on any interest payment date that occurs on or after December 23, 2018 subject to approval of the Federal Reserve.

Under the terms of the notes, if we have not paid interest on the notes within 30 days of any interest payment date, or if our classified assets to total tangible capital ratio exceeds 40.0%, then the note holder that holds the greatest aggregate principal amount of the notes may appoint one representative to attend meetings of our board of directors as an observer. The board observation rights terminate when such overdue interest is paid or our classified assets to total tangible capital ratio no longer exceeds 40.0%. In addition, the terms of the notes provide that the note holders will have the same rights to inspect our books and records provided to holders our common stock under Texas law.

In connection with the issuance of the notes, we also issued warrants to purchase 25,000 shares of our common stock, at an exercise price of $11.00 per share, exercisable at any time, in whole or in part, on or prior to December 31, 2023.

	As of September 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Junior subordinated debentures	$ 11,702	$ 3,093
Subordinated notes	4,987	4,942
Total	$ 16,689	$ 8,035

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. For the nine months ended September 30, 2017 and the year ended December 31, 2016, our liquidity needs were primarily met by core deposits, wholesale borrowings, security and loan maturities and amortizing investment and loan portfolios. Use of brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB and the Federal Reserve Bank of Dallas are available and have been utilized to take advantage of the cost of these funding sources. We maintained two lines of credit with commercial banks that provide for extensions of credit with an availability to borrow up to an aggregate $14.6 million as of September 30, 2017 and December 31, 2016. There were no advances under these lines of credit outstanding as of September 30, 2017 and December 31, 2016.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the period indicated. Average assets totaled $1.7 billion for the nine months ended September 30, 2017 and $1.2 billion for the year ended December 31, 2016.

	For the Nine Months Ended September 30, 2017	For the Year Ended December 31, 2016
Sources of Funds:		
Deposits:		
Noninterest-bearing	22.1%	25.5%
Interest-bearing	58.0	57.9
Advances from FHLB	2.4	3.7
Other borrowings	0.6	0.7
Other liabilities	0.3	0.2
Stockholders’ equity	16.6	12.0
Total	100.0%	100.0%
Uses of Funds:		
Loans	70.7%	77.2%
Securities available for sale	8.6	7.1
Interest-bearing deposits in other banks	12.7	7.8
Other noninterest-earning assets	8.0	7.9
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	27.6%	30.5%
Average loans to average deposits	88.4%	92.5%

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans net of allowance for loan loss increased 36.9% for the nine months ended September 30, 2017 compared to the same period in 2016. We invest excess deposits in interest-bearing deposits at other banks, the Federal Reserve, or liquid investments securities until these monies are needed to fund loan growth.

As of September 30, 2017, we had outstanding $546.0 million in commitments to extend credit and $6.4 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2016, we had outstanding $236.9 million in commitments to extend credit and $6.9 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 cash and cash equivalents of $151.4 million compared to $234.8 million as of December 31, 2016. The decrease was primarily due to the $56.2 million of cash consideration paid related to the Sovereign acquisition and due to funding loan and investment growth over the period.

Capital Resources

Total stockholders’ equity increased to $445.9 million as of September 30, 2017, compared to $239.1 million as of December 31, 2016, an increase of $206.8 million, or 86.5%. The increase from December 31, 2016 was primarily the result of the Company’s issuance of 5,117,642 shares for $136.0 million, net of offering costs, in connection to the Sovereign acquisition, the Company raise of $56.7 million of common stock in our public offering, net of offering costs, and $11.9 million in net income during the nine months ended September 30, 2017.

Capital management consists of providing equity to support our current and future operations. The bank regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. See Note 12 "Capital Requirements and Restrictions on Retained Earnings" to our condensed consolidated financial statements in this Report for additional discussion regarding the regulatory capital requirements applicable to us and the Bank. As of September 30, 2017 and December 31, 2016, the Bank and we complied with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized," for purposes of the prompt corrective action regulations. As we employ our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the actual capital amounts and regulatory capital ratios for us and the Bank as of the dates indicated.

	As of September 30, 2017		As of December 31, 2016	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Veritex Holdings, Inc.				
Total capital (to risk-weighted assets)	$ 328,915	14.87%	$ 228,566	22.02%
Tier 1 capital (to risk-weighted assets)	313,437	14.17	215,057	20.72
Common equity tier 1 (to risk-weighted assets)	301,735	13.65	211,964	20.42
Tier 1 capital (to average assets)	313,437	15.26	215,057	16.82
Veritex Community Bank				
Total capital (to risk-weighted assets)	$ 255,756	11.57%	$ 130,237	12.55%
Tier 1 capital (to risk-weighted assets)	245,264	11.10	121,713	11.73
Common equity tier 1 (to risk-weighted assets)	245,264	11.10	121,713	11.73
Tier 1 capital (to average assets)	245,264	11.95	121,713	9.52

Contractual Obligations

In the ordinary course of the Company's operations, the Company enters into certain contractual obligations, such as obligations for operating leases and other arrangements with respect to deposit liabilities, FHLB advances and other borrowed funds. The Company believes that it will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. The Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Other than normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2016.

Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in the Company's consolidated balance sheets. However, the Company has only limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and issue standby 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.

The Company's commitments to extend credit and outstanding standby letters of credit were $546.0 million and $6.4 million, respectively, as of September 30, 2017. 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. The Company manages the Company's liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

Commitments to Extend Credit

The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Standby Letters of Credit

Standby letters of credit are written conditional commitments that the Company issues to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the customer is obligated to reimburse the Company for the amount paid under this standby letter of credit.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those that have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset-Liability Committee of the Bank, in accordance with policies approved by its board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk that include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of our non-maturity deposit accounts are based on standard regulatory decay assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run two simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rate changes over a twelve-month and twenty-four month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 12.5% for a 100 basis point shift, 15.0% for a 200 basis point shift, and 20.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the date indicated:

	As of September 30, 2017		**As of December 31, 2016**	
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**
+ 300	14.67 %	4.11 %	12.60 %	11.67 %
+ 200	10.95 %	4.51 %	9.63 %	12.04 %
+ 100	7.13 %	3.51 %	6.14 %	9.29 %
Base	2.89 %	— %	0.99 %	— %
−100	(1.28)%	(6.48)%	(2.56)%	(11.22)%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

Impact of Inflation

Our condensed consolidated financial statements and related notes included elsewhere in this Report have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate.

Business Combinations

We apply the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. We use valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets and liabilities assumed is recorded as goodwill. 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.

Investment Securities

Securities are classified as held to maturity and carried at amortized cost when we have the positive intent and ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported in other comprehensive income, net of tax. We determined the appropriate classification of securities at the time of purchase. Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Credit related declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses, with the remaining unrealized loss recognized as a component of other comprehensive income. In estimating other-than-temporary impairment losses, we consider, among other things, (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, and (3) the intent and our ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

Loans held for sale consist of certain mortgage loans originated and intended for sale in the secondary market and are carried at the lower of cost or estimated fair value on an individual loan basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. We obtain purchase commitments from secondary market investors prior to closing the loans and do not retain the servicing obligations related to any such loans upon their sale. Gains and losses on sales of loans held for sale are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Allowance for Loan Losses

Loans, excluding certain purchased loans that have shown evidence of deterioration since origination as of the date of the acquisition, that we have the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is recognized using the effective-interest method on the daily balances of the principal amounts outstanding. Fees associated with the originating of loans and certain direct loan origination costs are netted and the net amount is deferred and recognized over the life of the loan as an adjustment of yield.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower’s cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured in accordance with the terms of the loan agreement.

The allowance for loan losses is an estimated amount we believe is adequate to absorb inherent losses on existing loans that may be uncollectible based upon review and evaluation of the loan portfolio. Our periodic evaluation of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. The allowance for loan losses is comprised of two components: the general reserve and specific reserves. The general reserve is determined in accordance with current authoritative accounting guidance. The Company’s calculation of the general reserve considers historical loss rates for the last three years adjusted for qualitative factors based upon general economic conditions and other qualitative risk factors both internal and external to the Company. Such qualitative factors include current local economic conditions and trends including unemployment, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans and changes in trends in volume and terms of loans. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historic loss factors. For purposes of determining the general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and impaired loans, is multiplied by our adjusted historical loss rate. Specific reserves are determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries).

Due to the growth of the Bank over the past several years, a portion of the loans in our portfolio and our lending relationships are of relatively recent origin. The new loan portfolios have limited delinquency and credit loss history and have not yet exhibited an observable loss trend. The credit quality of loans in these loan portfolios are impacted by delinquency status and debt service coverage generated by the borrowers’ business and fluctuations in the value of real estate collateral. We consider delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity loans and lines of credit and other consumer loans. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as “seasoning”. As a result, a portfolio of older loans will usually behave more predictably than a portfolio of newer loans. Because the majority of our portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels.

Delinquency statistics are updated at least monthly. Internal risk ratings are considered the most meaningful indicator of credit quality for new commercial, construction, and commercial real estate loans. Internal risk ratings are a key factor in identifying loans that are individually evaluated for impairment and impact our estimates of loss factors used in determining the amount of the allowance for loan losses. Internal risk ratings are updated on a continuous basis.

Loans are considered impaired when, based on current information and events, it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Our policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan’s observable market price. At September 30, 2017 and December 31, 2016, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral.

From time to time, we may modify our loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (1) the borrower is experiencing financial difficulty and (2) concessions are made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. All troubled debt restructurings are considered impaired loans. We review each troubled debt restructured loan and determine on a case by case basis if a specific allowance for loan loss is required. An allowance for loan loss allocation is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral.

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

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing our real estate portfolio are generally diverse in terms of type and geographic location, throughout the Dallas metropolitan area. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

We utilize methodical credit standards and analysis to supplement our policies and procedures in underwriting consumer loans. Our loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes our risk.

Certain Acquired Loans

As part of its business acquisitions, we evaluated each of the acquired loans under ASC 310-30 to determine whether (i) there was evidence of credit deterioration since origination, and (ii) it was probable that we would not collect all contractually required payments receivable. We determined the best indicator of such evidence was an individual loan's payment status and/or whether a loan was determined to be classified based on a review of each individual loan. Therefore, generally each individual loan that should have been or was on non-accrual at the acquisition date and each individual loan that was deemed impaired were included subject to ASC 310-30 accounting. These loans were recorded at the discounted expected cash flows of the individual loan.

Loans that were evaluated under ASC 310-30, and where the timing and amount of cash flows can be reasonably estimated, were accounted for in accordance with ASC 310-30-35. We apply the interest method for these loans under this subtopic and the loans are excluded from non-accrual. If, at acquisition, we identified loans that they could not reasonably estimate cash flows or, if subsequent to acquisition, such cash flows could not be estimated, such loans would be included in non-accrual and accounted for under the cost recovery method. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually.

We estimate the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, any related allowance for loan loss is reversed, with the remaining yield being recognized prospectively through interest income.

Loans to which ASC 310-30 accounting is applied are deemed purchased credit impaired ("PCI") loans.

Emerging Growth Company

The JOBS Act permits an "emerging growth company" to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have "opted out" of this provision. As a result, we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Special Cautionary Notice Regarding Forward-Looking Statements

Forward-looking statements included in this Report 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. Forward-looking statements include the information concerning our future financial performance, business and growth strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing. 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 the Dallas-Fort Worth metroplex and Houston metropolitan area, including risks associated with any downturn in the real estate sector and risks associated with a decline in the values of single family homes in the Dallas-Fort Worth metroplex and Houston metropolitan area;

- our ability to implement our growth strategy, including identifying and consummating suitable acquisitions;

- 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 recruit and retain successful bankers that meet our expectations in terms of customer relationships and profitability;
- our ability to retain executive officers and key employees and their customer and community relationships;
- risks associated with our limited operating history and the relatively unseasoned nature of a significant portion of our loan portfolio;
- market conditions and economic trends nationally, regionally and particularly in the Dallas-Fort Worth metroplex and Texas;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses;
- risks associated with our commercial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;
- risks associated with our commercial real estate and construction loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- risks related to the significant amount of credit that we have extended 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 and 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;
- potential fluctuations in the market value and liquidity of our investment securities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- our ability to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting;
- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with system failures or failures to prevent breaches of our network security;
- risks associated with data processing system failures and errors;
- our actual cost savings resulting from the acquisition of Liberty are less than expected, we are unable to realize those cost savings as soon as expected or we incur additional or unexpected costs;
- our revenues after the Liberty acquisition are less than expected;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;

- 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 Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of FDIC, insurance and other coverage; and
- systemic risks associated with the soundness of other financial institutions.

Other factors not identified above, including those described under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the year ended December 31, 2016, as well as the information contained in this Quarterly Report on Form 10-Q 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company manages market risk, which, as a financial institution is primarily interest rate volatility, through the Asset-Liability Committee of the Bank, in accordance with policies approved by its board of directors. The Company uses an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity and Market Risk” herein for a discussion of how we manage 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) and 15d-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(f) 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

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

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 combined 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 evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, as well as the information contained in this Quarterly Report on Form 10-Q and our other reports and registration statements filed with the SEC.

Hurricanes or other adverse weather events in Texas can have an adverse impact on Veritex's and/or Liberty's business, financial condition and operations.

Hurricanes, tropical storms, natural disasters and other adverse weather events can have an adverse impact on Veritex's and/or Liberty's business, financial condition and operations, cause widespread property damage and significantly depress the local economies in which Veritex and Liberty operate. Veritex operates one branch and a loan production office in Houston, an area which is susceptible to hurricanes, tropical storms and other natural disasters and adverse weather conditions. For example, in late August 2017, Hurricane Harvey, a Category 4 hurricane, caused extensive and costly damage across Southeast Texas. Most notably, the Houston metropolitan area in Texas received over 40 inches of rainfall, which resulted in catastrophic flooding and unprecedented damage to residences and businesses.

Veritex continues to evaluate Hurricane Harvey's impact on its customers and its business, including its properties, assets and loan portfolios. While Veritex does not anticipate that Hurricane Harvey will have significant long-term effects on its business, financial condition or operations, Veritex is unable to predict with certainty the short- and long-term impact that Hurricane Harvey may have on the local region in which it operates, including the impact on loan and deposit activities and credit exposures. Veritex will continue to monitor the residual effects of Hurricane Harvey on its business and customers.

Similar future adverse weather events in Texas could potentially result in extensive and costly property damage to businesses and residences, force the relocation of residents and significantly disrupt economic activity in the region. Veritex and Liberty cannot predict the extent of damage that may result from such adverse weather events, which will depend on a variety of factors that are beyond the control of Veritex and Liberty, including, but not limited to, the severity and duration of the event, the timing and level of government responsiveness and the pace of economic recovery. If a significant adverse weather event were to occur, it could have a materially adverse impact on Veritex's and/or Liberty's financial condition, results of operations and business, as well as potentially increase Veritex's and/or Liberty's exposure to credit and liquidity risks.

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

None.

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
2.1	Agreement and Plan of Reorganization dated December 14, 2016, by and between Veritex Holdings, Inc., Spartan Merger Sub, Inc., and Sovereign Bancshares, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed December 14, 2016).
3.1	Second Amended and Restated Certificate of Formation of Veritex Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed September 22, 2014 (File No. 333-198484)).
3.2	Third Amended and Restated Bylaws of Veritex Holdings, Inc.
3.3	Third Amended and Restated Bylaws of Veritex Holdings, Inc., marked to show amendments effective as of May 18, 2017.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from Veritex Holdings' Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (Extensible Business Reporting Language), furnished herewith: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

* 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.

VERITEX HOLDINGS, INC.
(Registrant)

Date: October 26, 2017	/s/ C. Malcolm Holland, III
	C. Malcolm Holland, III
	Chairman and Chief Executive Officer
	(Principal Executive Officer)
Date: October 26, 2017	/s/ Noreen E. Skelly
	Noreen E. Skelly
	Chief Financial Officer
	(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, C. Malcolm Holland, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Veritex Holdings, Inc. for the quarter ended September 30, 2017;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: October 26, 2017

/S/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman of the Board & Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Noreen E. Skelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Veritex Holdings, Inc. for the quarter ended September 30, 2017;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: October 26, 2017

/S/ Noreen E. Skelly
Noreen E. Skelly
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Veritex Holdings, Inc. (the "Company") for the quarter ended September 30, 2017 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, C. Malcolm Holland, III, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman of the Board & Chief Executive Officer
Date: October 26, 2017

Exhibit 32.2

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Veritex Holdings, Inc. (the “Company”) for the quarter ended September 30, 2017 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Noreen E. Skelly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Noreen E. Skelly
Noreen E. Skelly
Chief Financial Officer
Date: October 26, 2017