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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from ________ to ________

Commission File Number 001-37624

EQUITY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Kansas	**72-1532188**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7701 East Kellogg Drive, Suite 300 **Wichita, KS**	**67207**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: 316.612.6000

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	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 Act). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	Shares outstanding as of November 2, 2018
Class A Common Stock, par value $0.01 per share	15,792,695
Class B Non-Voting Common Stock, par value $0.01 per share	0

TABLE OF CONTENTS

Part I	Financial Information	5
Item 1.	Financial Statements	5
	Consolidated Balance Sheets	5
	Consolidated Statements of Income	6
	Consolidated Statements of Comprehensive Income	7
	Consolidated Statements of Stockholders' Equity	8
	Consolidated Statements of Cash Flows	10
	Condensed Notes to Interim Consolidated Financial Statements	12
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
	Overview	40
	Critical Accounting Policies	42
	Results of Operations	44
	Financial Condition	56
	Liquidity and Capital Resources	68
	Non-GAAP Financial Measures	70
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	73
Item 4.	Controls and Procedures	75
Part II	Other Information	76
Item 1.	Legal Proceedings	76
Item 1A.	Risk Factors	76
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	76
Item 3.	Defaults Upon Senior Securities	76
Item 4.	Mine Safety Disclosures	76
Item 5.	Other Information	76
Item 6.	Exhibits	76

Important Notice about Information in this Quarterly Report

Unless we state otherwise or the context otherwise requires, references in this Quarterly Report to "we," "our," "us," "the Company" and "Equity" refer to Equity Bancshares, Inc. and its consolidated subsidiaries, including Equity Bank, which we sometimes refer to as "Equity Bank," "the Bank" or "our Bank."

The information contained in this Quarterly Report is accurate only as of the date of this Quarterly Report on Form 10-Q and as of the dates specified herein.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "project," "forecast," "goal," "target," "would" and "outlook," or the negative variations of those words or other comparable words of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading "Item 1A - Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 16, 2018, and in Item 1A – Risk Factors of this Quarterly Report.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- an economic downturn, especially one affecting our core market areas;
- the occurrence of various events that negatively impact the real estate market, since a significant portion of our loan portfolio is secured by real estate;
- difficult or unfavorable conditions in the market for financial products and services generally;
- interest rate fluctuations, which could have an adverse effect on our profitability;
- external economic and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies, many of which are subject to different regulations than we are;
- costs arising from the environmental risks associated with making loans secured by real estate;
- losses resulting from a decline in the credit quality of the assets that we hold;
- inadequacies in our allowance for loan losses, which could require us to take a charge to earnings and thereby adversely affect our financial condition;
- inaccuracies or changes in the appraised value of real estate securing the loans that we originate, which could lead to losses if the real estate collateral is later foreclosed upon and sold at a price lower than the appraised value;
- the costs of integrating the businesses we acquire, which may be greater than expected;
- challenges arising from unsuccessful attempts to expand into new geographic markets, products, or services;
- a lack of liquidity resulting from decreased loan repayment rates, lower deposit balances, or other factors;
- restraints on the ability of Equity Bank to pay dividends to us, which could limit our liquidity;
- the loss of our largest loan and depositor relationships;
- limitations on our ability to lend and to mitigate the risks associated with our lending activities as a result of our size and capital position;
- additional regulatory requirements and restrictions on our business, which could impose additional costs on us;
- increased capital requirements imposed by banking regulators, which may require us to raise capital at a time when capital is not available on favorable terms or at all;
- a failure in the internal controls we have implemented to address the risks inherent to the business of banking;

- inaccuracies in our assumptions about future events, which could result in material differences between our financial projections and actual financial performance;
- the departure of key members of our management personnel or our inability to hire qualified management personnel;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems;
- unauthorized access to nonpublic personal information of our customers, which could expose us to litigation or reputational harm;
- disruptions, security breaches, or other adverse events affecting the third-party vendors who perform several of our critical processing functions;
- the occurrence of adverse weather or man-made events, which could negatively affect our core markets or disrupt our operations;
- an increase in FDIC deposit insurance assessments, which could adversely affect our earnings;
- an inability to keep pace with the rate of technological advances due to a lack of resources to invest in new technologies; and
- other factors that are discussed in "Item 1A - Risk Factors."

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this Quarterly Report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. All forward-looking statements, expressed or implied, included in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or verbal forward-looking statements that we or persons acting on our behalf may issue.

PART I

Item 1: Financial Statements

EQUITY BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
September 30, 2018 and December 31, 2017
(Dollar amounts in thousands)

	(Unaudited) September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 60,195	$ 48,034
Federal funds sold	1,184	4,161
Cash and cash equivalents	61,379	52,195
Interest-bearing time deposits in other banks	6,741	3,496
Available-for-sale securities	172,388	162,272
Held-to-maturity securities, fair value of $695,466 and $532,744	713,899	535,462
Loans held for sale	43,372	16,344
Loans, net of allowance for loan losses of $11,010 and $8,498	2,546,045	2,094,781
Other real estate owned, net	7,014	7,907
Premises and equipment, net	79,607	63,449
Bank-owned life insurance	72,587	68,384
Federal Reserve Bank and Federal Home Loan Bank stock	38,838	24,373
Interest receivable	17,129	12,371
Goodwill	131,723	104,907
Core deposit intangibles, net	22,466	10,738
Other	17,848	13,830
Total assets	$ 3,931,036	$ 3,170,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand	$ 483,432	$ 366,530
Total non-interest-bearing deposits	483,432	366,530
Savings, NOW, and money market	1,486,283	1,238,984
Time	851,531	776,499
Total interest-bearing deposits	2,337,814	2,015,483
Total deposits	2,821,246	2,382,013
Federal funds purchased and retail repurchase agreements	43,250	37,492
Federal Home Loan Bank advances	570,907	347,692
Bank stock loan	24,412	2,500
Subordinated debentures	14,186	13,968
Contractual obligations	1,734	1,967
Interest payable and other liabilities	12,064	10,733
Total liabilities	3,487,799	2,796,365
Commitments and contingent liabilities, see Notes 10 and 11		
Stockholders' equity, see Note 6		
Common stock	173	161
Additional paid-in capital	378,516	331,339
Retained earnings	91,401	65,512
Accumulated other comprehensive loss	(7,077)	(3,092)
Employee stock loans	(121)	(121)
Treasury stock	(19,655)	(19,655)
Total stockholders' equity	443,237	374,144
Total liabilities and stockholders' equity	$ 3,931,036	$ 3,170,509

See accompanying condensed notes to interim consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months ended September 30, 2018 and 2017
(Dollar amounts in thousands, except per share data)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Interest and dividend income				
Loans, including fees	$ 36,335	$ 20,420	$ 98,484	$ 60,482
Securities, taxable	4,836	2,982	12,671	8,930
Securities, nontaxable	1,097	863	3,001	2,510
Federal funds sold and other	754	323	1,820	963
Total interest and dividend income	43,022	24,588	115,976	72,885
Interest expense				
Deposits	6,510	3,270	16,566	8,740
Federal funds purchased and retail repurchase agreements	30	15	77	40
Federal Home Loan Bank advances	3,155	731	6,548	1,967
Bank stock loan	265	—	448	—
Subordinated debentures	307	251	875	725
Total interest expense	10,267	4,267	24,514	11,472
Net interest income	32,755	20,321	91,462	61,413
Provision for loan losses	1,291	727	3,211	2,450
Net interest income after provision for loan losses	31,464	19,594	88,251	58,963
Non-interest income				
Service charges and fees	1,912	1,348	5,221	3,797
Debit card income	1,667	1,175	4,442	3,385
Mortgage banking	392	521	1,017	1,546
Increase in value of bank-owned life insurance	521	359	1,681	1,068
Net gain (loss) from securities transactions	(4)	175	(14)	271
Other	945	457	1,929	1,269
Total non-interest income	5,433	4,035	14,276	11,336
Non-interest expense				
Salaries and employee benefits	12,361	8,353	34,881	24,395
Net occupancy and equipment	2,125	1,603	5,938	4,621
Data processing	2,195	1,218	5,837	3,570
Professional fees	686	759	2,245	1,737
Advertising and business development	802	535	2,086	1,677
Telecommunications	451	275	1,252	966
FDIC insurance	457	290	1,211	615
Courier and postage	321	222	879	684
Free nationwide ATM cost	364	238	986	683
Amortization of core deposit intangibles	694	243	1,703	687
Loan expense	319	199	810	658
Other real estate owned	355	219	(48)	494
Merger expenses	757	1,023	6,524	2,085
Other	1,760	1,211	4,945	3,873
Total non-interest expense	23,647	16,388	69,249	46,745
Income before income taxes	13,250	7,241	33,278	23,554
Provision for income taxes	2,928	2,084	7,378	7,179
Net income and net income allocable to common stockholders	$ 10,322	$ 5,157	$ 25,900	$ 16,375
Basic earnings per share	$ 0.65	$ 0.42	$ 1.70	$ 1.36
Diluted earnings per share	$ 0.64	$ 0.41	$ 1.66	$ 1.33

See accompanying condensed notes to interim consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months ended September 30, 2018 and 2017
(Dollar amounts in thousands)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 10,322	$ 5,157	$ 25,900	$ 16,375
Other comprehensive income:				
Unrealized holding gains (losses) arising during the period on available-for-sale securities	(1,565)	119	(5,701)	652
Amortization of unrealized losses on held-to-maturity securities	114	135	348	399
Reclassification adjustment for net gains included in net income	—	(175)	—	(271)
Total other comprehensive income (loss)	(1,451)	79	(5,353)	780
Tax effect	368	(30)	1,357	(298)
Other comprehensive income (loss), net of tax	(1,083)	49	(3,996)	482
Comprehensive income	$ 9,239	$ 5,206	$ 21,904	$ 16,857

See accompanying condensed notes to interim consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three Months ended September 30, 2018 and 2017
(Unaudited)
(Dollar amounts in thousands, except per share data)

	Common Stock		Additional		Accumulated Other	Employee		Total
	Shares Outstanding	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income (loss)	Stock Loans	Treasury Stock	Stockholders' Equity
Balance at July 1, 2017	12,206,319	$ 137	$252,469	$ 55,546	$ (2,269)	$ (170)	$ (19,655)	$ 286,058
Net income	—	—	—	5,157	—	—	—	5,157
Other comprehensive income, net of tax effects	—	—	—	—	49	—	—	49
Stock based compensation	—	—	150	—	—	—	—	150
Common stock issued upon exercise of stock options	24,000	—	408	—	—	—	—	408
Repayments on employee stock loans	—	—	—	—	—	13	—	13
Balance at September 30, 2017	12,230,319	$ 137	$253,027	$ 60,703	$ (2,220)	$ (157)	$ (19,655)	$ 291,835
Balance at July 1, 2018	15,780,777	$ 173	$377,800	$ 81,079	$ (5,994)	$ (121)	$ (19,655)	$ 433,282
Net income	—	—	—	10,322	—	—	—	10,322
Other comprehensive income, net of tax effects	—	—	—	—	(1,083)	—	—	(1,083)
Stock based compensation	6,768	—	611	—	—	—	—	611
Common stock issued upon exercise of stock options	5,150	—	105	—	—	—	—	105
Balance at September 30, 2018	15,792,695	$ 173	$378,516	$ 91,401	$ (7,077)	$ (121)	$ (19,655)	$ 443,237

See accompanying condensed notes to interim consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Nine Months ended September 30, 2018 and 2017
(Unaudited)
(Dollar amounts in thousands, except per share data)

	Common Stock		Additional	Retained	Accumulated Other	Employee	Treasury	Total
	Shares Outstanding	Amount	Paid-In Capital	Earnings	Comprehensive Income (loss)	Stock Loans	Stock	Stockholders' Equity
Balance at January 1, 2017	11,680,308	$ 132	$236,103	$ 44,328	$ (2,702)	$ (242)	$ (19,655)	$ 257,964
Net income	—	—	—	16,375	—	—	—	16,375
Other comprehensive income, net of tax effects	—	—	—	—	482	—	—	482
Stock based compensation	3,712	—	882	—	—	—	—	882
Common stock issued upon exercise of stock options	66,834	—	1,134	—	—	—	—	1,134
Repayments on employee stock loans	—	—	—	—	—	85	—	85
Issuance of common stock in connection with the acquisition of Prairie State Bancshares, Inc., net of issuance expenses of $329	479,465	5	14,908	—	—	—	—	14,913
Balance at September 30, 2017	12,230,319	$ 137	$253,027	$ 60,703	$ (2,220)	$ (157)	$ (19,655)	$ 291,835
Balance at January 1, 2018	14,605,607	$ 161	$331,339	$ 65,512	$ (3,092)	$ (121)	$ (19,655)	$ 374,144
Net income	—	—	—	25,900	—	—	—	25,900
Other comprehensive income, net of tax effects	—	—	—	—	(3,996)	—	—	(3,996)
Stock based compensation	15,776	—	1,950	—	—	—	—	1,950
Common stock issued upon exercise of stock options	6,400	—	123	—	—	—	—	123
Adoption of ASU 2016-01 reclassifying AFS equity securities with readily determined fair value	—	—	—	(11)	11	—	—	—
Issuance of common stock in connection with the acquisition of Kansas Bank Corporation, net of issuance expenses of $207	820,849	8	31,888	—	—	—	—	31,896
Issuance of common stock in connection with the acquisition of Adams Dairy Bancshares, Inc., net of issuance expenses of $236	344,063	4	13,216	—	—	—	—	13,220
Balance at September 30, 2018	15,792,695	$ 173	$378,516	$ 91,401	$ (7,077)	$ (121)	$ (19,655)	$ 443,237

See accompanying condensed notes to interim consolidated financial statements.

EQUITY BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months ended September 30, 2018 and 2017
(Dollar amounts in thousands, except per share data)

	(Unaudited) September 30, 2018	2017
Cash flows from operating activities		
Net income	$ 25,900	$ 16,375
Adjustments to reconcile net income to net cash from operating activities:		
Stock based compensation	1,950	882
Depreciation	2,276	1,820
Provision for loan losses	3,211	2,450
Net (accretion) amortization of purchase accounting adjustments	(4,090)	(3,676)
Amortization of premiums and discounts on securities	2,364	2,053
Amortization of intangibles	1,740	692
Deferred income taxes	(150)	(77)
FHLB stock dividends	(1,053)	(550)
Loss (gain) on sales and valuation adjustments on other real estate owned	(384)	(33)
Net loss (gain) on securities transactions	(1)	(271)
Change in unrealized loss (gain) on equity securities	15	—
Loss (gain) on disposal of premise and equipment	(189)	1
Loss (gain) on sale of foreclosed assets	(7)	—
Loss (gain) on sales of loans	(842)	(1,298)
Originations of loans held for sale	(280,830)	(53,986)
Proceeds from the sale of loans held for sale	254,645	55,830
Increase in the value of bank-owned life insurance	(1,681)	(1,068)
Change in fair value of derivatives recognized in earnings	(9)	4
Net change in:		
Interest receivable	(2,012)	(442)
Other assets	90	(2,043)
Interest payable and other liabilities	953	2
Net cash provided by (used in) operating activities	1,896	16,665
Cash flows to investing activities		
Purchases of available-for-sale securities	(36,007)	(23,908)
Purchases of held-to-maturity securities	(96,239)	(102,975)
Proceeds from sales, calls, pay-downs, and maturities of available-for-sale securities	52,571	38,981
Proceeds from calls, pay-downs and maturities of held-to-maturity securities	53,707	42,680
Net change in interest-bearing time deposits in other banks	992	747
Net change in loans	(132,796)	(28,038)
Purchase of premises and equipment	(7,081)	(4,479)
Proceeds from sale of premise and equipment	1,200	2
Proceeds from sale of foreclosed assets	170	—
Net redemption (purchase) of FHLB and FRB stock	(11,864)	293
Proceeds from sale of other real estate owned	2,991	4,678
Proceeds from bank-owned life insurance death benefits	347	—
Purchase of Prairie, net of cash acquired	—	(6,744)
Cash paid for acquisition of Eastman	(55)	—
Purchase of KBC, net of cash acquired	12,774	—
Purchase of Adams, net of cash acquired	(1,385)	—
Purchase of City Bank, net of cash acquired	8,759	—
Net cash provided by (used in) investing activities	(151,916)	(78,763)
Cash flows (to) from financing activities		
Net increase (decrease) in deposits	(73,220)	112,565
Net change in federal funds purchased and retail repurchase agreements	5,758	10,544
Net borrowings (payments) on Federal Home Loan Bank line of credit	205,365	(69,567)
Principal payments on Federal Home Loan Bank term advances	(500)	—

Proceeds from bank stock loan	22,500	—
Principal payments on bank stock loan	(588)	—
Principal payments on employee stock loans	—	85
Proceeds from the exercise of employee stock options	123	1,134
Net change in contractual obligations	(234)	(293)
Net cash provided by (used in) financing activities	159,204	54,468
Net change in cash and cash equivalents	9,184	(7,630)
Cash and cash equivalents, beginning of period	52,195	35,095
Ending cash and cash equivalents	$ 61,379	$ 27,465
Supplemental cash flow information:		
Interest paid	$ 22,894	$ 10,461
Income taxes paid, net of refunds	7,281	6,222
Supplemental noncash disclosures:		
Other real estate owned acquired in settlement of loans	1,408	4,158
Total fair value of assets acquired in purchase of Prairie, net of cash	—	146,509
Total fair value of liabilities assumed in purchase of Prairie	—	125,591
Total fair value of assets acquired in purchase of KBC, net of cash	294,215	—
Total fair value of liabilities assumed in purchase of KBC	289,103	—
Total fair value of assets acquired in purchase of Adams, net of cash	108,545	—
Total fair value of liabilities assumed in purchase of Adams	102,406	—
Total fair value of assets acquired in purchase of City Bank, net of cash	129,758	—
Total fair value of liabilities assumed in purchase of City Bank	144,353	—

See accompanying condensed notes to interim consolidated financial statements.

NOTE 1 – BASIS OF PRESENTATION

The interim consolidated financial statements include the accounts of Equity Bancshares, Inc., its wholly owned subsidiary, Equity Bank, and Equity Bank's wholly owned subsidiary, SA Holdings, Inc. These entities are collectively referred to as the "Company". All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") for interim financial information and in accordance with guidance provided by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial information. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are of a normal recurring nature. These financial statements and the accompanying notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2018. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period.

<u>Change in Tax Law:</u>

On December 22, 2017, the President of the United States signed the 2017 Tax Cuts and Jobs Act ("Tax Reform"), which reduced the U.S. federal statutory corporate income tax rate from 35% to 21% beginning in 2018. On the same date, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, which specifies that reasonable estimates of the income tax effects of Tax Reform should be used to account for the effects of Tax Reform in the period enactment is required by general accepted accounting principals and also provided for a measurement period that should not extend beyond one year from Tax Reform's enactment date. The Company has accounted for the effects of Tax Reform using reasonable estimates based on currently available information. This accounting may change due to changes in interpretations the Company has made and the issuance of new tax or accounting guidance.

<u>Adoption of New Accounting Standards:</u>

On January 1, 2018, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain or loss from the transfer of nonfinancial assets, such as other real estate owned ("OREO"). The majority of the Company's revenues come from interest income on financial instruments, including loans, leases, securities and derivatives, which are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented with non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges and fees on deposits, debit card income, investment referral income, insurance sales commissions and other non-interest income related to loans and deposits.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018, are presented under ASC 606, while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

Except for gains or losses from the sale of OREO, all of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income. The following table presents the Company's sources of non-interest income for the three and nine months ended September 30, 2018, and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Non-interest income				
Service charges and fees	$ 1,912	$ 1,348	$ 5,221	$ 3,797
Debit card income	1,667	1,175	4,442	3,385
Mortgage banking(a)	392	521	1,017	1,546
Increase in bank-owned life insurance(a)	521	359	1,681	1,068
Net gain (loss) from securities transactions(a)	(4)	175	(14)	271
Other(b)	945	457	1,929	1,269
Total	$ 5,433	$ 4,035	$ 14,276	$ 11,336

(a) Not within the scope of ASC 606.

(b) The Other category includes investment referral income, insurance sales commissions and other non-interest income related to loans and deposits totaling $636 and $1,525 for the three months and nine months ended September 30, 2018, which is within the scope of ASC 606; the remaining balances of $309 and $404 for the three months and nine months ended September 30, 2018, represents recovery on zero-basis purchased loans, income from equity method investments and other remaining items considered insignificant, which is outside the scope of ASC 606.

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

Service Charges and Fees: The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are collected through withdrawal from the customer's account balance.

Debit Card Income: The Company earns debit card income from cardholder transactions conducted through payment processors. Debit card income from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrently with the transaction processing services provided to the cardholder.

Investment Referral Income: Investment referral services are offered through an unaffiliated registered broker-dealer and investment advisor. Investment referral income consists of transaction-based fees (i.e. trade commissions) and account fees (i.e. custodial fees). The service obligation for transaction-based fees relates to processing of individual transactions and is considered earned at the time the transaction occurs. The Company currently records this income when payment is received and at each month end for current-month transactions. Account fees are considered earned over the period for which the fees relate. These fees are received during the first month of each quarter and represent advance payment for the current quarter. These fees are amortized ratably over the three months during the quarter. Therefore, all account-based fees are currently recorded as performance obligations are satisfied.

Insurance Sales Commissions: Insurance commissions are received based on contracts with insurance companies which provide for a percentage of premiums to be paid to the Company in exchange for placement of policies with customers. The commissions generally relate to a period of one year or less. Under certain contracts, the Company may also assist with claims processing, but this performance obligation is considered insignificant compared to the initial placement of the policy. As such, the performance obligation is considered to have been substantially satisfied at the time of policy placement. While this indicates that all related revenue would be appropriately accrued at policy inception, in some cases recognition occurs over the policy period if received in installments from the insurance company. In no cases would this deferral extend beyond 12 months and the effect is considered immaterial compared to recognition at the time of policy placement. The Company also receives commission based on renewals of policies previously placed. However, additional work is required to process the renewals, resulting in future performance obligations to earn the related revenues. In addition, the occurrence of such renewals is not certain as initial policies are generally for one year or less and the fees earned are not determined until the time of renewal, based on underwriting at that time. As such, the Company has determined that accrual of income, for future renewals, is not appropriate.

Other Non-interest Income: Other non-interest income related to loans and deposits is earned when the specific transaction is processed, similar to service charges and fees.

Gain or Loss on Sale of Other Real Estate: Gain or loss on sale of other real estate is reported in non-interest expense and is netted with other real estate expenses. The Company records a gain or loss from the sale of other real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of other real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present. As a result, the Company has concluded that ASC 606 will affect the decision to recognize or defer gains on sales of other real estate in circumstances where the Company has financed the sale.

On January 1, 2018, the Company adopted ASU 2016-01 *Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The update eliminated the available-for-sale classification of accounting for equity securities and adjusted fair value disclosures for financial instruments carried at amortized costs so that the disclosed fair values represent an exit price as opposed to an entry price. The impact of adopting this update was the reclassification of $11 of after tax unrealized losses from available-for-sale equity securities with a readily determinable fair value from accumulated other comprehensive income to retained earnings. Also, beginning January 1, 2018, changes in fair value on equity securities with a readily determinable fair value will be reported in net income.

Also on January 1, 2018, the Company adopted ASU 2016-15, *Statement of Cash Flows (Topic 230)*. This update addressed eight specific cash flow issues with the objective of reducing the existing diversity in practice of how certain cash receipts and cash payments are presented and classified in the statement of cash flow. This update had no impact on our Company.

Recent Accounting Pronouncements:

In February 2016, FASB issued ASU 2016-02, *Leases,* with the intention of improving financial reporting about leasing transactions. The ASU requires all lessees to recognize lease assets and lease liabilities on the balance sheet. Lessor accounting is largely unchanged by the ASU, however disclosures about the amount, timing, and uncertainty of cash flows arising from leases are required of both lessees and lessors. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach provides for optional practical expedients when applying the ASU to leases that commenced before the effective date of the ASU. This accounting pronouncement was further modified in July 2018 with the issuance of ASU 2018-11, *Leases – Targeted Improvements*, to allow for another transition method by applying a cumulative-effect adjustment to opening retained earnings at adoption and providing lessors a practical expedient to not separate non-lease and lease components in certain circumstances. The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements but expects that assets and liabilities will increase to reflect the impact of this standard.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses,* which will change how the Company measures credit losses for most of its financial assets. This guidance is applicable to loans held for investment, off-balance-sheet credit

exposures, such as loan commitments and standby letters of credit, and held-to-maturity investment securities. The Company will be required to use a new forward-looking expected loss model that is anticipated to result in the earlier recognition of allowances for losses. For available-for-sale securities with unrealized losses, the Company will measure credit losses in a manner similar to current practice, but will recognize those credit losses as allowances rather than reductions in the amortized cost of the securities. In addition, the ASU requires significantly more disclosure including information about credit quality by year of origination for most loans. The ASU is effective for the Company beginning in the first quarter of 2020. Generally, the amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently gathering the historical loss data by portfolio and class of financial instrument to estimate the life of financial instrument credit loss and is evaluating the supporting system requirements to routinely generate the reported values. At this time an estimate of the impact to the Company's financial statements is not known.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other*, which will simplify the subsequent measurement of goodwill. Goodwill and other intangibles must be assessed for impairment annually. If an entity's assessment determines that the fair value of an entity is less than its carrying amount, including goodwill, currently, the measurement of goodwill impairment requires that the entity's identifiable net assets be valued following procedures similar to determining the fair value of assets acquired and liabilities assumed in a business combination. Under ASU 2017-04, goodwill impairment is measured to the extent that the carrying amount of an entity exceeds its fair value. The amendments in this update are effective for the Company's annual goodwill impairment tests beginning in 2020. The amendments will be applied on a prospective basis. The Company is currently evaluating the impact of this new accounting standard, but does not expect a material impact to its financial statements.

In March 2017, the FASB issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*, this update shortens the amortization period of certain callable debt securities held at a premium to the earliest call date. The amendments in this update are effective for the Company's fiscal year beginning after December 15, 2018, and interim periods within that fiscal year; however, early adoption is permitted. If early adoption of this update is elected by the Company, any adjustments will be reflected as of the beginning of the fiscal year. The amendments will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and the Company will be required to provide change in accounting principle disclosures. The Company is currently evaluating the impact of this new accounting guidance and an estimate of the impact to the Company's financial statements is not known.

In August 2017, FASB issued ASU 2017-12, *Derivatives and Hedging, Targeted Improvements to Accounting for Hedging Activities*, with the stated objective of improving the financial reporting of hedging relationships to better reflect the economics of hedging transactions and to simplify the application of hedge accounting. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Potential effects on the Company's current hedging activities include eliminating the requirement to separately measure and report hedge ineffectiveness, providing additional flexibility for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk and easing certain hedge documentation and assessment requirements. Initial evaluation of this new accounting standard indicates that it will not materially impact the Company's financial statements.

In February 2018, FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows an optional reclassification of stranded tax effects included in accumulated other comprehensive income, resulting from the reduction in the U.S. statutory corporate income tax rate. As a result of Tax Reform enacted in December 2017, the Company recognized a $1,086 re-measurement of its net deferred tax assets, including a re-measurement of $535 in a net deferred tax asset related to unrealized losses on available-for-sale securities and held-to-maturity securities previously transferred from available-for-sale. Because the tax effect of variations in unrealized losses on available-for-sale securities and transferred held-to-maturity securities impact accumulated other comprehensive income, the Company had a stranded tax effect of $535 as of the date of enactment. The provisions of the ASU are effective for all entities beginning with fiscal years commencing after December 15, 2018, with early adoption allowed in any interim period or for financial statements not yet issued as of the date FASB issued the ASU. The Company elected to early adopt this standard resulting in a reclassification of $535 from accumulated other comprehensive income to retained earnings in December 2017.

NOTE 2 – SECURITIES

The amortized cost and fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income are listed below.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Available-for-sale securities				
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 179,872	$ —	$ (7,484)	$ 172,388
	$ 179,872	$ —	$ (7,484)	$ 172,388
December 31, 2017				
Available-for-sale securities				
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 163,374	$ 36	$ (1,819)	$ 161,591
State and political subdivisions	195	—	—	195
Equity securities	500	—	(14)	486
	$ 164,069	$ 36	$ (1,833)	$ 162,272

The amortized cost and fair value of held-to-maturity securities and the related gross unrecognized gains and losses are listed in the following table.

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2018				
Held-to-maturity securities				
U.S. Government-sponsored entities	$ 3,867	$ —	$ (33)	$ 3,834
Residential mortgage-backed (securities issued by government sponsored entities)	531,639	60	(16,093)	515,606
Corporate	22,993	210	(45)	23,158
Small Business Administration loan pools	1,746	—	(60)	1,686
State and political subdivisions	153,654	373	(2,845)	151,182
	$ 713,899	$ 643	$ (19,076)	$ 695,466
December 31, 2017				
Held-to-maturity securities				
U.S. Government-sponsored entities	$ 998	$ —	$ (13)	$ 985
Residential mortgage-backed (securities issued by government sponsored entities)	383,875	573	(4,866)	379,582
Corporate	22,991	355	—	23,346
Small Business Administration loan pools	2,048	—	(14)	2,034
State and political subdivisions	125,550	1,694	(447)	126,797
	$ 535,462	$ 2,622	$ (5,340)	$ 532,744

The tables above present unrecognized losses on held-to-maturity securities since date of designation.

The fair value and amortized cost of debt securities at September 30, 2018, by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ —	$ —	$ 5,188	$ 5,186
One to five years	—	—	34,340	34,289
Five to ten years	—	—	58,092	58,087
After ten years	—	—	84,640	82,298
Mortgage-backed securities	179,872	172,388	531,639	515,606
Total debt securities	$ 179,872	$ 172,388	$ 713,899	$ 695,466

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was approximately $740,625 at September 30, 2018 and $570,146 at December 31, 2017.

The following tables show gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and December 31, 2017.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Available-for-sale securities						
Residential mortgage-backed (issued by government-sponsored entities)	$ 108,485	$ (3,946)	$ 63,903	$ (3,538)	$ 172,388	$ (7,484)
Total temporarily impaired securities	$ 108,485	$ (3,946)	$ 63,903	$ (3,538)	$ 172,388	$ (7,484)
December 31, 2017						
Available-for-sale securities						
Residential mortgage-backed (issued by government-sponsored entities)	$ 78,884	$ (437)	$ 58,540	$ (1,382)	$ 137,424	$ (1,819)
Equity securities	—	—	486	(14)	486	(14)
Total temporarily impaired securities	$ 78,884	$ (437)	$ 59,026	$ (1,396)	$ 137,910	$ (1,833)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Held-to-maturity securities						
U.S. Government-sponsored entities	$ 2,860	$ (9)	$ 975	$ (24)	$ 3,835	$ (33)
Residential mortgage-backed (issued by government-sponsored entities)	242,033	(3,495)	259,595	(13,958)	501,628	(17,453)
Corporate	5,139	(117)	—	—	5,139	(117)
Small Business Administration loan pools	777	(22)	908	(58)	1,685	(80)
State and political subdivisions	85,477	(1,516)	32,175	(1,743)	117,652	(3,259)
Total temporarily impaired securities	$ 336,286	$ (5,159)	$ 293,653	$ (15,783)	$ 629,939	$ (20,942)
December 31, 2017						
Held-to-maturity securities						
U.S. Government-sponsored entities	$ —	$ —	$ 985	$ (13)	$ 985	$ (13)
Residential mortgage-backed (issued by government-sponsored entities)	147,281	(1,263)	198,239	(5,030)	345,520	(6,293)
Corporate	5,312	(16)	—	—	5,312	(16)
Small Business Administration loan pools	926	(1)	1,108	(38)	2,034	(39)
State and political subdivisions	22,100	(123)	26,387	(439)	48,487	(562)
Total temporarily impaired securities	$ 175,619	$ (1,403)	$ 226,719	$ (5,520)	$ 402,338	$ (6,923)

The tables above present unrealized losses on held-to-maturity securities since the date of purchase, independent of the impact associated with changes in cost basis upon transfer from the available-for-sale designation to the held-to-maturity designation. As of September 30, 2018, the Company held 41 available-for-sale securities and 567 held-to-maturity securities in an unrealized loss position.

Unrealized losses on securities have not been recognized into income because the security issuers are of high credit quality, management does not intend to sell and it is more likely than not that the Company will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

The proceeds from sales and the associated gains and losses on available-for-sale securities reclassified from other comprehensive income to income are listed in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Proceeds	$ —	$ 17,804	$ —	$ 24,326
Gross gains	—	175	—	271
Gross losses	—	—	—	—
Income tax expense on net realized gains	—	67	—	104

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table lists categories of loans at September 30, 2018 and December 31, 2017.

	September 30, 2018	December 31, 2017
Commercial real estate	$ 1,262,388	$ 987,661
Commercial and industrial	551,235	507,519
Residential real estate	445,012	376,705
Agricultural real estate	135,825	86,486
Consumer	63,865	49,361
Agricultural	98,730	95,547
Total loans	2,557,055	2,103,279
Allowance for loan losses	(11,010)	(8,498)
Net loans	$ 2,546,045	$ 2,094,781

The Company has participated in mortgage finance loans with another institution, (the "originator"). These mortgage finance loans consist of ownership interests purchased in single family residential mortgages funded through the originator's mortgage finance group. These loans are typically on the Company's balance sheet for 10 to 20 days. As of September 30, 2018 and December 31, 2017, the Company had balances of $0 and $10,000 in mortgage finance loans classified as commercial and industrial.

From time to time the Company has purchased pools of residential real estate loans originated by other financial institutions to hold for investment with the intent to diversify the residential real estate portfolio. As of September 30, 2018 and December 31, 2017, residential real estate loans include $69,663 and $85,868 of purchased residential real estate loans.

The unamortized balance of merger purchase accounting adjustments related to non-purchase credit impaired loans included in the loan totals above are $11,999 with related loans of $889,738 at September 30, 2018, and $6,842 with related loans of $796,064 at December 31, 2017.

Over-draft deposit accounts are reclassified and included in consumer loans above. These accounts totaled $1,212 at September 30, 2018 and $741 at December 31, 2017.

The following tables present the activity in the allowance for loan losses by class for the three-month periods ended September 30, 2018 and 2017.

September 30, 2018	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 3,495	$ 2,254	$ 2,663	$ 334	$ 983	$ 354	$ 10,083
Provision for loan losses	734	287	(20)	28	330	(68)	1,291
Loans charged-off	(90)	(3)	(91)	(13)	(526)	—	(723)
Recoveries	11	22	56	13	256	1	359
Total ending allowance balance	$ 4,150	$ 2,560	$ 2,608	$ 362	$ 1,043	$ 287	$ 11,010

September 30, 2017	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 2,724	$ 2,070	$ 1,999	$ 109	$ 522	$ 144	$ 7,568
Provision for loan losses	331	(42)	105	31	301	1	727
Loans charged-off	(146)	(1)	—	(13)	(221)	—	(381)
Recoveries	8	8	3	—	35	1	55
Total ending allowance balance	$ 2,917	$ 2,035	$ 2,107	$ 127	$ 637	$ 146	$ 7,969

The following tables present the activity in the allowance for loan losses by class for the nine-month periods ended September 30, 2018 and 2017.

September 30, 2018	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 2,740	$ 2,136	$ 2,262	$ 319	$ 768	$ 273	$ 8,498
Provision for loan losses	1,241	483	455	120	865	47	3,211
Loans charged-off	(119)	(89)	(362)	(93)	(1,035)	(43)	(1,741)
Recoveries	288	30	253	16	445	10	1,042
Total ending allowance balance	$ 4,150	$ 2,560	$ 2,608	$ 362	$ 1,043	$ 287	$ 11,010

September 30, 2017	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Beginning balance	$ 2,420	$ 1,881	$ 1,765	$ 35	$ 266	$ 65	$ 6,432
Provision for loan losses	253	543	479	108	951	116	2,450
Loans charged-off	(238)	(423)	(238)	(16)	(822)	(41)	(1,778)
Recoveries	482	34	101	—	242	6	865
Total ending allowance balance	$ 2,917	$ 2,035	$ 2,107	$ 127	$ 637	$ 146	$ 7,969

The following tables present the recorded investment in loans and the balance in the allowance for loan losses by portfolio and class based on impairment method as of September 30, 2018 and December 31, 2017.

September 30, 2018	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ 145	$ 98	$ 418	$ 22	$ 47	$ 10	$ 740
Collectively evaluated for impairment	3,378	2,449	2,173	337	996	277	9,610
Purchase credit impaired loans	627	13	17	3	—	—	660
Total	$ 4,150	$ 2,560	$ 2,608	$ 362	$ 1,043	$ 287	$ 11,010
Loan Balance:							
Individually evaluated for impairment	$ 3,545	$ 5,084	$ 5,272	$ 2,571	$ 511	$ 249	$ 17,232
Collectively evaluated for impairment	1,241,479	539,602	436,659	127,909	63,103	96,044	2,504,796
Purchase credit impaired loans	17,364	6,549	3,081	5,345	251	2,437	35,027
Total	$ 1,262,388	$ 551,235	$ 445,012	$ 135,825	$ 63,865	$ 98,730	$ 2,557,055

December 31, 2017	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Agricultural Real Estate	Consumer	Agricultural	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ 130	$ 87	$ 386	$ 46	$ 56	$ 36	$ 741
Collectively evaluated for impairment	2,582	2,028	1,815	190	712	236	7,563
Purchase credit impaired loans	28	21	61	83	—	1	194
Total	$ 2,740	$ 2,136	$ 2,262	$ 319	$ 768	$ 273	$ 8,498
Loan Balance:							
Individually evaluated for impairment	$ 2,728	$ 7,886	$ 4,829	$ 533	$ 556	$ 1,050	$ 17,582
Collectively evaluated for impairment	971,376	493,903	369,471	82,493	48,802	90,795	2,056,840
Purchase credit impaired loans	13,557	5,730	2,405	3,460	3	3,702	28,857
Total	$ 987,661	$ 507,519	$ 376,705	$ 86,486	$ 49,361	$ 95,547	$ 2,103,279

The following table presents information related to impaired loans, excluding purchased credit impaired loans which have not deteriorated since acquisition, by class of loans as of September 30, 2018 and December 31, 2017. The recorded investment in loans excludes accrued interest receivable due to immateriality.

	September 30, 2018			December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Commercial real estate	$ 2,310	$ 2,246	$ —	$ 1,878	$ 1,567	$ —
Commercial and industrial	4,409	4,359	—	8,679	8,020	—
Residential real estate	1,111	1,094	—	1,230	969	—
Agricultural real estate	2,393	2,355	—	52	52	—
Consumer	72	68	—	1	—	—
Agricultural	680	676	—	7	7	—
Subtotal	10,975	10,798	—	11,847	10,615	—
With an allowance recorded:						
Commercial real estate	5,307	4,460	772	4,049	1,597	158
Commercial and industrial	1,415	1,290	112	1,310	1,113	108
Residential real estate	4,607	4,342	435	4,868	4,468	447
Agricultural real estate	262	244	24	1,266	1,034	129
Consumer	579	473	47	677	559	56
Agricultural	128	104	10	1,798	1,444	37
Subtotal	12,298	10,913	1,400	13,968	10,215	935
Total	$ 23,273	$ 21,711	$ 1,400	$ 25,815	$ 20,830	$ 935

The tables below present average recorded investment and interest income related to impaired loans for the three months and nine months ended September 30, 2018 and 2017. Interest income recognized in the following table was substantially recognized on the cash basis. The recorded investment in loans excludes accrued interest receivable due to immateriality.

	As of and for the three months ended			
	September 30, 2018		September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$ 1,938	$ 14	$ 1,471	$ 44
Commercial and industrial	4,664	—	4,613	252
Residential real estate	918	6	557	1
Agricultural real estate	2,299	6	514	—
Consumer	53	—	—	—
Agricultural	417	—	164	1
Subtotal	10,289	26	7,319	298
With an allowance recorded:				
Commercial real estate	2,463	79	1,542	-
Commercial and industrial	856	16	469	4
Residential real estate	4,309	16	4,071	12
Agricultural real estate	264	—	397	—
Consumer	480	1	412	4
Agricultural	143	—	206	2
Subtotal	8,515	112	7,097	22
Total	$ 18,804	$ 138	$ 14,416	$ 320

	As of and for the nine months ended			
	September 30, 2018		September 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$ 1,840	$ 132	$ 1,307	$ 44
Commercial and industrial	6,188	66	4,255	252
Residential real estate	798	16	848	2
Agricultural real estate	1,196	18	888	12
Consumer	26	—	26	—
Agricultural	324	18	157	1
Subtotal	10,372	250	7,481	311
With an allowance recorded:				
Commercial real estate	1,847	81	1,852	7
Commercial and industrial	858	16	331	4
Residential real estate	4,090	38	3,205	25
Agricultural real estate	476	2	210	—
Consumer	495	4	423	6
Agricultural	496	4	67	2
Subtotal	8,262	145	6,088	44
Total	$ 18,634	$ 395	$ 13,569	$ 355

The following tables present the aging of the recorded investment in past due loans as of September 30, 2018 and December 31, 2017, by portfolio and class of loans.

September 30, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due Still On Accrual	Nonaccrual	Loans Not Past Due	Total
Commercial real estate	$ 891	$ 1,998	$ —	$ 19,564	$ 1,239,935	$ 1,262,388
Commercial and industrial	315	113	8	8,153	542,646	551,235
Residential real estate	763	827	—	6,230	437,192	445,012
Agricultural real estate	—	101	—	6,053	129,671	135,825
Consumer	572	84	2	787	62,420	63,865
Agricultural	12	—	—	2,509	96,209	98,730
Total	$ 2,553	$ 3,123	$ 10	$ 43,296	$ 2,508,073	$ 2,557,055

December 31, 2017	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due Still On Accrual	Nonaccrual	Loans Not Past Due	Total
Commercial real estate	$ 1,284	$ 22	$ —	$ 11,607	$ 974,748	$ 987,661
Commercial and industrial	251	6	—	13,217	494,045	507,519
Residential real estate	1,457	1,176	—	6,148	367,924	376,705
Agricultural real estate	123	—	—	3,993	82,370	86,486
Consumer	359	112	—	559	48,331	49,361
Agricultural	415	—	—	4,752	90,380	95,547
Total	$ 3,889	$ 1,316	$ —	$ 40,276	$ 2,057,798	$ 2,103,279

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. Consumer loans are considered pass credits unless downgraded due to payment status or reviewed as part of a larger credit relationship. The Company uses the following definitions for risk ratings:

Pass: Loans classified as pass do not have any noted weaknesses and repayment of the loan is expected. These loans are considered unclassified.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. These loans are considered classified.

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

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

The risk category of loans by class of loans is as follows as of September 30, 2018 and December 31, 2017.

September 30, 2018	**Unclassified**	**Classified**	**Total**
Commercial real estate	$ 1,233,469	$ 28,919	$ 1,262,388
Commercial and industrial	522,921	28,314	551,235
Residential real estate	438,610	6,402	445,012
Agricultural real estate	123,171	12,654	135,825
Consumer	63,069	796	63,865
Agricultural	92,190	6,540	98,730
Total	$ 2,473,430	$ 83,625	$ 2,557,055

December 31, 2017	**Unclassified**	**Classified**	**Total**
Commercial real estate	$ 971,458	$ 16,203	$ 987,661
Commercial and industrial	486,150	21,369	507,519
Residential real estate	370,151	6,554	376,705
Agricultural real estate	77,084	9,402	86,486
Consumer	48,777	584	49,361
Agricultural	88,261	7,286	95,547
Total	$ 2,041,881	$ 61,398	$ 2,103,279

Purchased Credit Impaired Loans

The Company has acquired loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The table below lists recorded investments in purchase credit impaired loans as of September 30, 2018 and December 31, 2017.

	September 30, 2018	**December 31, 2017**
Contractually required principal payments	$ 47,912	$ 41,349
Discount	(12,885)	(12,492)
Recorded investment	$ 35,027	$ 28,857

The accretable yield associated with these loans was $1,427 and $1,980 as of September 30, 2018 and December 31, 2017. The interest income recognized on these loans for the three-month and nine-month periods ended September 30, 2018 and 2017 was $631, $2,009, $750 and $2,162. For the three and nine-month periods ended September 30, 2018 there was a provision for loan losses of

$612 and $466 for these loans. For the three and nine-month periods ended September 30, 2017, there was a provision for loan losses of $3 and $64 recorded for these loans.

Troubled Debt Restructurings

The Company had no loans modified under troubled debt restructurings as of September 30, 2018 or December 31, 2017.

NOTE 4 – DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to interest-rate risk primarily from the effect of interest rate changes on its interest-earning assets and its sources of funding these assets. The Company will periodically enter into interest rate swaps or interest rate caps/floors to manage certain interest rate risk exposure.

Interest Rate Swaps Designated as Fair Value Hedges:

The Company periodically enters into interest rate swaps to hedge the fair value of certain commercial real estate loans. These transactions are designated as fair value hedges. In this type of transaction, the Company typically receives from the counterparty a variable-rate cash flow based on the one-month London Interbank Offered Rate ("LIBOR") plus a spread to this index and pays a fixed-rate cash flow equal to the customer loan rate. At September 30, 2018, the portfolio of interest rate swaps had a weighted average maturity of 7.9 years, a weighted average pay rate of 4.94% and a weighted average rate received of 4.82%. At December 31, 2017, the portfolio of interest rate swaps had a weighted average maturity of 8.7 years, a weighted average pay rate of 4.94% and a weighted average rate received of 4.13%.

Stand-Alone Derivatives:

The Company periodically enters into interest rate swaps with our borrowers and simultaneously enters into swaps with a counterparty with offsetting terms for the purpose of providing our borrowers long-term fixed rate loans. Neither swap is designated as a hedge and both are marked to market through earnings. At September 30, 2018, this portfolio of interest rate swaps had a weighted average maturity of 9.97 years, weighted average pay rate of 5.01% and a weighted rate received of 5.01%.

In 2009, the Company purchased an interest rate cap derivative to assist with interest rate risk management. This derivative is not designated as a hedging instrument but rather as a stand-alone derivative. At September 30, 2018, the interest rate cap had a term of 1.1 years and a cap rate of 4.50%. At December 31, 2017, the interest rate cap had a term of 1.9 years and a cap rate of 4.50%.

Reconciliation of Derivative Fair Values and Gains/(Losses):

The notional amount of a derivative contract is a factor in determining periodic interest payments or cash flows received or paid. The notional amount of derivatives serves as a level of involvement in various types of derivatives. The notional amount does not represent the Company's overall exposure to credit or market risk, generally, the exposure is significantly smaller.

The following table shows the notional balances and fair values (including net accrued interest) of the derivatives outstanding by derivative type at September 30, 2018 and December 31, 2017.

	September 30, 2018			December 31, 2017		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	$ 16,870	$ 697	$ —	$ 17,231	$ —	$ 46
Total derivatives designated as hedging relationships	16,870	697	—	17,231	—	46
Derivatives not designated as hedging instruments:						
Interest rate swaps	10,080	47	52	—	—	—
Interest rate caps/floors	2,317	1	—	2,574	1	—
Total derivatives not designated as hedging instruments	12,397	48	52	2,574	1	—
Total	$ 29,267	745	52	$ 19,805	1	46
Cash collateral		(532)	—		—	(210)
Netting adjustments		—	—		164	164
Net amount presented in Balance Sheet		$ 213	$ 52		$ 165	$ —

For the three-month and nine-month periods ended September 30, 2018 and 2017, the Company recorded net gains/(losses) on derivatives and hedging activities:

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Derivatives designated as hedging instruments:				
Interest rate swaps	$ —	$ —	$ —	$ —
Total net gain (loss) related to fair value hedge ineffectiveness	—	—	—	—
Derivatives not designated as hedging instruments:				
Economic hedges:				
Interest rate swaps	82	—	82	—
Interest rate caps/floors	—	1	—	—
Total net gains (losses) related to derivatives not designated as hedging instruments	82	1	82	—
Net gains (losses) on derivatives and hedging activities	$ 82	$ 1	$ 82	$ —

The following table shows the recorded net gains (losses) on derivatives and the related hedged items in fair value hedging relationships and the impact of those derivatives on the Company's net interest income for the three-month periods ended September 30, 2018 and 2017.

	September 30, 2018			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ 157	$ (157)	$ —	$ (6)
Total	$ 157	$ (157)	$ —	$ (6)

	September 30, 2017			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ (11)	$ 11	$ —	$ (28)
Total	$ (11)	$ 11	$ —	$ (28)

The following table shows the recorded net gains (losses) on derivatives and the related hedged items in fair value hedging relationships and the impact of those derivatives on the Company's net interest income for the nine-month periods ended September 30, 2018 and 2017.

	September 30, 2018			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ 740	$ (740)	$ —	$ (44)
Total	$ 740	$ (740)	$ —	$ (44)

	September 30, 2017			
	Gain/(Loss) on Derivatives	Gain/(Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income
Commercial real estate loans	$ (104)	$ 104	$ —	$ (112)
Total	$ (104)	$ 104	$ —	$ (112)

NOTE 5 – BORROWINGS

Federal funds purchased and retail repurchase agreements

Federal funds purchased and retail repurchase agreements as of September 30, 2018 and December 31, 2017 are listed below.

	September 30, 2018	December 31, 2017
Federal funds purchased	$ 314	$ —
Retail repurchase agreements	42,936	37,492

The Company has available federal funds lines of credit with its correspondent banks.

Securities sold under agreements to repurchase (retail repurchase agreements) consist of obligations of the Company to other parties. The obligations are secured by residential mortgage-backed securities held by the Company with a fair value of $44,486 and $44,768 at September 30, 2018 and December 31, 2017. The agreements are on a day-to-day basis and can be terminated on demand.

	September 30, 2018	December 31, 2017
Year-to-date average daily balance during the period	$ 41,546	$ 25,823
Maximum month-end balance year-to-date	$ 43,165	$ 43,843
Weighted average interest rate at period-end	0.27%	0.23%

Federal Home Loan Bank advances

Federal Home Loan Bank advances as of September 30, 2018 are listed below.

	September 30, 2018	Weighted Average Rate	Weighted Average Term in Years
Federal Home Loan Bank line of credit advances	$ 554,057	2.35%	—
Federal Home Loan Bank fixed rate term advances	16,764	2.80%	6.1
Total principal outstanding	570,821		
Merger purchase accounting adjustment	86		
Total Federal Home Loan Bank advances	$ 570,907		

Federal Home Loan Bank advances as of December 31, 2017 are listed below.

	December 31, 2017	Weighted Average Rate	Weighted Average Term in Years
Federal Home Loan Bank line of credit advances	$ 347,692	1.47%	—
Federal Home Loan Bank fixed rate term advances	—	—	—
Total Federal Home Loan Bank advances	$ 347,692		

The advances, Mortgage Partnership Finance credit enhancement obligations and letters of credit were collateralized by certain qualifying loans totaling $952,740 and $478,966 at September 30, 2018 and December 31, 2017. Based on this collateral and the Company's holdings of Federal Home Loan Bank stock, the Company was eligible to borrow an additional $355,856 and $125,271 at September 30, 2018 and December 31, 2017.

Future principal repayments of the September 30, 2018 outstanding balances are as follows.

Due in one year or less	$ 557,012
Due after one year through two years	2,988
Due after two years through three years	2,357
Due after three years through four years	2,357
Due after four years through five years	2,357
Thereafter	3,750
Total	$ 570,821

Bank stock loan

On March 13, 2017, the Company entered into an agreement with an unaffiliated financial institution that provides for a maximum borrowing facility of $30,000, secured by the Company's stock in Equity Bank. The borrowing facility was renewed on March 12, 2018, and will mature on March 11, 2019. Each draw of funds on the facility will create a separate note that is repayable over a term of five years. Each note will bear interest at a variable interest rate equal to the prime rate published in the "Money Rates" section of The Wall Street Journal (or any generally recognized successor), floating daily. Accrued interest and principal payments will be due quarterly with one final payment of unpaid principal and interest due at the end of the five year term of each separate note. The Company is also required to pay an unused commitment fee in an amount equal to 20 basis points per annum on the unused portion of the maximum borrowing facility.

Bank stock loan advances as of September 30, 2018 are listed below.

	September 30, 2018	Weighted Average Rate	Weighted Average Term in Years
Bank stock loan	$ 24,412	5.25%	4.8

Bank stock loan advances as of December 31, 2017 are listed below.

	December 31, 2017	Weighted Average Rate	Weighted Average Term in Years
Bank stock loan	$ 2,500	4.50%	5.0

Future principal repayments of the September 30, 2018 outstanding balances are as follows.

Due in one year or less	$ 2,337
Due after one year through two years	2,500
Due after two years through three years	2,500
Due after three years through four years	2,500
Due after four years through five years	11,162
Thereafter	3,413
Total	$ 24,412

The terms of the borrowing facility require the Company and Equity Bank to maintain minimum capital ratios and other covenants. In the event of default, the lender has the option to declare all outstanding balances immediately due. The Company believes it is in compliance with the terms of the borrowing facility and has not been otherwise notified of noncompliance.

NOTE 6 – STOCKHOLDERS' EQUITY

Preferred stock

The Company's articles of incorporation provide for the issuance of 10,000,000 shares of preferred stock. At September 30, 2018 and December 31, 2017, there was no preferred stock outstanding.

Common stock

The Company's articles of incorporation provide for the issuance of 45,000,000 shares of Class A voting common stock ("Class A common stock") and 5,000,000 shares of Class B non-voting common stock ("Class B common stock"), both of which have a par value of $0.01.

The following table presents shares that were issued and were held in treasury or were outstanding at September 30, 2018 and December 31, 2017.

	September 30, 2018	December 31, 2017
Class A common stock – issued	17,063,738	15,876,650
Class A common stock – held in treasury	(1,271,043)	(1,271,043)
Class A common stock – outstanding	15,792,695	14,605,607
Class B common stock – issued	234,903	234,903
Class B common stock – held in treasury	(234,903)	(234,903)
Class B common stock – outstanding	—	—

Treasury stock is stated at cost, determined by the first-in, first-out method.

On May 4, 2018, the Company completed its acquisition of Kansas Banking Corporation ("KBC"), Liberal, Kansas, and Adams Dairy Bancshares, Inc. ("Adams"), Blue Springs, Missouri. There were a total of 820,849 and 344,063 shares of Class A common stock issued in connection with these acquisitions.

Employee stock loans

In May 2015, in connection with the termination of a discontinued restricted stock unit plan ("Plan"), the Company agreed to loan electing participants an amount equal to each participant's federal and state income tax withholding obligation associated with the Plan termination. These loans totaling $121 at September 30, 2018 and $121 at December 31, 2017, are collateralized with the shares received, have a maturity date of December 31, 2018 and have an interest rate of 1.68%.

Accumulated other comprehensive income (loss)

At September 30, 2018 and December 31, 2017, accumulated other comprehensive income consisted of (i) the after tax effect of unrealized gains (losses) on available-for-sale securities and (ii) the after tax effect of unamortized unrealized gains (losses) on securities transferred from the available-for-sale designation to the held-to-maturity designation.

Components of accumulated other comprehensive income as of September 30, 2018 and December 31, 2017, are listed below.

	Available-for-Sale Securities	Held-to-Maturity Securities	Accumulated Other Comprehensive Income
September 30, 2018			
Net unrealized or unamortized gains (losses)	$ (7,484)	$ (1,996)	$ (9,480)
Tax effect	1,897	506	2,403
	$ (5,587)	$ (1,490)	$ (7,077)
December 31, 2017			
Net unrealized or unamortized gains (losses)	$ (1,797)	$ (2,344)	$ (4,141)
Tax effect	455	594	1,049
	$ (1,342)	$ (1,750)	$ (3,092)

NOTE 7 – REGULATORY MATTERS

Banks and bank holding companies (on a consolidated basis) are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Beginning in January 2016, the implementation of the capital

conservation buffer was 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 requires increased capital levels for the purpose of capital distributions and other payments. 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.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and acquisitions, and capital restoration plans are required.

As of September 30, 2018, management believes that the Company meets all capital adequacy requirements to which they are subject and the most recent notifications from the federal regulatory agencies categorized Equity Bank as well capitalized under the regulatory framework for prompt corrective action, including the capital conservation buffer. To be categorized as well capitalized, Equity Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed Equity Bank's category.

The Company's and Equity Bank's capital amounts and ratios at September 30, 2018 and December 31, 2017 are presented in the table below. Ratios provided for Equity Bancshares, Inc. represent the ratios of the Company on a consolidated basis.

	Actual		Minimum Required for Capital Adequacy Under Basel III Phase-In		Minimum Required for Capital Adequacy Under Basel III Fully Phased-In		To Be Well Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2018								
Total capital to risk weighted assets								
Equity Bancshares, Inc.	$325,964	11.46%	$280,974	9.88%	$298,757	10.50%	$ N/A	N/A
Equity Bank	335,998	11.82%	280,610	9.88%	298,370	10.50%	284,162	10.00%
Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	314,954	11.07%	224,068	7.88%	241,851	8.50%	N/A	N/A
Equity Bank	324,988	11.44%	223,777	7.88%	241,537	8.50%	227,329	8.00%
Common equity Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	300,768	10.57%	181,388	6.38%	199,172	7.00%	N/A	N/A
Equity Bank	324,988	11.44%	181,153	6.38%	198,913	7.00%	184,705	6.50%
Tier 1 leverage to average assets								
Equity Bancshares, Inc.	314,954	8.60%	146,424	4.00%	146,424	4.00%	N/A	N/A
Equity Bank	324,988	8.88%	146,343	4.00%	146,343	4.00%	182,929	5.00%
December 31, 2017								
Total capital to risk weighted assets								
Equity Bancshares, Inc.	$288,353	12.54%	$212,705	9.25%	$241,449	10.50%	$ N/A	N/A
Equity Bank	279,712	12.17%	212,682	9.25%	241,423	10.50%	229,927	10.0%
Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	279,855	12.17%	166,715	7.25%	195,459	8.50%	N/A	N/A
Equity Bank	271,214	11.80%	166,697	7.25%	195,438	8.50%	183,942	8.00%
Common equity Tier 1 capital to risk weighted assets								
Equity Bancshares, Inc.	265,887	11.56%	132,222	5.75%	160,966	7.00%	N/A	N/A
Equity Bank	271,214	11.80%	132,208	5.75%	160,949	7.00%	149,452	6.50%
Tier 1 leverage to average assets								
Equity Bancshares, Inc.	279,855	10.33%	108,372	4.00%	108,372	4.00%	N/A	N/A
Equity Bank	271,214	10.01%	108,351	4.00%	108,351	4.00%	135,439	5.00%

Equity Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval.

NOTE 8 – EARNINGS PER SHARE

The following table presents earnings per share for the three and nine months ended September 30, 2018 and 2017.

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Basic:				
Net income allocable to common stockholders	$ 10,322	$ 5,157	$ 25,900	$ 16,375
Weighted average common shares outstanding	15,787,760	12,209,499	15,253,589	12,076,725
Weighted average vested restricted stock units	1,692	2,255	5,887	1,622
Weighted average shares	15,789,452	12,211,754	15,259,476	12,078,347
Basic earnings per common share	$ 0.65	$ 0.42	$ 1.70	$ 1.36
Diluted:				
Net income allocable to common stockholders	$ 10,322	$ 5,157	$ 25,900	$ 16,375
Weighted average common shares outstanding for:				
Basic earnings per common share	15,789,452	12,211,754	15,259,476	12,078,347
Dilutive effects of the assumed exercise of stock options	316,181	261,625	300,171	255,064
Dilutive effects of the assumed vesting of restricted stock units	30,974	3,232	18,370	2,300
Average shares and dilutive potential common shares	16,136,607	12,476,611	15,578,017	12,335,711
Diluted earnings per common share	$ 0.64	$ 0.41	$ 1.66	$ 1.33

Average outstanding stock options of 35,305 and 168,164 for the three-month periods ended September 30, 2018 and 2017 and 23,425 and 135,575 for the nine-month periods ended September 30, 2018 and 2017 were not included in the computation of diluted earnings per share because the options were antidilutive.

NOTE 9 – FAIR VALUE

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to disclose the fair value of its financial instruments. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For disclosure purposes, the Company groups its financial and non-financial assets and liabilities into three different levels based on the nature of the instrument and the availability and reliability of the information that is used to determine fair value. The three levels of inputs that may be used to measure fair values are defined as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

Level 1 inputs are considered to be the most transparent and reliable. The Company assumes the use of the principal market to conduct a transaction of each particular asset or liability being measured and then considers the assumptions that market participants would use when pricing the asset or liability. Whenever possible, the Company first looks for quoted prices for identical assets or liabilities in active markets (Level 1 inputs) to value each asset or liability. However, when inputs from identical assets or liabilities on active markets are not available, the Company utilizes market observable data for similar assets and liabilities. The Company maximizes the use of observable inputs and limits the use of unobservable inputs to occasions when observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity of the actual financial instrument or of the underlying collateral. Although, in some instances, third party price indications may be available, limited trading activity can challenge the implied value of those quotations.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of each instrument under the hierarchy:

Fair Value of Assets and Liabilities Measured on a Recurring Basis

The fair values of securities available-for-sale are carried at fair value on a recurring basis. To the extent possible, observable quoted prices in an active market are used to determine fair value and, as such, these securities are classified as Level 1. For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities, generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The Company's available-for-sale securities, including U.S. Government sponsored entity securities, residential mortgage-backed securities (all of which are issued or guaranteed by government sponsored agencies), corporate securities, Small Business Administration securities, and State and Political Subdivision securities are classified as Level 2.

The fair values of derivatives are determined based on a valuation pricing model using readily available observable market parameters such as interest rate yield curves (Level 2 inputs) adjusted for credit risk attributable to the seller of the interest rate derivative. Cash collateral received from or delivered to a derivative counterparty is classified as Level 1.

Assets and liabilities measured at fair value on a recurring basis are summarized in the following table.

	September 30, 2018		
	(Level 1)	(Level 2)	(Level 3)
Assets:			
Available-for-sale securities:			
Residential mortgage-backed securities (issued by government-sponsored entities)	$ —	$ 172,388	$ —
Derivative assets:			
Derivative assets (included in other assets)	—	745	—
Cash collateral held by counterparty	(532)	—	—
Total derivative assets	(532)	745	—
Total assets	$ (532)	$ 173,133	$ —
Liabilities:			
Derivative liabilities:			
Derivative liabilities (included in other liabilities)	$ —	$ 52	$ —
Cash collateral held by counterparty	—	—	—
Total derivative liabilities	—	52	—
Total liabilities	$ —	$ 52	$ —

	December 31, 2017		
	(Level 1)	(Level 2)	(Level 3)
Assets:			
Available-for-sale securities:			
Residential mortgage-backed securities (issued by government-sponsored entities)	$ —	$ 161,591	$ —
State and political subdivisions	—	195	—
Equity securities	486	—	—
Derivative assets:			
Derivative assets (included in other assets)	—	1	—
Cash collateral held by counterparty	164	—	—
Total derivative assets	164	1	—
Total assets	$ 650	$ 161,787	$ —
Liabilities:			
Derivative liabilities:			
Derivative liabilities (included in other liabilities)	$ —	$ 46	$ —
Cash collateral held by counterparty	(46)	—	—
Total derivative liabilities	(46)	46	—
Total liabilities	$ (46)	$ 46	$ —

There were no material transfers between levels during the nine months ended September 30, 2018 or the year ended December 31, 2017. The Company's policy is to recognize transfers into or out of a level as of the end of a reporting period.

Fair Value of Assets and Liabilities Measured on a Non-recurring Basis

Certain assets are measured at fair value on a non-recurring basis when there is evidence of impairment. The fair value of impaired securities is determined as discussed previously for available-for-sale securities. The fair values of impaired loans with specific allocations of the allowance for loan losses are generally based on recent real estate appraisals of the collateral less estimated cost to sell. Declines in the fair values of other real estate owned subsequent to their initial acquisitions are also based on recent real estate appraisals less selling costs.

Real estate appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets measured at fair value on a non-recurring basis are summarized below.

	September 30, 2018		
	(Level 1)	(Level 2)	(Level 3)
Impaired loans:			
Commercial real estate	$ —	$ —	$ 3,688
Commercial and industrial	—	—	1,178
Residential real estate	—	—	3,907
Agricultural real estate	—	—	220
Other	—	—	520
Other real estate owned:			
Commercial real estate	—	—	1,729
Residential real estate	—	—	93

	December 31, 2017		
	(Level 1)	(Level 2)	(Level 3)
Impaired loans:			
Commercial real estate	$ —	$ —	$ 1,439
Commercial and industrial	—	—	1,005
Residential real estate	—	—	4,021
Agricultural real estate	—	—	905
Other	—	—	1,910
Other real estate owned:			
Commercial real estate	—	—	1,018
Residential real estate	—	—	157

The Company did not record any liabilities for which the fair value was measured on a non-recurring basis at September 30, 2018 or at December 31, 2017.

Valuations of impaired loans and other real estate owned utilize third party appraisals or broker price opinions, and were classified as Level 3 due to the significant judgment involved. Appraisals may include the utilization of unobservable inputs, subjective factors, and quantitative data to estimate fair market value.

The following table presents additional information about the unobservable inputs used in the fair value measurement of financial assets measured on a nonrecurring basis that were categorized with Level 3 of the fair value hierarchy:

	Fair Value	Valuation Technique	Unobservable Input	Range (weighted average)
September 30, 2018				
Impaired loans	$ 9,513	Sales Comparison Approach	Adjustments for differences between comparable sales	3%-20% (12%)
December 31, 2017				
Impaired loans	$ 9,280	Sales Comparison Approach	Adjustments for differences between comparable sales	15%-26% (5%)

Measurable inputs for other real estate owned were not material.

Carrying amount and estimated fair values of financial instruments at period end were as follows as of the date indicated:

	September 30, 2018				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 61,379	$ 61,379	$ 61,379	$ —	$ —
Interest bearing deposits	6,741	6,741	—	6,741	—
Available-for-sale securities	172,388	172,388	—	172,388	—
Held-to-maturity securities	713,899	695,466	—	695,466	—
Loans held for sale	43,372	43,372	—	43,372	—
Loans, net of allowance for loan losses	2,546,045	2,551,650	—	—	2,551,650
Federal Reserve Bank and Federal Home Loan Bank stock	38,838	N/A	N/A	N/A	N/A
Interest receivable	17,129	17,129	—	17,129	—
Derivative assets	745	745	—	745	—
Cash collateral held by derivative counterparty	(532)	(532)	(532)	—	—
Netting adjustments	—	—	—	—	—
Total derivative assets	213	213	(532)	745	—
Total assets	$ 3,600,004	$ 3,548,338	$ 60,847	$ 935,841	$ 2,551,650
Financial liabilities:					
Deposits	$ 2,821,246	$ 2,821,577	$ —	$ 2,821,577	$ —
Federal funds purchased and retail repurchase agreements	43,250	43,250	—	43,250	—
Federal Home Loan Bank advances	570,907	570,907	—	570,907	—
Bank stock loan	24,412	24,412	—	24,412	—
Subordinated debentures	14,186	14,186	—	14,186	—
Contractual obligations	1,734	1,734	—	1,734	—
Interest payable	3,219	3,219	—	3,219	—
Derivative liabilities	52	52	—	52	—
Netting adjustments	—	—	—	—	—
Total derivative liabilities	52	52	—	52	—
Total liabilities	$ 3,479,006	$ 3,479,337	$ —	$ 3,479,337	$ —

	December 31, 2017				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 52,195	$ 52,195	$ 52,195	$ —	$ —
Interest bearing deposits	3,496	3,496	—	3,496	—
Available-for-sale securities	162,272	162,272	486	161,786	—
Held-to-maturity securities	535,462	532,744	—	532,744	—
Loans held for sale	16,344	16,344	—	16,344	—
Loans, net of allowance for loan losses	2,094,781	2,098,431	—	—	2,098,431
Federal Reserve Bank and Federal Home Loan Bank stock	24,373	N/A	N/A	N/A	N/A
Interest receivable	12,371	12,371	—	12,371	—
Derivative assets	1	1	—	1	—
Cash collateral held by derivative counterparty	164	164	164	—	—
Total derivative assets	165	165	164	1	—
Total assets	$ 2,901,459	$ 2,878,018	$ 52,845	$ 726,742	$ 2,098,431
Financial liabilities:					
Deposits	$ 2,382,013	$ 2,385,528	$ —	$ 2,385,528	$ —
Federal funds purchased and retail repurchase agreements	37,492	37,492	—	37,492	—
Federal Home Loan Bank advances	347,692	347,692	—	347,692	—
Bank stock loan	2,500	2,500	—	2,500	—
Subordinated debentures	13,968	13,968	—	13,968	—
Contractual obligations	1,967	1,967	—	1,967	—
Interest payable	1,932	1,932	—	1,932	—
Derivative liabilities	46	46	—	46	—
Cash collateral held by derivative counterparty	(46)	(46)	(46)	—	—
Total derivative liabilities	—	—	(46)	46	—
Total liabilities	$ 2,787,564	$ 2,791,079	$ (46)	$ 2,791,125	$ —

The fair value of off-balance-sheet items is not considered material.

NOTE 10 – COMMITMENTS AND CREDIT RISK

The Company extends credit for commercial real estate mortgages, residential mortgages, working capital financing and loans to businesses and consumers.

Commitments to Originate Loans and Available Lines of Credit: Commitments to originate loans and available lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments and lines of credit may expire without being drawn upon, the total commitment and lines of credit amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market.

The contractual amounts of commitments to originate loans and available lines of credit as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018		December 31, 2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 38,389	$ 201,698	$ 38,031	$ 67,107
Mortgage loans in the process of origination	14,344	2,618	14,803	9,258
Unused lines of credit	91,241	175,415	87,948	141,026

The fixed rate loan commitments have interest rates ranging from 3.75% to 8.50% and maturities ranging from 1 month to 107 months.

Standby Letters of Credit: Standby letters of credit are irrevocable commitments issued by the Company to guarantee the performance of a customer to a third party once specified pre-conditions are met. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

The contractual amounts of standby letters of credit as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018		December 31, 2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Standby letters of credit	$ 2,781	$ 5,142	$ 4,064	$ 3,830

NOTE 11 – LEGAL MATTERS

The Company is party to various matters of litigation in the ordinary course of business. The Company periodically reviews all outstanding pending or threatened legal proceedings and determines if such matters will have an adverse effect on the business, financial condition or results of operations or cash flows. A loss contingency is recorded when the outcome is probable and reasonably able to be estimated. The following loss contingency has been identified by the Company as reasonably possible to result in an unfavorable outcome for the Company or the Bank.

Equity Bank is a party to a February 3, 2015 lawsuit filed against it by CitiMortgage, Inc., ("Citi"). The lawsuit involves an alleged breach of contract related to loan repurchase obligations and damages of $2,700 plus pre-judgment and post-judgment interest. In January 2018, judgement was entered by the court dismissing Citi's claims with regard to six loans and holding Equity Bank liable with regard to six loans. A loss contingency of $477 was recorded at December 31, 2017, in connection with this case. Subsequently, Citi appealed the courts decision. Equity Bank believes it has numerous and meritorious defenses to the claims and continues to contest the matter vigorously.

Except for the above mentioned lawsuit, there are no other outstanding claims for potential repurchase or indemnification demands regarding mortgage loans originated by Equity Bank and sold to investors. However, the Company believes there is possible risk it may face similar demands based on comparable demands loan aggregators are facing from their investors, including Government Sponsored Entities such as Freddie Mac and Fannie Mae, and or settlement agreements loan aggregators have entered into with those investors. The amount of potential loss and outcome of such possible litigation, if it were commenced, is uncertain and the Company would vigorously contest any claims.

NOTE 12 – BUSINESS COMBINATIONS

On May 4, 2018, the Company acquired 100% of the outstanding common shares of Kansas Bank Corporation ("KBC"), based in Liberal, Kansas. Results of operations of KBC were included in the Company's results of operations beginning May 5, 2018. Acquisition-related costs associated with this merger were $4,251 ($3,267 on an after-tax basis) and are included in merger expenses in the Company's income statement for the nine months ended September 30, 2018.

Information necessary to recognize the fair value of assets acquired and liabilities assumed is not complete at September 30, 2018. The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $14,010. Goodwill resulted from a combination of expected synergies, expansion into southwest Kansas with the addition of five branch locations, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The

following table summarizes the consideration paid for KBC and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Fair value of consideration:		
Common stock	$	32,103
Cash		14,918
	$	47,021
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and due from banks	$	27,899
Available-for-sale securities		22,820
Held-to-maturity securities		92,028
Federal Reserve Bank and Federal Home Loan Bank stock		475
Loans		159,359
Premises and equipment		5,835
Core deposit intangible		8,080
Other assets		5,618
Total assets acquired		322,114
Deposits		288,352
Interest payable and other liabilities		751
Total liabilities assumed		289,103
Total identifiable net assets		33,011
Goodwill		14,010
	$	47,021

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchase credit impaired loans are not considered reasonably predictable and as such these loans are classified nonaccrual.

The following table presents information about the loans acquired in the KBC merger as of the date of acquisition:

		Non-Credit Impaired		Purchase Credit Impaired
Contractually required principal	$	160,526	$	5,066
Non-accretable difference (expected losses)		—		(2,305)
Cash flows expected to be collected		160,526		2,761
Accretable yield		(3,928)		—
Fair value of acquired loans	$	156,598	$	2,761

The following table presents the carrying value of the loans acquired in the KBC acquisition by class, as of the date of acquisition:

		Non-Credit Impaired		Purchase Credit Impaired		Total
Commercial real estate	$	94,492	$	1,975	$	96,467
Commercial and industrial		18,848		622		19,470
Residential real estate		2,898		-		2,898
Agricultural real estate		22,425		-		22,425
Consumer		3,539		-		3,539
Agricultural		14,396		164		14,560
Fair value of acquired loans	$	156,598	$	2,761	$	159,359

Also on May 4, 2018, the Company acquired 100% of the outstanding common shares of Adams Dairy Bancshares, Inc. (“Adams”), based in Blue Springs, Missouri. Results of operations of Adams were included in the Company’s results of operations

beginning May 5, 2018. Acquisition-related costs associated with this merger were $1,201 ($950 on an after-tax basis) and are included in merger expenses in the Company's income statement for the nine months ended September 30, 2018.

Information necessary to recognize the fair value of assets acquired and liabilities assumed is not complete at September 30, 2018. The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $8,465. Goodwill resulted from a combination of expected synergies, expansion in the Kansas City metro area with the addition of one branch location, growth opportunities and increases in stock prices after the stock exchange ratios were negotiated. The following table summarizes the consideration paid for Adams and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Fair value of consideration:		
Common stock	$	13,456
Cash		3,960
	$	17,416
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and due from banks	$	2,812
Interest bearing time deposits in other banks		4,237
Available-for-sale securities		10,677
Held-to-maturity securities		335
Federal Reserve Bank and Federal Home Loan Bank stock		194
Loans		82,716
Premises and equipment		4,485
Bank-owned life insurance		2,869
Core deposit intangible		1,990
Other assets		1,042
Total assets acquired		111,357
Deposits		97,124
Federal Home Loan Bank advances		1,000
Interest payable and other liabilities		4,282
Total liabilities assumed		102,406
Total identifiable net assets		8,951
Goodwill		8,465
	$	17,416

The following table presents information about the loans acquired in the Adams merger as of the date of acquisition:

	Non-Credit Impaired		Purchase Credit Impaired	
Contractually required principal	$	84,225	$	1,477
Non-accretable difference (expected losses)		—		(238)
Cash flows expected to be collected		84,225		1,239
Accretable yield		(2,748)		—
Fair value of acquired loans	$	81,477	$	1,239

The following table presents the carrying value of the loans acquired in the Adams acquisition by class, as of the date of acquisition:

	Non-Credit Impaired		Purchase Credit Impaired		Total	
Commercial real estate	$	74,657	$	820	$	75,477
Commercial and industrial		1,002		419		1,421
Residential real estate		4,955		-		4,955
Consumer		863		-		863
Fair value of acquired loans	$	81,477	$	1,239	$	82,716

During the first nine months of 2018 an adjustment was made to purchase accounting related to the November 2017 merger with Cache Holdings, Inc. ("Cache") resulting in a $1,550 decrease to goodwill and a corresponding increase to deferred tax assets. Also,

during the first nine months of 2018 an additional $55 was paid to stockholders related to the November 2017 merger with Eastman National Bancshares, Inc. ("Eastman") resulting in an increase to goodwill.

On June 12, 2018, the Company entered into an agreement and plan of merger with Docking Bancshares, Inc. to acquire City Bank and Trust Company ("City Bank"), which had one branch location in Guymon, Oklahoma. The transaction closed on August 23, 2018 and results of operations of City Bank were included in the Company's results of operations beginning August 24, 2018. Acquisition-related costs associated with this merger were $759 ($581 on an after-tax basis) and are included in merger expenses in the Company's income statement for the nine months ended September 30, 2018.

Information necessary to recognize the fair value of assets acquired and liabilities assumed is not complete at September 30, 2018. The fair value of consideration exchanged exceeded the recognized amounts of the identifiable net assets and resulted in goodwill of $5,836. Goodwill resulted from a combination of expected synergies, expansion into northwest Oklahoma with the addition of one branch location and growth opportunities. The following table summarizes the consideration paid for City Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Fair value of consideration:		
Cash	$	18,900
	$	18,900
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and due from banks	$	27,659
Held-to-maturity securities		44,927
Federal Reserve Bank and Federal Home Loan Bank stock		881
Loans		77,148
Premises and equipment		2,044
Core deposit intangible		3,360
Other real estate owned		307
Other assets		1,091
Total assets acquired		157,417
Deposits		126,853
Federal Home Loan Bank advances		17,353
Interest payable and other liabilities		147
Total liabilities assumed		144,353
Total identifiable net assets		13,064
Goodwill		5,836
	$	18,900

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these loans were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Cash flows associated with purchase credit impaired loans are not considered reasonably predictable and as such these loans are classified nonaccrual.

The following table presents information about the loans acquired in the City Bank merger as of the date of acquisition:

	Non-Credit Impaired		Purchase Credit Impaired	
Contractually required principal	$	74,918	$	5,136
Non-accretable difference (expected losses)		—		(1,156)
Cash flows expected to be collected		74,918		3,980
Accretable yield		(1,750)		—
Fair value of acquired loans	$	73,168	$	3,980

The following table presents the carrying value of the loans acquired in the City Bank merger as of the date of acquisition:

	Non-Credit Impaired	Purchase Credit Impaired	Total
Commercial real estate	$ 17,398	$ 2,592	$ 19,990
Commercial and industrial	8,463	158	8,621
Residential real estate	26,716	798	27,514
Agricultural real estate	5,571	—	5,571
Consumer	8,905	244	9,149
Agricultural	6,115	188	6,303
Fair value of acquired loans	$ 73,168	$ 3,980	$ 77,148

Assuming that the KBC, Adams and CBT mergers would have taken place on January 1, 2017, total combined revenue would have been $142,043 for the nine-months ended September 30, 2018 and $105,693 for the nine-months ended September 30, 2017. Net income and net income allocable to common stockholders would have been $35,652 and $21,468 for the nine-month periods ended September 30, 2018 and 2017. For the nine-month period ended September 30, 2018, earnings per common share would have been $2.26 and diluted earnings per share would have been $2.21. For the nine-month period ended September 30, 2017, earnings per common share would have been $1.62 and diluted earnings per share would have been $1.59. The pro forma amounts disclosed exclude merger expense from non-interest expense, which is considered a material non recurring adjustment.

On September 21, 2018, the Company entered into a branch purchase and assumption agreement with MidFirst Bank (“MidFirst”) to acquire two branches in Guymon, Oklahoma and one branch in Cordell, Oklahoma. The transaction is expected to close in the first quarter of 2019, subject to customary closing conditions, including the receipt of regulatory approval. At September 30, 2018, MidFirst estimated total assets to be transferred of $8,839, which included total loans of $7,229. Also at September 30, 2018, total liabilities of $96,842 were expected to be transferred by MidFirst, including total deposits of $96,727. The Company anticipates there will be goodwill and core deposit intangibles recorded with this acquisition. Goodwill is calculated as the excess of the cash consideration transferred over the net of the acquisition-date fair value of identifiable assets acquired and liabilities assumed.

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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in our Annual Report on Form 10-K filed with the SEC on March 16, 2018 and our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report. The following discussion contains “forward-looking statements” that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. See “Cautionary Note Regarding Forward-Looking Statements.” Also, see the risk factors and other cautionary statements described under the heading “Item 1A: Risk Factors” included in the Annual Report on Form 10-K and in Item 1A of this Quarterly Report. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

This discussion and analysis of our financial condition and results of operation includes the following sections:

- Overview – a general description of our business and financial highlights;
- Critical Accounting Policies – a discussion of accounting policies that require critical estimates and assumptions;
- Results of Operations – an analysis of our operating results, including disclosures about the sustainability of our earnings;
- Financial Condition – an analysis of our financial position;
- Liquidity and Capital Resources – an analysis of our cash flows and capital position; and
- Non-GAAP Financial Measures – a reconciliation of non-GAAP measures.

Overview

We are a bank holding company headquartered in Wichita, Kansas. Our wholly-owned banking subsidiary, Equity Bank, provides a broad range of financial services primarily to businesses and business owners as well as individuals through our network of 49 full service branches located in Arkansas, Kansas, Missouri and Oklahoma. As of September 30, 2018, we had consolidated total assets of $3.93 billion, total loans held for investment of $2.55 billion, net of allowances, total deposits of $2.82 billion and total stockholders’ equity of $443.2 million. During the three-month periods ended September 30, 2018 and September 30, 2017, net income was $10.3 million and $5.2 million and for the nine-month periods ended September 30, 2018 and September 30, 2017, net income was $25.9 million and $16.4 million.

Selected Financial Data for the periods indicated (dollars in thousands, except per share amounts):

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Statement of Income Data (for the quarterly period ended)					
Interest and dividend income	$ 43,022	$ 38,831	$ 34,123	$ 29,808	$ 24,588
Interest expense	10,267	7,911	6,336	5,219	4,267
Net interest income	32,755	30,920	27,787	24,589	20,321
Provision for loan losses	1,291	750	1,170	503	727
Net gain (loss) from securities transactions	(4)	(2)	(8)	—	175
Other non-interest income	5,437	4,594	4,259	4,104	3,860
Merger expenses	757	5,236	531	3,267	1,023
Other non-interest expense	22,890	20,739	19,096	17,451	15,365
Income before income taxes	13,250	8,787	11,241	7,472	7,241
Provision for income taxes	2,928	1,920	2,530	3,198	2,084
Net income	10,322	6,867	8,711	4,274	5,157
Net income allocable to common stockholders	10,322	6,867	8,711	4,274	5,157
Basic earnings per share	$ 0.65	$ 0.45	$ 0.60	$ 0.32	$ 0.42
Diluted earnings per share	$ 0.64	$ 0.44	$ 0.58	$ 0.31	$ 0.41
Balance Sheet Data (at period end)					
Cash and cash equivalents	$ 61,379	$ 47,691	$ 43,146	$ 52,195	$ 27,465
Available-for-sale securities	172,388	180,238	174,717	162,272	81,116
Held-to-maturity securities	713,899	665,995	522,021	535,462	528,944
Loans held for sale	43,372	43,875	11,112	16,344	4,283
Gross loans held for investment	2,557,055	2,411,471	2,125,324	2,103,279	1,540,761
Allowance for loan losses	11,010	10,083	9,316	8,498	7,969
Loans held for investment, net of allowance for loan losses	2,546,045	2,401,388	2,116,008	2,094,781	1,532,792
Goodwill and core deposit intangibles, net	154,189	145,285	113,767	115,645	70,063
Other intangible assets	1,241	1,253	1,265	1,277	1,290
Total assets	3,931,036	3,712,185	3,176,062	3,170,509	2,405,426
Total deposits	2,821,246	2,635,048	2,368,297	2,382,013	1,868,493
Borrowings	652,755	631,501	414,415	401,652	235,098
Total liabilities	3,487,799	3,278,903	2,794,575	2,796,365	2,113,591
Total stockholders' equity	443,237	433,282	381,487	374,144	291,835
Tangible common equity*	287,807	286,744	266,455	257,222	220,482
Performance ratios					
Return on average assets (ROAA) annualized	1.08%	0.79%	1.11%	0.60%	0.85%
Return on average equity (ROAE) annualized	9.31%	6.66%	9.35%	5.02%	7.08%
Return on average tangible common equity (ROATCE) annualized*	14.91%	10.58%	14.01%	7.41%	9.71%
Yield on loans annualized	5.73%	5.73%	5.55%	5.40%	5.30%
Cost of interest-bearing deposits annualized	1.15%	1.00%	0.94%	0.87%	0.82%
Net interest margin annualized	3.76%	3.93%	3.91%	3.79%	3.68%
Efficiency ratio*	59.93%	58.40%	59.59%	60.82%	63.54%
Non-interest income / average assets annualized	0.57%	0.53%	0.54%	0.58%	0.67%
Non-interest expense / average assets annualized	2.47%	3.00%	2.51%	2.91%	2.71%
Capital Ratios					
Tier 1 Leverage Ratio	8.60%	9.36%	9.45%	10.33%	10.32%
Common Equity Tier 1 Capital Ratio	10.57%	11.13%	11.80%	11.56%	13.33%

Tier 1 Risk Based Capital Ratio		11.07%		11.65%		12.41%		12.17%		14.15%
Total Risk Based Capital Ratio		11.46%		12.03%		12.81%		12.54%		14.62%
Equity / Assets		11.28%		11.67%		12.01%		11.80%		12.13%
Tangible common equity to tangible assets*		7.62%		8.04%		8.70%		8.42%		9.45%
Book value per share	$	28.07	$	27.44	$	26.09	$	25.62	$	23.86
Tangible common book value per share*	$	18.22	$	18.16	$	18.22	$	17.61	$	18.03
Tangible common book value per diluted share*	$	17.86	$	17.78	$	17.85	$	17.29	$	17.64

* The value noted is considered a Non-GAAP financial measure. For a reconciliation of Non-GAAP financial measures see "Non-GAAP Financial Measures" in this Item 2.

Critical Accounting Policies

Our significant accounting policies are integral to understanding the results reported. Our accounting policies are described in detail in Note 1 to the December 31, 2017 audited financial statements included in our Annual Report on Form 10-K filed with the SEC on March 16, 2018. There have been no material changes in our critical accounting policies since that time. We believe that of our significant accounting policies, the following may involve a higher degree of judgement and complexity. We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgements and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgements 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 identified 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.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of previous charge-offs and an allowance for loan losses, and for purchased loans, net of unamortized purchase premiums and discounts. Interest income is accrued on the unpaid principal balance.

Purchased Credit Impaired Loans: As a part of acquisitions, we acquired certain loans for which there was, at acquisition, evidence of deterioration of credit quality since origination. These purchased credit impaired loans were recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Such purchased credit impaired loans are accounted for individually. We estimate the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of the amount paid are 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 the expected cash flows is less than the carrying amount, a loss is recorded. If the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Nonaccrual Loans: Generally, loans are designated as nonaccrual when either principal or interest payments are 90 days or more past due based on contractual terms unless the loan is well secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed against income. Future interest income may be recorded on a cash basis after recovery of principal is reasonably assured. Nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans: A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all contractual principal and interest due according to the terms of the loan agreement. All loans are individually evaluated for impairment. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or on the value of the underlying collateral if the loan is collateral dependent. We evaluate the collectability of both principal and interest when assessing the need for a loss accrual.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Troubled Debt Restructurings: In cases where a borrower experiences financial difficulties and we make certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructured loan and classified as impaired. Generally, a nonaccrual loan that is a troubled debt restructuring remains on nonaccrual until such time that repayment of the remaining principal and interest is not in doubt, and the borrower has a period of satisfactory repayment performance.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. A loan review process, independent of the loan approval process, is utilized by management to verify loans are being made and administered in accordance with company policy, to review loan risk grades and potential losses, to verify that potential problem loans are receiving adequate and timely corrective measures to avoid or reduce losses, and to assist in the verification of the adequacy of the loan loss reserve. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the sale of the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, we determine the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio and class and is based on the actual loss history experienced by us. This actual loss experience is then adjusted by comparing current conditions to the conditions that existed during the loss history. We consider the changes related to (i) lending policies, (ii) economic conditions, (iii) nature and volume of the loan portfolio and class, (iv) lending staff, (v) volume and severity of past due, non-accrual, and risk graded loans, (vi) loan review system, (vii) value of underlying collateral for collateral dependent loans, (viii) concentration levels, and (ix) effects of other external factors.

Goodwill and Core Deposit Intangibles: Goodwill results from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Core deposit intangibles are acquired customer relationships arising from whole bank and branch acquisitions. Core deposit intangibles are initially measured at fair value and then are amortized over their estimated useful lives. The useful lives of the core deposits are estimated to generally be between seven and ten years. Goodwill and core deposit intangibles are assessed at least annually for impairment and any such impairment is recognized and expensed in the period identified. We have selected December 31 as the date to perform our annual goodwill impairment test. Goodwill is the only intangible asset with an indefinite useful life.

Fair Value: Fair values of assets and liabilities are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, collateral values and other factors, especially in the absence of broad markets for particular assets and liabilities. Changes in assumptions or in market conditions could materially affect the estimates.

Emerging Growth Company: Pursuant to the JOBS Act, an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by the FASB or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We have irrevocably elected to adopt new accounting standards within the public company adoption period.

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

Results of Operations

We generate most of our revenue from interest income and fees on loans, interest and dividends on investment securities and non-interest income, such as service charges and fees, debit card income and mortgage banking income. We incur interest expense on deposits and other borrowed funds and non-interest expense, such as salaries and employee benefits and occupancy expenses. On March 10, 2017, we completed our merger with Prairie State Bancshares, Inc. ("Prairie") of Hoxie, Kansas. The merger with Prairie added an additional three bank locations in western Kansas. Results of operations of Prairie were included in our financial results beginning March 11, 2017. On November 10, 2017, we completed our mergers with Eastman National Bancshares, Inc. ("Eastman") of Newkirk, Oklahoma, and Cache Holdings, Inc. ("Cache") of Tulsa, Oklahoma. The merger with Eastman added four bank locations in Ponca City and Newkirk, Oklahoma and the merger with Cache added one bank location in Tulsa, Oklahoma. Results of operations of Eastman and Cache were included in our financial results beginning November 11, 2017. On May 4, 2018, we completed our mergers with Kansas Bank Corporation ("KBC") of Liberal, Kansas, and Adams Dairy Bancshares, Inc. ("Adams") of Blue Springs, Missouri. The merger with KBC added five bank locations in Liberal and Hugoton, Kansas and the merger with Adams added one bank location in Blue Springs, Missouri. Results of operations of KBC and Adams were included in our financial results beginning May 5, 2018. On August 23, 2018, we completed our merger with City Bank and Trust ("City Bank") of Guymon, Oklahoma. The merger with City Bank added one bank location in Guymon, Oklahoma. Results of operations of City Bank were included in our financial results beginning August 24, 2018.

Changes in interest rates earned on interest-earning assets or incurred on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and non-interest-bearing liabilities and stockholders' equity, are usually the largest drivers of periodic change in net interest income. Fluctuations in 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 Arkansas, Kansas, Missouri and Oklahoma, as well as developments affecting the commercial, consumer and real estate sectors within these markets.

Net Income

Three months ended September 30, 2018 compared with three months ended September 30, 2017:

Net income and net income allocable to common stockholders for the three months ended September 30, 2018 was $10.3 million as compared to $5.2 million for the three months ended September 30, 2017, an increase of $5.2 million, or 100.2%. During the three-month period ended September 30, 2018, increases in net interest income of $12.4 million and non-interest income of $1.4 million were partially offset by an increase in non-interest expense of $7.3 million when compared to the three-month period ended September 30, 2017. The changes in the components of net income are discussed in more detail in the following sections of "Results of Operations."

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017:

Net income and net income allocable to common stockholders for the nine months ended September 30, 2018 was $25.9 million as compared to $16.4 million for the nine months ended September 30, 2017, an increase of $9.5 million, or 58.2%. During the nine-month period ended September 30, 2018, increases in net interest income of $30.0 million and non-interest income of $2.9 million were partially offset by an increase in non-interest expense of $22.5 million when compared to the nine-month period ended September 30, 2017. The changes in the components of net income are discussed in more detail in the following sections of "Results of Operations."

Net Interest Income and Net Interest Margin Analysis

Net interest income is the difference between interest income on interest-earning assets, including loans and securities, and interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. To evaluate net interest income, management measures and monitors (1) yields on loans and other interest-earning assets, (2) the costs of deposits and other funding sources, (3) the net interest spread and (4) 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 calculated as net interest income divided by average interest-earning assets. Because non-interest-bearing sources of funds, such as non-interest-bearing deposits and stockholders' equity also fund interest-earning assets, net interest margin includes the benefit of these non-interest-bearing sources of funds. Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a "volume change," and it is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a "yield/rate change."

Three months ended September 30, 2018 compared with three months ended September 30, 2017: The following table shows the average balance of each principal category of assets, liabilities, and stockholders' equity and the average yields on interest-earning

assets and average rates on interest-bearing liabilities for the three months ended September 30, 2018 and 2017. The yields and rates are calculated by dividing annualized income or annualized expense by the average daily balances of the associated assets or liabilities.

Average Balance Sheets and Net Interest Analysis

	For the Three Months Ended September 30,					
	2018			2017		
(Dollars in thousands)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)
Interest-earning assets:						
Loans(1)	$ 2,516,833	$ 36,335	5.73%	$ 1,528,658	$ 20,420	5.30%
Taxable securities	716,499	4,836	2.68%	507,776	2,982	2.33%
Nontaxable securities	144,441	1,097	3.01%	113,279	863	3.02%
Federal funds sold and other	80,098	754	3.74%	42,562	323	3.01%
Total interest-earning assets	3,457,871	$ 43,022	4.94%	2,192,275	$ 24,588	4.45%
Non-interest-earning assets:						
Other real estate owned, net	7,274			10,885		
Premises and equipment, net	76,650			55,015		
Bank-owned life insurance	72,246			48,888		
Goodwill, core deposit and other intangibles, net	150,256			71,465		
Other non-interest-earning assets	39,817			24,071		
Total assets	$ 3,804,114			$ 2,402,599		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 613,473	$ 1,188	0.77%	$ 429,311	$ 613	0.57%
Savings and money market	825,143	2,154	1.04%	505,005	716	0.56%
Savings, NOW and money market	1,438,616	3,342	0.92%	934,316	1,329	0.56%
Certificates of deposit	813,321	3,168	1.55%	650,302	1,941	1.18%
Total interest-bearing deposits	2,251,937	6,510	1.15%	1,584,618	3,270	0.82%
FHLB term and line of credit advances	565,715	3,155	2.21%	227,879	731	1.27%
Bank stock loan	20,678	265	5.08%	—	—	0.00%
Subordinated borrowings	14,142	307	8.63%	13,851	251	7.19%
Other borrowings	42,040	30	0.28%	24,662	15	0.25%
Total interest-bearing liabilities	2,894,512	$ 10,267	1.41%	1,851,010	$ 4,267	0.92%
Non-interest-bearing liabilities and stockholders' equity:						
Non-interest-bearing checking accounts	457,804			253,108		
Non-interest-bearing liabilities	12,027			9,474		
Stockholders' equity	439,771			289,007		
Total liabilities and stockholders' equity	$ 3,804,114			$ 2,402,599		
Net interest income		$ 32,755			$ 20,321	
Interest rate spread			3.53%			3.53%
Net interest margin(2)			3.76%			3.68%
Total cost of deposits, including non-interest bearing deposits	$ 2,709,741	$ 6,510	0.95%	$ 1,837,726	$ 3,270	0.71%
Average interest-earning assets to interest-bearing liabilities			119.46%			118.44%

(1) Average loan balances include nonaccrual loans.
(2) Net interest margin is calculated by dividing annualized net interest income by average interest-earnings assets for the period.
(3) Tax exempt income is not included in the above table on a tax equivalent basis.
(4) Actual unrounded values are used to calculate the reported yield or rate disclosed. Accordingly, recalculations using the amounts in thousands as disclosed in this report may not produce the same amounts.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest yields/rates. The following table analyzes the change in volume variances and yield/rate variances for the three-month periods ended September 30, 2018 and 2017.

Analysis of Changes in Net Interest Income
For the Three Months Ended September 30, 2018 and 2017

(Dollars in thousands)	Increase (Decrease) Due to: Volume(1)	Increase (Decrease) Due to: Yield/Rate(1)	Total Increase / (Decrease)
Interest-earning assets:			
Loans	$ 14,148	$ 1,767	$ 15,915
Taxable securities	1,359	495	1,854
Nontaxable securities	236	(2)	234
Federal funds sold and other	338	93	431
Total interest-earning assets	$ 16,081	$ 2,353	$ 18,434
Interest-bearing liabilities:			
Savings, NOW and money market	$ 933	$ 1,080	$ 2,013
Certificates of deposit	554	673	1,227
Total interest-bearing deposits	1,487	1,753	3,240
FHLB term and line of credit advances	1,618	806	2,424
Bank stock loan	265	—	265
Subordinated borrowings	5	51	56
Other borrowings	13	2	15
Total interest-bearing liabilities	$ 3,388	$ 2,612	$ 6,000
Net Interest Income	$ 12,693	$ (259)	$ 12,434

(1) The effect of changes in volume is determined by multiplying the change in volume by the previous year's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the prior year's volume. The changes attributable to both volume and rate, which cannot be segregated, have been allocated to the volume variance and the rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Net interest income before the provision for loan losses for the three months ended September 30, 2018 was $32.8 million compared with $20.3 million for the three months ended September 30, 2017, an increase of $12.4 million, or 61.2%. Interest income for the three months ended September 30, 2018 was $43.0 million, an increase of $18.4 million, or 75.0%, from $24.6 million for the three months ended September 30, 2017. Interest income increased primarily due to an increase in the average volume of interest-earning assets due in large part to growth in loan balances during the period. Interest expense for the three months ended September 30, 2018 was $10.3 million, an increase of $6.0 million, or 140.6%, from $4.3 million for the three months ended September 30, 2017. The increase in interest expense was due to an increase in volume of interest-bearing liabilities and an increase in the average rate paid on interest-bearing liabilities.

Interest income on loans, including loan fees which consist of fees for loan origination, renewal, prepayment, covenant breakage and loan modification, was $36.3 million for the three months ended September 30, 2018; an increase of $15.9 million, or 77.9%, compared with the three months ended September 30, 2017. This increase was due to an increase in average loans and to a lesser extent, an increase in the average yield on the loan portfolio. The increase in average loan volume was primarily from the Eastman, Cache, KBC, Adams and City Bank mergers. Average loan volume increased $615.7 million in commercial real estate loans, $151.2 million in commercial and industrial loans, $137.7 million in mortgage loans, $67.9 million in agricultural loans and $15.6 million in consumer loans. The average yield on loans was 5.73% for the three months ended September 30, 2018 and 5.30% for the three months ended September 30, 2017. The average yield on loans excluding loan fees was 5.51% for the three months ended September 30, 2018 and 5.11% for the three months ended September 30, 2017. The increase in yield excluding loan fees was primarily due to an overall increasing rate environment and merger related fair value adjustment accretion. Interest income on all securities was $5.9 million for the quarter ended September 30, 2018; an increase of $2.1 million when compared to the quarter ended September 30, 2017. The increase was due to the increase in average total securities of $239.9 million and a 28 basis point increase in the average yield on the securities portfolio. The increase in the average volume of securities was due to the purchase of additional mortgage-backed securities, corporate securities, and municipal securities.

Interest expense was $10.3 million for the three months ended September 30, 2018, an increase of $6.0 million over interest expense of $4.3 million for the three months ended September 30, 2017. The change in interest expense was primarily due to an

increase of $1.04 billion in the average volume of interest-bearing liabilities. Average savings, NOW and money market deposits increased $504.3 million for the three months ended September 30, 2018 when compared to the three months ended September 30, 2017, and the average rate on these interest-bearing deposits increased from 0.56% to 0.92% for the same periods. The average balance increase in interest-bearing deposits is primarily due to the Eastman, Cache, KBC, Adams and City Bank mergers. The increase in rate on interest-bearing deposits was the result of actively managing the rates on this funding source to remain competitive in the market place. Average certificates of deposit increased $163.0 million for the three months ended September 30, 2018 compared to the three months ended September 30, 2017, and the average rate increased from 1.18% to 1.55% for the same period. The increase in interest expense on certificates of deposit was primarily due to an overall increasing rate environment. Total cost of funds increased 49 basis points to 1.41% for the three months ended September 30, 2018 from 0.92% for the three months ended September 30, 2017.

Net interest margin was 3.76% for the three months ended September 30, 2018; an increase of 8 basis points when compared with net interest margin of 3.68% for the three months ended September 30, 2017. The increase in our net interest margin for the three months ended September 30, 2018 is primarily due to the increase in average interest-earning assets as compared to the three months ended September 30, 2017. These changes resulted in an increase in net interest income of $12.4 million, an increase in average interest-earning assets of $1.27 billion and an increase in net interest margin of 8 basis points when comparing the three-month periods ended September 30, 2018 and 2017.

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017: The following table shows the average balance of each principal category of assets, liabilities, and stockholders' equity and the average yields on interest-earning assets and average rates on interest-bearing liabilities for the nine-month periods ended September 30, 2018 and 2017. The yields and rates are calculated by dividing annualized income or annualized expense by the average daily balances of the associated assets or liabilities.

Average Balance Sheets and Net Interest Analysis

	For the Nine Months Ended September 30,					
	2018			2017		
(Dollars in thousands)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate(3)(4)
Interest-earning assets:						
Loans(1)	$ 2,320,402	$ 98,484	5.67%	$ 1,484,134	$ 60,482	5.45%
Taxable securities	645,293	12,671	2.63%	495,147	8,930	2.41%
Nontaxable securities	130,978	3,001	3.06%	110,147	2,510	3.05%
Federal funds sold and other	72,102	1,820	3.38%	45,968	963	2.80%
Total interest-earning assets	3,168,775	$ 115,976	4.89%	2,135,396	$ 72,885	4.56%
Non-interest-earning assets:						
Other real estate owned, net	7,374			9,273		
Premises and equipment, net	69,848			53,547		
Bank-owned life insurance	70,459			48,536		
Goodwill, core deposit and other intangibles, net	133,802			69,480		
Other non-interest-earning assets	35,150			24,964		
Total assets	$ 3,485,408			$ 2,341,196		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 602,602	$ 3,241	0.72%	$ 446,737	$ 1,631	0.49%
Savings and money market	757,055	4,914	0.87%	460,652	1,749	0.51%
Savings, NOW and money market	1,359,657	8,155	0.80%	907,389	3,380	0.50%
Certificates of deposit	789,133	8,411	1.43%	620,571	5,360	1.15%
Total interest-bearing deposits	2,148,790	16,566	1.03%	1,527,960	8,740	0.76%
FHLB term and line of credit advances	442,370	6,548	1.98%	252,824	1,967	1.04%
Bank stock loan	11,964	448	5.00%	—	—	0.00%
Subordinated borrowings	14,070	875	8.32%	13,785	725	7.03%
Other borrowings	41,610	77	0.25%	21,659	40	0.25%
Total interest-bearing liabilities	2,658,804	$ 24,514	1.23%	1,816,228	$ 11,472	0.84%
Non-interest-bearing liabilities and stockholders' equity:						
Non-interest-bearing checking accounts	404,835			236,691		
Non-interest-bearing liabilities	11,091			9,213		
Stockholders' equity	410,678			279,064		
Total liabilities and stockholders' equity	$ 3,485,408			$ 2,341,196		
Net interest income		$ 91,462			$ 61,413	
Interest rate spread			3.66%			3.72%
Net interest margin(2)			3.86%			3.85%
Total cost of deposits, including non-interest bearing deposits	$ 2,553,625	$ 16,566	0.87%	$ 1,764,651	$ 8,740	0.66%
Average interest-earning assets to interest-bearing liabilities			119.18%			117.57%

(1) Average loan balances include nonaccrual loans.
(2) Net interest margin is calculated by dividing annualized net interest income by average interest-earnings assets for the period.
(3) Tax exempt income is not included in the above table on a tax equivalent basis.
(4) Actual unrounded values are used to calculate the reported yield or rate disclosed. Accordingly, recalculations using the amounts in thousands as disclosed in this report may not produce the same amounts.

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest yields/rates. The following table analyzes the change in volume variances and yield/rate variances for the nine-month periods ended September 30, 2018 and 2017.

Analysis of Changes in Net Interest Income
For the Nine Months Ended September 30, 2018 and 2017

(Dollars in thousands)	Increase (Decrease) Due to: Volume(1)	Yield/Rate(1)	Total Increase / (Decrease)
Interest-earning assets:			
Loans	$ 35,397	$ 2,605	$ 38,002
Taxable securities	2,894	847	3,741
Nontaxable securities	476	15	491
Federal funds sold and other	629	228	857
Total interest-earning assets	$ 39,396	$ 3,695	$ 43,091
Interest-bearing liabilities:			
Savings, NOW and money market	$ 2,188	$ 2,587	$ 4,775
Certificates of deposit	1,639	1,412	3,051
Total interest-bearing deposits	3,827	3,999	7,826
FHLB term and line of credit advances	2,078	2,503	4,581
Bank stock loan	448	—	448
Subordinated borrowings	15	135	150
Other borrowings	37	—	37
Total interest-bearing liabilities	$ 6,405	$ 6,637	$ 13,042
Net Interest Income	$ 32,991	$ (2,942)	$ 30,049

(1) The effect of changes in volume is determined by multiplying the change in volume by the previous year's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the prior year's volume. The changes attributable to both volume and rate, which cannot be segregated, have been allocated to the volume variance and the rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

Net interest income before the provision for loan losses for the nine months ended September 30, 2018 was $91.5 million compared with $61.4 million for the nine months ended September 30, 2017, an increase of $30.0 million, or 48.9%. Interest income for the nine months ended September 30, 2018 was $116.0 million, an increase of $43.1 million, or 59.1%, from $72.9 million for the nine months ended September 30, 2017. Interest income increased primarily due to an increase in the average volume of interest-earning assets due in large part to growth in loan balances during the period, primarily from the Eastman, Cache, KBC, Adams and City Bank mergers. Interest expense for the nine months ended September 30, 2018 was $24.5 million, an increase of $13.0 million, or 113.7%, from $11.5 million for the nine months ended September 30, 2017. The increase in interest expense was primarily due to an increase in the average rate paid on interest-bearing liabilities and an increase in the average volume of interest-bearing liabilities.

Interest income on loans, including loan fees which consist of fees for loan origination, renewal, prepayment, covenant breakage and loan modification, was $98.5 million for the nine months ended September 30, 2018; an increase of $38.0 million, or 62.8%, compared with the nine months ended September 30, 2017. This increase was due to an increase in average loans and to a lesser extent, an increase in the average yield on the loan portfolio. The increase in average loan volume was primarily from loans acquired in the Eastman, Cache, KBC, Adams and City Bank mergers. Loans increased an average of $504.3 million in commercial real estate loans, $163.4 million in commercial and industrial loans, $86.9 million in mortgage loans, $69.8 million in agricultural loans and $11.9 million in consumer loans. The average yield on loans was 5.67% for the nine months ended September 30, 2018 and 5.45% for the nine months ended September 30, 2017. The average yield on loans excluding loan fees was 5.40% for the nine months ended September 30, 2018 and 5.23% for the nine months ended September 30, 2017. The increase in yield excluding loan fees was primarily due to an overall increasing rate environment and merger related fair value adjustment accretion. Interest income on all securities was $15.7 million for the nine months ended September 30, 2018; an increase of $4.2 million when compared to the nine months ended September 30, 2017. The increase was due to the increase in average total securities of $171.0 million and a 17 basis point increase in the average yield on the securities portfolio. The increase in the average volume of securities was due to the purchase of additional mortgage-backed securities, corporate securities, and municipal securities.

Interest expense was $24.5 million for the nine months ended September 30, 2018, an increase of $13.0 million over interest expense of $11.5 million for the nine months ended September 30, 2017. The change in interest expense was primarily due to an increase of $842.6 million in the average volume of interest-bearing liabilities. Average savings, NOW and money market deposits increased $452.3 million for the nine months ended September 30, 2018 when compared to the nine months ended September 30, 2017, and the average rate on these interest-bearing deposits increased from 0.50% to 0.80% for the same periods. The average balance increase in interest-bearing deposits was primarily a result of the Eastman, Cache, KBC, Adams and City Bank mergers. The increase in rate on interest-bearing deposits is the result of actively managing the rates on this funding source to remain competitive in the market place. Average certificates of deposit increased $168.6 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, and the average rate increased from 1.15% to 1.43% for the same period. The increase in interest expense on certificates of deposit was primarily due to the increase in average volume and to an overall increasing rate environment. Primarily due to the factors discussed above, total cost of funds increased 39 basis points to 1.23% for the nine months ended September 30, 2018 from 0.84% for the nine months ended September 30, 2017.

Net interest margin was 3.86% for the nine months ended September 30, 2018; an increase of 1 basis point when compared with net interest margin of 3.85% for the nine months ended September 30, 2017. The increase in our net interest margin for the nine months ended September 30, 2018 is primarily due to the increase in average interest-earning assets, partially offset by a decreased interest rate spread, as compared to the nine months ended September 30, 2017. These changes resulted in an increase in net interest income of $30.0 million and an increase in average interest-earning assets of $1.03 billion when comparing the nine-month periods ended September 30, 2018 and 2017.

Provision for Loan Losses

We maintain an allowance for loan losses for probable incurred credit losses. The allowance for loan losses is increased by a provision for loan losses, a charge to earnings, and subsequent recoveries of amounts previously charged-off, but is decreased by charge-offs when the collectability of a loan balance is unlikely. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the loan portfolio, information about specific borrower situations and estimated collateral values, discounted cash flows, economic conditions, and other factors including regulatory guidance, as described in "Financial Condition—Allowance for loan losses." As these factors change, the amount of the loan loss provision changes.

Three months ended September 30, 2018 compared with three months ended September 30, 2017: The provision for loan losses for the three months ended September 30, 2018 was $1.3 million compared with $727 thousand for the three months ended September 30, 2017. Net charge-offs for the three months ended September 30, 2018 were $364 thousand compared to net charge-offs of $326 thousand for the three months ended September 30, 2017. For the three months ended September 30, 2018, gross charge-offs were $723 thousand offset by gross recoveries of $359 thousand. In comparison, gross charge-offs were $381 thousand for the three months ended September 30, 2017 offset by gross recoveries of $55 thousand.

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017: The provision for loan losses for the nine months ended September 30, 2018 was $3.2 million compared with $2.5 million for the nine months ended September 30, 2017. Net charge-offs for the nine months ended September 30, 2018 were $699 thousand compared to net charge-offs of $913 thousand for the nine months ended September 30, 2017. For the nine months ended September 30, 2018, gross charge-offs were $1.7 million offset by gross recoveries of $1.0 million. In comparison, gross charge-offs were $1.8 million for the nine months ended September 30, 2017 offset by gross recoveries of $865 thousand.

Non-Interest Income

The primary sources of non-interest income are service charges and fees, debit card income, mortgage banking income, increases in the value of bank-owned life insurance, investment referral income, the recovery of zero-basis purchased loans, and net gain from securities transactions. Non-interest income does not include loan origination or other loan fees which are recognized as an adjustment to yield using the interest method.

Three months ended September 30, 2018 compared with three months ended September 30, 2017: The following table provides a comparison of the major components of non-interest income for the three months ended September 30, 2018 and 2017.

Non-Interest Income
For the Three Months Ended September 30,

(Dollars in thousands)	2018	2017	2018 vs. 2017 Change	2018 vs. 2017 %
Service charges and fees	$ 1,912	$ 1,348	$ 564	41.8%
Debit card income	1,667	1,175	492	41.9%
Mortgage banking	392	521	(129)	-24.8%
Increase in value of bank-owned life insurance	521	359	162	45.1%
Investment referral income	121	76	45	59.2%
Recovery on zero-basis purchased loans	248	47	201	427.7%
Other	576	334	242	72.5%
Sub-Total	5,437	3,860	1,577	40.9%
Net gain (loss) from securities transactions	(4)	175	(179)	-102.3%
Total non-interest income	$ 5,433	$ 4,035	$ 1,398	34.6%

For the three months ended September 30, 2018, non-interest income totaled $5.4 million, an increase of $1.4 million, or 34.6%, compared with the three months ended September 30, 2017. The increase was primarily due to increases in service charges and fees, debit card income and increase in value of bank-owned life insurance, partially offset by a decrease in mortgage banking income. Our principal source of service charges and fees is non-sufficient funds charges, which are cyclical in nature and generally fluctuate with the change in volume of transaction deposit accounts and economic conditions impacting our customers. The additions of accounts and higher transaction volumes associated with Eastman, Cache, KBC, Adams and City Bank mergers contributed $322 thousand, $29 thousand, $128 thousand, $35 thousand and $55 thousand of the increase in service charges and fees. Of the debit card income increase, $200 thousand, $7 thousand, $181 thousand and $43 thousand was contributed by Eastman, Cache, KBC and Adams mergers. Other income includes such items as wire fees, ATM surcharge fees, safe deposit box fees, and other miscellaneous fees.

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017: The following table provides a comparison of the major components of non-interest income for the nine months ended September 30, 2018 and 2017.

Non-Interest Income
For the Nine Months Ended September 30,

(Dollars in thousands)	2018	2017	2018 vs. 2017 Change	2018 vs. 2017 %
Service charges and fees	$ 5,221	$ 3,797	$ 1,424	37.5%
Debit card income	4,442	3,385	1,057	31.2%
Mortgage banking	1,017	1,546	(529)	-34.2%
Increase in value of bank-owned life insurance	1,681	1,068	613	57.4%
Investment referral income	301	283	18	6.4%
Recovery on zero-basis purchased loans	381	163	218	133.7%
Other	1,247	823	424	51.5%
Sub-Total	14,290	11,065	3,225	29.1%
Net gain (loss) from securities transactions	(14)	271	(285)	-105.2%
Total non-interest income	$ 14,276	$ 11,336	$ 2,940	25.9%

For the nine months ended September 30, 2018, non-interest income totaled $14.3 million, an increase of $2.9 million, or 25.9%, compared with the nine months ended September 30, 2017. The increase was primarily due to increases in service charges and fees, debit card income, increase in value of bank-owned life insurance and other income, partially offset by a decrease in mortgage banking income. In connection with acquisitions, we receive the rights to certain loans that were previously charged off by the acquired bank. At acquisition, there was no expectation of future cash flows from these previously charged-off loans and thus they were assigned a zero basis. Subsequent to acquisition, we have received cash payments on certain of these loans. Timing and receipt of such payments, if any, are not easily predictable.

Our principal source of service charges and fees is non-sufficient funds charges, which are cyclical in nature and generally fluctuate with the change in volume of transaction deposit accounts and economic conditions impacting our customers. For the nine months ended September 30, 2018, $944 thousand, $77 thousand, $209 thousand, $57 thousand and $55 thousand of the increase in service charges and fees was attributable to the addition of accounts and higher transaction volumes associated with the Eastman, Cache, KBC, Adams and City Bank mergers. Of debit card income, increases of $570 thousand, $17 thousand, $240 thousand and $58 thousand are due to volume increases related to the Eastman, Cache, KBC and Adams mergers.

Non-Interest Expense

Three months ended September 30, 2018 compared with three months ended September 30, 2017: For the three months ended September 30, 2018, non-interest expense totaled $23.6 million, an increase of $7.3 million, or 44.3%, compared with the three months ended September 30, 2017. The overall increase was primarily due to an increase in salaries and employee benefits of $4.0 million, an increase in data processing expense of $977 thousand and an increase in net occupancy and equipment of $522 thousand. Non-interest expense for the three-month period ended September 30, 2018 includes $954 thousand, $820 thousand, $1.1 million, $102 thousand and $300 thousand of incremental operating expenses directly allocable to the four branch locations acquired with the Eastman merger, one branch location acquired with the Cache merger, five branch locations acquired with the KBC merger, one branch location acquired with the Adams merger and one branch location acquired with the City Bank merger. These items and other changes in the various components of non-interest expense are discussed in more detail below.

The following table provides a comparison of the major components of non-interest expense for the three months ended September 30, 2018 and 2017.

Non-Interest Expense
For the Three Months Ended September 30,

(Dollars in thousands)	2018	2017	2018 vs. 2017 Change	2018 vs. 2017 %
Salaries and employee benefits	$ 12,361	$ 8,353	$ 4,008	48.0%
Net occupancy and equipment	2,125	1,603	522	32.6%
Data processing	2,195	1,218	977	80.2%
Professional fees	686	759	(73)	-9.6%
Advertising and business development	802	535	267	49.9%
Telecommunications	451	275	176	64.0%
FDIC insurance	457	290	167	57.6%
Courier and postage	321	222	99	44.6%
Free nationwide ATM cost	364	238	126	52.9%
Loan expense	319	199	120	60.3%
Amortization of core deposit intangible	694	243	451	185.6%
Other real estate owned	355	219	136	62.1%
Other	1,760	1,211	549	45.3%
Sub-Total	22,890	15,365	7,525	49.0%
Merger expenses	757	1,023	(266)	-26.0%
Total non-interest expense	$ 23,647	$ 16,388	$ 7,259	44.3%

Salaries and employee benefits: Salaries and benefits were $12.4 million for the three months ended September 30, 2018, as compared to $8.4 million for the three months ended September 30, 2017. The increase in salaries and benefits of $4.0 million includes approximately $577 thousand directly allocable to the Eastman merger, $623 thousand directly allocable to the Cache merger, $583 thousand directly allocable to the KBC merger, $96 thousand directly allocable to the Adams merger and $214 thousand directly allocable to the City Bank merger. Included in salaries and employee benefits is stock based compensation expense of $227 thousand for the three months ended September 30, 2018 and $120 thousand in the comparable period of 2017. The remaining $1.8 million increase in salaries and benefits reflect cost-of-living/merit raises and the addition of corporate and operations staff indirectly attributable to acquisitions and our growth.

Net occupancy and equipment: Net occupancy and equipment includes expenses related to the use of premises and equipment, such as depreciation, operating lease payments, repairs and maintenance, insurance, property taxes and utilities, and is net of incidental rental income of excess facilities. Occupancy expenses were $2.1 million for the three months ended September 30, 2018 and $1.6 million for the three months ended September 30, 2017. The 2018 expenses include expenses of $185 thousand for four branches that were part of the merger with Eastman, $81 thousand for one branch that was part of the merger with Cache, $229

thousand for five branches that were part of the merger with KBC and $15 thousand for one branch that was part of the merger with City Bank, partially offset by $19 thousand net facility income related to one branch that was part of the merger with Adams.

Data processing: Data processing expenses were $2.2 million and $1.2 million for the three-month periods ended September 30, 2018 and 2017. The increase of $977 thousand was principally due to increased software license and processing costs associated with our growth.

Advertising and business development: Advertising and business development expenses were $802 thousand for the three months ended September 30, 2018 and $535 thousand for the three months ended September 30, 2017. Advertising and business development includes media advertising, community sponsorships, customer appreciation expenses and other forms of advertising. The increase is due to additional advertising and business development in new markets added from the previously mentioned mergers.

Other real estate owned: Other real estate owned includes other real estate expenses, including provision for unrealized losses, gain or loss on other real estate owned and gain or loss on the sale of other repossessed property. For the three months ended September 30, 2018, there was $146 thousand in other real estate owned expense and $211 thousand loss on the sale of other real estate owned, partially offset by $2 thousand of gain on the sale of other repossessed property. For the three months ended September 30, 2017, other real estate owned expense, including provision for unrealized losses, was $253 thousand offset by gains on the sale of other real estate owned of $19 thousand.

Other: Other non-interest expenses, which consist of subscriptions; memberships and dues; employee expenses including travel, meals, entertainment and education; supplies; printing; insurance; account related losses; correspondent bank fees; customer program expenses; losses net of gains on the sale of fixed assets and other operating expenses were $1.8 million for the three months ended September 30, 2018 and $1.2 million for the three months ended September 30, 2017. The $549 thousand increase in other non-interest expenses includes incremental operating costs attributable to the acquired Eastman, Cache, KBC, Adams and City Bank branches.

Merger expenses: Merger expenses were $757 thousand for the three months ended September 30, 2018 and $1.0 million for the three months ended September 30, 2017. The merger expenses for the three-month period ended September 30, 2018 consisted of $35 thousand associated with the KBC merger, $7 thousand associated with the Adams merger and $715 thousand associated with the City Bank merger..

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017: For the nine months ended September 30, 2018, non-interest expense totaled $69.2 million, an increase of $22.5 million, or 48.1%, compared with the nine months ended September 30, 2017. The overall increase was primarily due to an increase in salaries and employee benefits of $10.5 million, an increase in merger expenses of $4.4 million, an increase in data processing expense of $2.3 million, an increase in net occupancy and equipment of $1.3 million and an increase in amortization of core deposit intangibles of $1.0 million. Non-interest expense for the nine-month period ended September 30, 2018, includes directly allocable incremental operating expenses of $3.0 million for the four branch locations acquired with the Eastman merger, $2.4 million for the one branch location acquired with the Cache merger, $1.9 million for the five branches acquired with the KBC merger, $256 thousand for the one branch location acquired with the Adams merger and $300 thousand for the one branch location acquired with the City Bank merger. These items and other changes in the various components of non-interest expense are discussed in more detail below.

The following table provides a comparison of the major components of non-interest expense for the nine months ended September 30, 2018 and 2017.

Non-Interest Expense
For the Nine Months Ended September 30,

(Dollars in thousands)	2018	2017	2018 vs. 2017 Change	2018 vs. 2017 %
Salaries and employee benefits	$ 34,881	$ 24,395	$ 10,486	43.0%
Net occupancy and equipment	5,938	4,621	1,317	28.5%
Data processing	5,837	3,570	2,267	63.5%
Professional fees	2,245	1,737	508	29.2%
Advertising and business development	2,086	1,677	409	24.4%
Telecommunications	1,252	966	286	29.6%
FDIC insurance	1,211	615	596	96.9%
Courier and postage	879	684	195	28.5%
Free nationwide ATM cost	986	683	303	44.4%
Loan expense	810	658	152	23.1%
Amortization of core deposit intangible	1,703	687	1,016	147.9%
Other real estate owned	(48)	494	(542)	-109.7%
Other	4,945	3,873	1,072	27.7%
Sub-Total	62,725	44,660	18,065	40.5%
Merger expenses	6,524	2,085	4,439	212.9%
Total non-interest expense	$ 69,249	$ 46,745	$ 22,504	48.1%

Salaries and employee benefits: Salaries and benefits were $34.9 million for the nine months ended September 30, 2018, as compared to $24.4 million for the nine months ended September 30, 2017. The increase in salaries and benefits of $10.5 million includes approximately $1.7 million allocable to the Eastman merger, $1.7 million allocable to the Cache merger, $986 thousand allocable to the KBC merger, $194 thousand allocable to the Adams merger and $214 thousand allocable to the City Bank merger. Included in salaries and employee benefits is stock-based compensation expense of $502 thousand for the nine months ended September 30, 2018 and $364 thousand in the comparable period of 2017. The remaining $5.6 million increase in salaries and benefits reflect cost-of-living/merit raises and the addition of corporate and operations staff indirectly attributable to acquisitions and our growth.

Net occupancy and equipment: Net occupancy and equipment includes expenses related to the use of premises and equipment, such as depreciation, operating lease payments, repairs and maintenance, insurance, property taxes and utilities, and is net of incidental rental income of excess facilities. Occupancy expenses were $5.9 million for the nine months ended September 30, 2018 and $4.6 million for the nine months ended September 30, 2017. The 2018 expenses include expenses of $490 thousand for four branches that were part of the Eastman merger, expenses of $251 thousand for one branch that was part of the Cache merger, expenses of $380 thousand for five branches that were part of the KBC merger, expenses of $9 thousand for one branch that was part of the Adams merger and expenses of $15 thousand for one branch that was part of the City Bank merger.

Data processing: Data processing expenses were $5.8 million and $3.6 million for the nine-month periods ended September 30, 2018 and 2017. The increase of $2.3 million was principally due to increased software license and processing costs associated with our growth.

Advertising and business development: Advertising and business development expenses were $2.1 million for the nine months ended September 30, 2018 and $1.7 million for the nine months ended September 30, 2017. Advertising and business development includes media advertising, community sponsorships, customer appreciation expenses and other forms of advertising. The increase is due to additional advertising and business development in new markets added from the previously described mergers.

Other real estate owned: Other real estate owned includes other real estate expenses, including provision for unrealized losses, gain or loss on other real estate owned and gain or loss on the sale of other repossessed property. Other real estate owned expense, including provision for unrealized losses, was $445 thousand for the nine months ended September 30, 2018, offset by gains on the sale of other real estate owned of $384 thousand and gains on the sale of other repossessed property of $109 thousand. For the nine months ended September 30, 2017, other real estate owned expenses, including provision for unrealized losses were $527 thousand, offset by gains on the sale of other real estate owned of $33 thousand.

Other: Other non-interest expenses, which consist of, subscriptions; memberships and dues; employee expenses including travel, meals, entertainment and education; supplies; printing; insurance; account related losses; correspondent bank fees; deposit customer program expenses; losses net of gains on the sale of fixed assets and other operating expenses such as settlement of claims, were $4.9 million for the nine months ended September 30, 2018 and $3.9 million for the nine months ended September 30, 2017. The $1.1 million increase in other non-interest expenses includes incremental operating costs attributable to the Eastman, Cache, KBC, Adams and City Bank mergers.

Merger expenses: Merger expenses were $6.5 million for the nine months ended September 30, 2018 and $2.1 million for the nine months ended September 30, 2017. The $6.5 million in merger expenses for the nine month period ended September 30, 2018 consisted of $146 thousand associated with the Eastman merger, $166 thousand associated with the Cache merger, $4.3 million associated with the KBC merger, $1.2 million associated with the Adams merger and $759 thousand associated with the City Bank merger.

Efficiency Ratio

The efficiency ratio is a supplemental financial measure utilized in the internal evaluation of our performance and is not defined under GAAP. For a reconciliation of Non-GAAP financial measures see “Non-GAAP Financial Measures” in this Item 2. Our efficiency ratio is computed by dividing non-interest expense, excluding merger expenses, by the sum of net interest income and non-interest income, excluding net gain or loss from securities transactions. Generally, an increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources.

Our efficiency ratio was 59.9% for the three months ended September 30, 2018, compared with 63.5% for the three months ended September 30, 2017. The decrease was primarily due to increased net interest income, as discussed in “Results of Operations – Net Interest Income and Net Interest Margin Analysis,” partially offset by increased non-interest expense, as discussed in “Results of Operations – Non-Interest Expense.”

Our efficiency ratio was 59.3% for the nine months ended September 30, 2018, compared with 61.6% for the nine months ended September 30, 2017. The decrease was primarily due to increased net interest income, as discussed in “Results of Operations – Net Interest Income and Net Interest Margin Analysis,” partially offset by increased non-interest expense, as discussed in “Results of Operations – Non-Interest Expense.”

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Reform) was enacted, which reduced the U.S. federal statutory income tax rate from the 35% rate applicable in 2017 to 21% in 2018. In addition to the statutory tax rates applicable in each period, the amount of income tax expense for both 2018 and 2017 reflect income before income taxes; the levels of tax-exempt interest income, non-taxable life insurance income, non-deductible facilitative merger expense and other non-deductible expense included in income before income taxes as well as available federal income tax credits.

Three months ended September 30, 2018 compared with three months ended September 30, 2017: The provisions for income taxes were $2.9 million and $2.1 million for the three-month periods ended September 30, 2018 and 2017. Equity’s effective tax rate for the quarter ended September 30, 2018 was 22.1% as compared to 28.8% for the quarter ended September 30, 2017. The reduction in the effective tax rate is principally due to the reduction in the U.S. federal statutory tax rate. Excess tax benefits associated with the exercise of stock options were $19 thousand in the third quarter of 2018, as compared to $132 thousand in the comparable period of 2017.

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017: For the nine months ended September 30, 2018, income tax expense was $7.4 million compared with $7.2 million for the nine months ended September 30, 2017. Equity’s effective tax rate for the nine-month period ended September 30, 2018 was 22.2% as compared to 30.5% for the nine-month period ended September 30, 2017. Equity’s estimated annual effective tax rate was reduced approximately 10 percentage points in 2018 principally due to the reduction in the U.S. federal statutory rate. Partially offsetting the benefit of the rate reduction was a decrease in excess tax benefits associated with the exercise of stock options recorded during the nine months ended September 30, 2018 as compared to the prior-year first nine months. Excess tax benefits were $25 thousand in the first nine months of 2018, down $322 thousand from the excess tax benefits recorded in the first nine months of 2017.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Quarterly Report have been prepared in accordance with GAAP, which requires 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.

Financial Condition

Our total assets increased $760.5 million, or 24.0%, from $3.17 billion at December 31, 2017, to $3.93 billion at September 30, 2018. The increase in total assets was primarily from increases of $453.8 million in net loans held for investment, primarily acquired in the KBC, Adams and City Bank mergers and $178.4 million in held-to-maturity securities also primarily acquired in the KBC, Adams and City Bank mergers. Our total liabilities increased $691.4 million, or 24.7%, from $2.80 billion at December 31, 2017 to $3.49 billion at September 30, 2018. The increase in total liabilities was primarily from increases in total deposits of $439.2 million, largely due to the KBC, Adams and City Bank mergers and an increase of $223.2 million in Federal Home Loan Bank advances. Our total stockholders' equity increased $69.1 million, or 18.5%, from $374.1 million at December 31, 2017 to $443.2 million at September 30, 2018. The increase in total stockholders' equity was primarily from an increase in additional paid-in capital of $31.9 million related to the KBC merger, an increase in additional paid-in capital of $13.2 million related to the Adams merger and an increase in retained earnings of $25.9 million; partially offset by a $4.0 million decrease in accumulated other comprehensive income.

Loan Portfolio

Loans are our largest category of earning assets and typically provide higher yields than other types of earning assets. At September 30, 2018, our gross loans held for portfolio totaled $2.56 billion, an increase of $453.8 million, or 21.6%, primarily acquired in the KBC, Adams and City Bank mergers, compared with December 31, 2017. The overall increase in loan volume consisted of $251.6 million from commercial real estate, $68.3 million from residential real estate, $49.3 from agricultural real estate, $43.7 million from commercial and industrial, $23.1 million from real estate construction, $14.5 million from consumer and $3.2 million from agricultural. We also had loans classified as held for sale totaling $43.4 million at September 30, 2018.

Our loan portfolio consists of various types of loans, most of which are made to borrowers located in the Wichita, Kansas City and Tulsa Metropolitan Statistical Areas ("MSAs"), as well as various community markets throughout Arkansas, Kansas, Missouri and Oklahoma. The majority of our loan portfolio consists of commercial and industrial and commercial real estate loans and a substantial portion of our borrowers' ability to honor their obligations is dependent on local economic conditions in Arkansas, Kansas, Missouri and Oklahoma. As of September 30, 2018, there was no concentration of loans to any one type of industry exceeding 10% of total loans.

At September 30, 2018, gross total loans were 90.6% of deposits and 65.0% of total assets. At December 31, 2017, total loans were 88.3% of deposits and 66.3% of total assets.

The organic, or non-acquired, changes in our loan portfolio are attributable to our ability to attract new customers from other financial institutions and overall growth in our markets. Several new lenders have been hired in our markets, and we believe these lenders have been successful in transitioning their former clients and attracting new clients. Lending activities originate from the efforts of our lenders, with an emphasis on lending to individuals, professionals, small to medium-sized businesses and commercial companies located in the Wichita, Kansas City and Tulsa MSAs, as well as community markets in Arkansas, Kansas, Missouri and Oklahoma.

We provide commercial lines of credit, working capital loans, commercial real estate-backed loans (including loans secured by owner occupied commercial properties), term loans, equipment financing, acquisition, expansion and development loans, borrowing base loans, real estate construction loans, homebuilder loans, SBA loans, agricultural and agricultural real estate loans, letters of credit and other loan products to national and regional companies, real estate developers, mortgage lenders, manufacturing and industrial companies and other businesses. The types of loans we make to consumers include residential real estate loans, home equity loans, home equity lines of credit, installment loans, unsecured and secured personal lines of credit, overdraft protection and letters of credit.

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

Composition of Loan Portfolio

	September 30, 2018		December 31, 2017			
	Amount	Percent	Amount	Percent	Change	%
	(Dollars in thousands)					
Commercial and industrial	$ 551,235	21.5%	$ 507,519	24.1%	$ 43,716	8.6%
Real estate loans:						
Commercial real estate	1,053,082	41.2%	801,491	38.1%	251,591	31.4%
Real estate construction	209,306	8.2%	186,170	8.9%	23,136	12.4%
Residential real estate	445,012	17.4%	376,705	17.9%	68,307	18.1%
Agricultural real estate	135,825	5.3%	86,486	4.1%	49,339	57.0%
Total real estate loans	1,843,225	72.1%	1,450,852	69.0%	392,373	27.0%
Consumer	63,865	2.5%	49,361	2.4%	14,504	29.4%
Agricultural	98,730	3.9%	95,547	4.5%	3,183	3.3%
Total loans held for investment	$2,557,055	100.0%	$2,103,279	100.0%	$ 453,776	21.6%
Total loans held for sale	$ 43,372	100.0%	$ 16,344	100.0%	$ 27,028	165.4%
Total loans (net of allowances)	$2,546,045	100.0%	$2,094,781	100.0%	$ 451,264	21.5%

Commercial and industrial: Commercial and industrial loans include loans used to purchase fixed assets, provide working capital, or meet other financing needs of the business.

Commercial real estate: Commercial real estate loans include all loans secured by nonfarm nonresidential properties and by multifamily residential properties, as well as 1-4 family investment-purpose real estate loans.

Real estate construction: Real estate construction loans include loans made for the purpose of acquisition, development, or construction of real property, both commercial and consumer.

Residential real estate: Residential real estate loans include loans secured by primary or secondary personal residences.

Agricultural real estate, Agricultural, Consumer and other: Agricultural real estate loans are loans related to farmland. Agricultural loans are primarily operating lines subject to annual farming revenues including productivity/yield of the agricultural commodities produced. Consumer loans are generally secured by consumer assets, but may be unsecured.

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with predetermined interest rates and floating rates in each maturity range as of September 30, 2018 are summarized in the following table:

Loan Maturity and Sensitivity to Changes in Interest Rates

	As of September 30, 2018			
	One year or less	After one year through five years	After five years	Total
	(Dollars in thousands)			
Commercial and industrial	$ 185,340	$ 231,028	$ 134,867	$ 551,235
Real Estate:				
Commercial real estate	154,711	561,518	336,854	1,053,083
Real estate construction	86,471	100,650	22,184	209,305
Residential real estate	12,965	15,237	416,810	445,012
Agricultural real estate	51,223	44,821	39,781	135,825
Total real estate	305,370	722,226	815,629	1,843,225
Consumer	10,251	42,466	11,148	63,865
Agricultural	69,975	24,217	4,538	98,730
Total	$ 570,936	$ 1,019,937	$ 966,182	$ 2,557,055
Loans with a predetermined fixed interest rate	295,860	629,763	310,551	1,236,174
Loans with an adjustable/floating interest rate	275,076	390,174	655,631	1,320,881
Total	$ 570,936	$ 1,019,937	$ 966,182	$ 2,557,055

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with predetermined interest rates and floating rates in each maturity range as of December 31, 2017 are summarized in the following table:

Loan Maturity and Sensitivity to Changes in Interest Rates

	As of December 31, 2017			
	One year or less	After one year through five years	After five years	Total
	(Dollars in thousands)			
Commercial and industrial	$ 175,425	$ 198,951	$ 133,143	$ 507,519
Real Estate:				
Commercial real estate	116,797	464,987	219,707	801,491
Real estate construction	76,406	76,153	33,611	186,170
Residential real estate	14,852	12,788	349,065	376,705
Agricultural real estate	32,241	32,354	21,891	86,486
Total real estate	240,296	586,282	624,274	1,450,852
Consumer	9,113	31,997	8,251	49,361
Agricultural	70,427	19,746	5,374	95,547
Total	$ 495,261	$ 836,976	$ 771,042	$ 2,103,279
Loans with a predetermined fixed interest rate	257,141	532,308	212,711	1,002,160
Loans with an adjustable/floating interest rate	238,120	304,668	558,331	1,101,119
Total	$ 495,261	$ 836,976	$ 771,042	$ 2,103,279

Credit Quality Indicators

We categorize loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Loans are analyzed individually and classified based on credit risk. Consumer loans are considered pass credits unless downgraded due to payment status or reviewed as part of a larger credit relationship. We use the following definitions for risk ratings:

Pass: Loans classified as pass do not have any noted weaknesses and repayment of the loan is expected. These loans are considered unclassified.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of our credit position at some future date. These loans are considered classified.

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

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

The risk category of loans by class of loans is as follows as of September 30, 2018:

Risk Category of Loans by Class

	As of September 30, 2018		
	Unclassified	Classified	Total
	(Dollars in thousands)		
Commercial and industrial	$ 522,921	$ 28,314	$ 551,235
Real estate:			
Commercial real estate	1,037,230	15,852	1,053,082
Real estate construction	196,239	13,067	209,306
Residential real estate	438,610	6,402	445,012
Agricultural real estate	123,171	12,654	135,825
Total real estate	1,795,250	47,975	1,843,225
Consumer	63,069	796	63,865
Agricultural	92,189	6,541	98,730
Total	$ 2,473,429	$ 83,626	$ 2,557,055

The risk category of loans by class of loans is as follows as of December 31, 2017:

Risk Category of Loans by Class

	As of December 31, 2017		
	Unclassified	Classified	Total
	(Dollars in thousands)		
Commercial and industrial	$ 486,150	$ 21,369	$ 507,519
Real estate:			
Commercial real estate	787,894	13,597	801,491
Real estate construction	183,564	2,606	186,170
Residential real estate	370,151	6,554	376,705
Agricultural real estate	77,084	9,402	86,486
Total real estate	1,418,693	32,159	1,450,852
Consumer	48,777	584	49,361
Agricultural	88,261	7,286	95,547
Total	$ 2,041,881	$ 61,398	$ 2,103,279

At September 30, 2018, loans considered pass rated credits decreased to 96.7% of total loans, down from 97.1% of total loans at December 31, 2017. Classified loans were $83.6 million at September 30, 2018, an increase of $22.2 million, or 36.2%, from $61.4 million at December 31, 2017.

Nonperforming Assets

The following table presents information regarding nonperforming assets at the dates indicated:

Nonperforming Assets

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Nonaccrual loans	$ 43,296	$ 40,276
Accruing loans 90 or more days past due	10	—
Restructured loans-accruing	—	—
OREO acquired through foreclosure, net	7,014	7,907
Total nonperforming assets	$ 50,320	$ 48,183
Ratios:		
Nonperforming assets to total assets	1.28%	1.52%
Nonperforming assets to total loans plus OREO	1.96%	2.28%

Nonperforming assets (“NPAs”) include loans on nonaccrual status, accruing loans 90 or more days past due, restructured loans, and other real estate acquired through foreclosure. Impaired loans do not include purchased loans that were identified upon acquisition as having experienced credit deterioration since origination (“purchased credit impaired loans” or “PCI loans”). See the “Critical Accounting Policies” section for information regarding the review of loans for determining the allowance for loan loss and impairment.

Generally, loans are designated as nonaccrual when either principal or interest payments are 90 days or more past due based on contractual terms, unless the loan is well secured and in the process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed against income. Future interest income may be recorded on a cash basis after recovery of principal is reasonably assured. Nonaccrual 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 had $43.3 million in nonperforming loans at September 30, 2018, compared with $40.3 million at December 31, 2017. The nonperforming loans at September 30, 2018 consisted of 366 separate credits and 242 separate borrowers. We had nine non-performing loan relationships with an outstanding balance in excess of $1.0 million as of September 30, 2018. There were $6.3

million non-performing loans that were directly related to the Prairie merger, $7.2 million directly related to the Eastman merger, $1.3 million directly related to the Cache merger, $2.8 million directly related to the KBC merger, $1.4 million directly related to the Adams merger and $6.4 million directly related to the City Bank merger.

There are 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 lenders, and also monitor delinquency levels for any negative or adverse trends. In accordance with applicable regulation, appraisals or evaluations are required to independently value real estate and, as an important element, to consider when underwriting loans secured in part or in whole by real estate. The value of real estate collateral provides additional support to the borrower's credit capacity. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Potential Problem Loans

Potential problem loans consist of loans that are performing in accordance with contractual terms, but for which management has concerns about the borrower's ability to comply with repayment terms because of the borrower's potential financial difficulties. Potential problem loans are assigned a grade of special mention or substandard. At September 30, 2018, the Company had $40.3 million in potential problem loans which were not included in either non-accrual or 90 days past due categories, compared to $21.1 million at December 31, 2017.

With respect to potential problem loans, all monitored and under-performing loans are reviewed and evaluated to determine if they are impaired. If we determine that a loan is impaired, then we evaluate the borrower's overall financial condition to determine the need, if any, for possible write downs or appropriate additions to the allowance for loan losses based on the unlikelihood of full repayment of principal and interest in accordance with the contractual terms or the net realizable value of the pledged collateral.

The Company also monitors the aging of loans less than 90 days past due as reported in "NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES" in the Condensed Notes to Interim Consolidated Financial Statements. There were $2.6 million loans 30-59 days past due and $3.1 million loans 60-89 days past due at September 30, 2018, compared to $3.9 million loans 30-59 days past due and $1.3 million loans 60-89 days past due at December 31, 2017.

Allowance for loan losses

Please see "Critical Accounting Policies – Allowance for Loan Losses" for additional discussion of our allowance policy.

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

- Commercial and industrial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial and industrial loans are advanced for equipment purchases, to provide working capital, or to meet other financing needs of the business. These loans may be secured by accounts receivable, inventory, equipment, or other business assets. Financial information is obtained from the borrower to evaluate the debt service coverage and ability to repay the loans.
- Commercial real estate loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan. Residential real estate loans are affected by the local residential real estate market, the local economy, and movement in interest rates. We evaluate the borrower's repayment ability through a review of credit reports and debt to income ratios. Appraisals are obtained to support the loan amount.
- Agricultural real estate loans are real estate loans related to farmland, and are affected by the value of farmland. We evaluate the borrower's ability to repay based on cash flows from farming operations.
- Consumer loans are dependent on the local economy. Consumer loans are generally secured by consumer assets, but may be unsecured. We evaluate the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.
- Agricultural loans are primarily operating lines subject to annual farming revenues including productivity/yield of the agricultural commodities produced and the market pricing at the time of sale.

Purchased credit impaired loans: As part of previous acquisitions, we acquired certain loans for which there was, at acquisition, evidence of deterioration of credit quality since origination. These purchased credit impaired loans were recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Purchased credit impaired loans are accounted for individually. We estimate the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of the amount paid are 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

the expected cash flows is less than the carrying amount, a loss is recorded. If the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

The table below shows the contractually required principal loan payments and the associated purchase discount on our purchased credit impaired portfolio.

Recorded Investment in Purchased Credit Impaired Loans

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Contractually required payments	$ 47,912	$ 41,349
Discount	(12,885)	(12,492)
Recorded investment	$ 35,027	$ 28,857

Analysis of allowance for loan losses: At September 30, 2018, the allowance for loan losses totaled $11.0 million, or 0.43% of total loans. At December 31, 2017, the allowance for loan losses aggregated $8.5 million, or 0.40% of total loans.

The allowance for loan losses on loans collectively evaluated for impairment totaled $9.6 million, or 0.38%, of the $2.50 billion in loans collectively evaluated for impairment at September 30, 2018, compared to an allowance for loan losses of $7.6 million, or 0.37% of the $2.06 billion in loans collectively evaluated for impairment at December 31, 2017. The increases in the allowance for loan losses as a percentage of total loans and of loans collectively evaluated for impairment principally reflect management's evaluation of current environmental conditions and changes in the composition and quality of our loan portfolio. Also considered by management in evaluating the allowance for loan losses are applied loss factors which are based in part on historical loss experience.

Annualized net losses as a percentage of average loans decreased to 0.06% for the three months ended September 30, 2018, as compared to 0.08% for the three months ended September 30, 2017. Annualized net losses as a percentage of average loans decreased to 0.04% for the nine months ended September 30, 2018, as compared to 0.08% for the nine months ended September 30, 2017.

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

Allowance for Loan Losses

	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Average loans outstanding	$ 2,516,833	$ 1,528,658	$ 2,320,402	$ 1,484,134
Gross loans outstanding at end of period(1)	$ 2,557,055	$ 1,540,761	$ 2,557,055	$ 1,540,761
Allowance for loan losses at beginning of the period	$ 10,083	$ 7,568	$ 8,498	$ 6,432
Provision for loan losses	1,291	727	3,211	2,450
Charge-offs:				
Commercial and industrial	(3)	(1)	(89)	(423)
Real estate:				
Commercial real estate	(90)	(146)	(119)	(238)
Real estate construction	—	—	—	—
Residential real estate	(91)	—	(362)	(238)
Agricultural real estate	(13)	(13)	(93)	(16)
Consumer	(526)	(221)	(1,035)	(822)
Agricultural	—	—	(43)	(41)
Total charge-offs	(723)	(381)	(1,741)	(1,778)
Recoveries:				
Commercial and industrial	22	8	30	34
Real estate:				
Commercial real estate	11	8	288	482
Real estate construction	—	—	—	—
Residential real estate	56	3	253	101
Agricultural real estate	13	—	16	—
Consumer	256	35	445	242
Agricultural	1	1	10	6
Total recoveries	359	55	1,042	865
Net recoveries (charge-offs)	(364)	(326)	(699)	(913)
Allowance for loan losses at end of the period	$ 11,010	$ 7,969	$ 11,010	$ 7,969
Ratio of allowance to period-end loans	0.43%	0.52%	0.43%	0.52%
Annualized ratio of net charge-offs (recoveries) to average loans	0.06%	0.08%	0.04%	0.08%

(1) Excluding loans held for sale.

The following table shows the allocation of the allowance for loan losses among our loan categories and certain other information as of the dates indicated. The total allowance is available to absorb losses from any loan category.

Analysis of the Allowance for Loan Losses

	September 30, 2018		December 31, 2017	
	Amount	% of Total Allowance	Amount	% of Total Allowance
	(Dollars in thousands)			
Balance of allowance for loan losses applicable to:				
Commercial and industrial	$ 2,560	23.2%	$ 2,136	25.1%
Real estate:				
Commercial real estate	3,376	30.7%	2,047	24.1%
Real estate construction	774	7.0%	693	8.2%
Residential real estate	2,608	23.7%	2,262	26.6%
Agricultural real estate	362	3.3%	319	3.8%
Consumer	1,043	9.5%	768	9.0%
Agricultural	287	2.6%	273	3.2%
Total allowance for loan losses	$ 11,010	100.0%	$ 8,498	100.0%

Management believes that the allowance for loan losses at September 30, 2018 was adequate to cover probable incurred losses in the loan portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance at September 30, 2018.

Securities

We use our securities portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements. At September 30, 2018, the carrying amount of investment securities totaled $886.3 million, an increase of $188.6 million, or 27.0%, compared with December 31, 2017. At September 30, 2018, securities represented 22.5% of total assets compared with 22.0% at December 31, 2017.

At the date of purchase, debt and equity securities are classified into one of two categories, held-to-maturity or available-for-sale. We do not purchase securities for trading purposes. At each reporting date, the appropriateness of the classification is reassessed. Investments in debt securities are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and the accretion of discounts, in the financial statements only if management has the positive intent and ability to hold those securities to maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale and measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, as accumulated comprehensive income or loss until realized. Interest earned on securities is included in total interest and dividend income. Also included in total interest and dividend income are dividends received on stock investments in the Federal Reserve Bank of Kansas City and the FHLB of Topeka. These stock investments are stated at cost.

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

Available-For-Sale Securities

	September 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 179,872	$ 172,388	$ 163,374	$ 161,591
State and political subdivisions	—	—	195	195
Equity securities	—	—	500	486
Total available-for-sale securities	$ 179,872	$ 172,388	$ 164,069	$ 162,272

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

Held-To-Maturity Securities

	September 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. government-sponsored entities	$ 3,867	$ 3,834	$ 998	$ 985
Residential mortgage-backed securities (issued by government-sponsored entities)	531,639	515,606	383,875	379,582
Corporate	22,993	23,158	22,991	23,346
Small Business Administration loan pools	1,746	1,686	2,048	2,034
State and political subdivisions	153,654	151,182	125,550	126,797
Total held-to-maturity securities	$ 713,899	$ 695,466	$ 535,462	$ 532,744

At September 30, 2018 and December 31, 2017, we did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored entities) for which aggregate adjusted cost exceeded 10% of the consolidated stockholders' equity at the reporting dates noted.

The following tables summarize the contractual maturity of debt securities and their weighted average yields as of September 30, 2018 and December 31, 2017. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately. Available-for-sale securities are shown at fair value and held-to-maturity securities are shown at cost, adjusted for the amortization of premiums and the accretion of discounts.

	September 30, 2018									
	Due in one year or less		Due after one year through five years		Due after five years through 10 years		Due after 10 years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
	(Dollars in thousands)									
Available-for-sale securities:										
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 908	1.82%	$ 12	3.14%	$ 112	2.38%	$171,356	3.04%	$172,388	3.03%
Total available-for-sale securities	$ 908	1.82%	$ 12	3.14%	$ 112	2.38%	$171,356	3.04%	$172,388	3.03%
Held-to-maturity securities:										
U.S. government-sponsored entities	$ 1,141	2.43%	$ 2,726	2.27%	$ —	—%	$ —	—%	$ 3,867	2.32%
Residential mortgage-backed securities (issued by government-sponsored entities)	—	—%	9,859	2.69%	72,749	2.81%	449,031	3.03%	531,639	2.99%
Corporate	—	—%	5,184	2.74%	17,809	5.12%	—	—%	22,993	4.58%
Small Business Administration loan pools	—	—%	—	—%	—	—%	1,746	2.61%	1,746	2.61%
State and political subdivisions(1)	4,047	2.61%	26,430	2.89%	40,283	3.00%	82,894	3.28%	153,654	3.12%
Total held-to-maturity securities	$ 5,188	2.57%	$44,199	2.79%	$130,841	3.18%	$533,671	3.07%	$713,899	3.07%
Total debt securities	$ 6,096	2.46%	$44,211	2.79%	$130,953	3.18%	$705,027	3.06%	$886,287	3.06%

(1) The calculated yield is not presented on a tax equivalent basis.

	December 31, 2017									
	Due in one year or less		Due after one year through five years		Due after five years through 10 years		Due after 10 years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
	(Dollars in thousands)									
Available-for-sale securities:										
Residential mortgage-backed securities (issued by government-sponsored entities)	$ 3,461	1.82%	$ 20	3.14%	$ 171	2.38%	$157,939	2.90%	$161,591	2.87%
State and political subdivisions(1)	195	1.11%	—	—%	—	—%	—	—%	195	1.11%
Total available-for-sale securities	$ 3,656	1.78%	$ 20	3.14%	$ 171	2.38%	$157,939	2.90%	$161,786	2.87%
Held-to-maturity securities:										
U.S. government-sponsored entities	$ —	—%	$ 998	1.65%	$ —	—%	$ —	—%	$ 998	1.65%
Residential mortgage-backed securities (issued by government-sponsored entities)	—	—%	9,203	2.60%	23,979	2.52%	350,693	2.86%	383,875	2.83%
Corporate	—	—%	5,236	2.74%	17,755	4.69%	—	—%	22,991	4.25%
Small Business Administration loan pools	—	—%	—	—%	—	—%	2,048	2.61%	2,048	2.61%
State and political subdivisions(1)	2,871	2.35%	21,022	3.02%	25,351	3.16%	76,306	3.23%	125,550	3.16%
Total held-to-maturity securities	$ 2,871	2.35%	$36,459	2.84%	$67,085	3.34%	$429,047	2.93%	$535,462	2.97%
Total debt securities	$ 6,527	2.03%	$36,479	2.84%	$67,256	3.33%	$586,986	2.92%	$697,248	2.95%

(2) The calculated yield is not presented on a tax equivalent basis.

Mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages and which are principally issued by federal agencies such as Ginnie Mae, Fannie Mae and Freddie Mac. Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Premiums and discounts on mortgage-backed securities are amortized and accreted over the expected life of the security and may be impacted by prepayments. As such, mortgage-backed securities which are purchased at a premium will generally produce decreasing net yields as interest rates drop because home owners tend to refinance their mortgages resulting in prepayments and an acceleration of premium amortization. Securities purchased at a discount will reflect higher net yields in a decreasing interest rate environment as prepayments result in an acceleration of discount accretion.

The contractual maturity of mortgage-backed securities is not a reliable indicator of their expected lives because borrowers have the right to prepay their obligations at any time. Monthly pay downs on mortgage-backed securities cause the average lives of these securities to be much different than their stated lives. At September 30, 2018 and December 31, 2017, 88.1% and 93.2% of the mortgage-backed securities held by us had contractual final maturities of more than ten years with a weighted average life of 5.7 years and 5.5 years and a modified duration of 4.9 years and 4.8 years.

Deposits

Our lending and investing activities are primarily funded by deposits. A variety of deposit accounts are offered with a wide range of interest rates and terms including demand, savings, money market and time deposits. We rely primarily on competitive pricing policies, convenient locations, comprehensive marketing strategy and personalized service to attract and retain these deposits.

The following table shows our composition of deposits at September 30, 2018 and December 31, 2017:

Composition of Deposits

	September 30, 2018		December 31, 2017	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Non-interest-bearing demand	$ 483,432	17.1%	$ 366,530	15.4%
Interest-bearing demand	594,091	21.1%	550,577	23.1%
Savings and money market	892,192	31.6%	688,407	28.9%
Time	851,531	30.2%	776,499	32.6%
Total deposits	$ 2,821,246	100.0%	$ 2,382,013	100.0%

Total deposits at September 30, 2018 were $2.82 billion, an increase of $439.2 million, or 18.4%, compared to total deposits of $2.38 billion at December 31, 2017. The KBC merger added $59.9 million in non-interest-bearing demand deposits, $67.3 million in interest-bearing demand deposits, $75.6 million in savings, NOW and money market deposits and $82.1 million in time deposits. The Adams merger added $26.4 million in non-interest-bearing demand deposits, $7.0 million in interest-bearing demand deposits, $21.7 million in savings, NOW and money market deposits and $28.8 million in time deposits. The City Bank merger added $32.0 million in non-interest-bearing demand deposits, $21.7 million in interest-bearing demand deposits, $34.0 million in savings, NOW and money market deposits and $37.8 million in time deposits. These merger increases were partially offset by decreases in funds placed in the Certificate of Deposit Account Registry Service ("CDARS") program and a decrease in public fund balances related to distribution of tax monies at the local level.

Included in the savings and money market deposits are brokered deposit balances of $21.3 million as of September 30, 2018 and $23.2 million as of December 31, 2017. These balances represent customer funds placed in the Insured Cash Sweep ("ICS") service that allows Equity Bank to break large money market deposits into smaller amounts and place them in a network of other ICS banks to ensure FDIC insurance coverage on the entire deposit. Although classified as brokered deposits for regulatory purposes, funds placed through the ICS service are Equity Bank's customer relationships that management views as core funding. Brokered certificates of deposit as of September 30, 2018 were $21.0 million and $63.0 million at December 31, 2017. These balances were customer funds placed in the CDARS program. CDARS allows Equity Bank to break large time deposits into smaller amounts and place them in a network of other CDARS banks to ensure FDIC insurance coverage on the entire deposit. Although classified as brokered deposits for regulatory purposes, funds placed through the CDARS program are Equity Bank's customer relationships that management views as core funding.

The following table provides information on the maturity distribution of time deposits of $100 thousand or more as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017	Change	%
	(Dollars in thousands)			
3 months or less	$ 95,174	$ 133,588	$ (38,414)	-28.8%
Over 3 through 6 months	90,082	98,523	(8,441)	-8.6%
Over 6 through 12 months	172,795	131,098	41,697	31.8%
Over 12 months	203,738	155,457	48,281	31.1%
Total Time Deposits	$ 561,789	$ 518,666	$ 43,123	8.3%

Other Borrowed Funds

We utilize borrowings to supplement deposits to fund our lending and investing activities. Short-term borrowings and long-term borrowings include federal funds purchased and retail repurchase agreements, FHLB advances, a bank stock loan, and subordinated debentures.

Federal funds purchased and retail repurchase agreements: We have available federal funds lines of credit with our correspondent banks. As of September 30, 2018 there were $314 thousand federal funds purchased outstanding. As of December 31, 2017, there were no federal funds purchased outstanding. Retail repurchase agreements outstanding represent the purchase of interests

in securities by banking customers. Retail repurchase agreements are stated at the amount of cash received in connection with the transaction. We do not account for any of our repurchase agreements as sales for accounting purposes in our financial statements. Repurchase agreements with banking customers are settled on the following business day. Retail repurchase agreements are secured by investment securities held by us totaling $44.5 million at September 30, 2018 and $44.8 million at December 31, 2017. The agreements are on a day-to-day basis and can be terminated on demand. At September 30, 2018 and December 31, 2017, we had retail repurchase agreements with banking customers of $42.9 million and $37.5 million.

FHLB advances: FHLB advances include both draws against our line of credit and fixed rate term advances. Each term advance is payable in full at its maturity date and contains provision for prepayment penalties. At September 30, 2018, we had $16.8 million in term advances with the FHLB. On December 31, 2017, we had no term advances with the FHLB. Our FHLB borrowings are used for operational liquidity needs for originating and purchasing loans, purchasing investments and general operating cash requirements. Our FHLB borrowings were collateralized by certain qualifying loans totaling $952.7 million at September 30, 2018. Based on this collateral and our holdings of FHLB stock, we were eligible to borrow an additional $355.9 million at September 30, 2018. For additional information see “NOTE 5 – BORROWINGS” in the Condensed Notes to Interim Consolidated Financial Statements.

Bank stock loan: On September 30, 2018, we had an outstanding balance of $24.4 million on a $30 million borrowing facility from an unaffiliated financial institution, secured by our stock in Equity Bank. The borrowing facility will mature on March 11, 2019. Each draw of funds on the facility will create a separate note that is repayable over a term of five years. Each note will bear interest at a variable interest rate equal to the Prime Rate published in the “Money Rates” section of *The Wall Street Journal* (or any generally recognized successor), floating daily. Accrued interest and principal payments are due quarterly with one final payment of unpaid principal and interest due at the end of the five year term of each separate note. We are also required to pay an unused commitment fee in an amount equal to 20 basis points per annum on the unused portion of the maximum borrowing facility. The terms of the loan require us and Equity Bank to maintain minimum capital ratios and other covenants. The loan and accrued interest may be pre-paid at any time without penalty. In the event of default, the lender has the option to declare all outstanding balances as immediately due. For additional information see “Note 5 – BORROWINGS” in the Condensed Notes to Interim Consolidated Financial Statements. We believe we are in compliance with the terms of the borrowing facility and have not been otherwise notified of noncompliance.

Subordinated debentures: In conjunction with the 2012 acquisition of First Community Bancshares, Inc., we assumed certain subordinated debentures owed to special purpose unconsolidated subsidiaries that are controlled by us, FCB Capital Trust II (“CTII”) and FCB Capital Trust III (“CTIII”). The trust preferred securities issued by CTII accrue and pay distributions quarterly at three-month LIBOR plus 2.00% on the stated liquidation amount of the trust preferred securities. These trust preferred securities are mandatorily redeemable upon maturity on April 15, 2035 or upon earlier redemption. The trust preferred securities issued by CTIII accrue and pay distributions quarterly at three-month LIBOR plus 1.89% on the stated liquidation amount of the trust preferred securities. These trust preferred securities are mandatorily redeemable upon maturity on June 15, 2037 or upon earlier redemption.

In conjunction with the 2016 acquisition of Community First Bancshares, Inc., we assumed certain subordinated debentures owed to a special purpose unconsolidated subsidiary that is controlled by us, Community First (AR) Statutory Trust I, (“CFSTI”). The trust preferred securities issued by CFSTI accrue and pay distributions quarterly at three-month LIBOR plus 3.25% on the stated liquidation amount of the trust preferred securities. These trust preferred securities are mandatorily redeemable upon maturity on December 26, 2032, or upon earlier redemption.

The subordinated debentures balance, including CTII, CTIII and CFSTI, was $14.2 million at September 30, 2018 and $14.0 million at December 31, 2017.

Liquidity and Capital Resources

Liquidity

Market and public confidence in our financial strength and financial institutions in general will largely determine access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound asset quality and appropriate levels of capital reserves.

Liquidity is defined as the ability to meet anticipated customer demands for future funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. We measure our liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily, weekly, and monthly basis.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liabilities, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations in a cost-effective manner and to meet current and future potential obligations such as loan commitments, lease obligations, and unexpected deposit outflows. In this process, we focus on both assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs.

During the nine-month periods ended September 30, 2018 and 2017 our liquidity needs have primarily been met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Other funding sources include federal funds purchased, brokered certificates of deposit, and borrowings from the FHLB.

Our largest sources of funds are deposits and FHLB borrowings and largest uses of funds are loans and securities. Average loans were $2.32 billion for the nine months ended September 30, 2018, an increase of 47.2% over December 31, 2017 average balance. Excess deposits are primarily invested in our interest-bearing deposit account with the Federal Reserve Bank of Kansas City, investment securities, federal funds sold or other short-term liquid investments until the funds are needed to fund loan growth. Our securities portfolio has a weighted average life of 5.7 years and a modified duration of 4.9 years at September 30, 2018.

Cash and cash equivalents were $61.4 million at September 30, 2018, an increase of $9.2 million from the $52.2 million cash and cash equivalents at December 31, 2017. The net cash provided by financing activities of $159.2 million and net cash provided by operating activities of $1.9 million was partially offset by the net cash used in investing activities of $151.9 million, resulting in a net increase of cash and cash equivalents of $9.2 million. Cash and cash equivalents at January 1, 2018 plus liquidity provided by operating activities, pay downs, sales and maturities of investment securities and FHLB borrowings during the first nine months of 2018 were used to originate or purchase loans and to purchase investment securities. We believe that our daily funding needs can be met through cash provided by operating activities, payments and maturities on loans and investment securities, our core deposit base and FHLB advances and other borrowing relationships.

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments.

Our commitments associated with outstanding standby and performance letters of credit and commitments to extend credit expiring by period as of September 30, 2018 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

Credit Extensions Commitments
As of September 30, 2018

	1 Year or Less	More Than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More	Total
			(Dollars in thousands)		
Standby and performance letters of credit	$ 6,807	$ 1,092	$ 24	$ —	$ 7,923
Commitments to extend credit	263,715	78,004	98,506	83,480	523,705
Total	$ 270,522	$ 79,096	$ 98,530	$ 83,480	$ 531,628

Standby and Performance Letters of Credit: Standby letters of credit are irrevocable commitments issued by us to guarantee the performance of a customer to a third party once specified pre-conditions are met. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

Commitments to Extend Credit: Commitments to originate loans and available lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments and lines of credit may expire without being drawn upon, the total commitment and lines of credit amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. Mortgage loans in the process of origination represent amounts that we plan to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market.

Capital Resources

Capital management consists of providing equity to support our current and future operations. The federal 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. As a bank holding company and a state-chartered-Fed-member bank, the Company and Equity Bank are subject to regulatory capital requirements.

Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of September 30, 2018 and December 31, 2017, the Company and Equity Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as are asset growth and acquisitions, and capital restoration plans are required.

Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, including termination of deposit insurance by the FDIC, restrictions on certain business activities and appointment of the FDIC as conservator or receiver. As of September 30, 2018, the most recent notifications from the federal regulatory agencies categorized Equity Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Equity Bank must maintain minimum total capital, Tier 1 capital, Common Equity Tier 1 capital, and Tier 1 leverage ratios. For additional information see "NOTE 7 – REGULATORY MATTERS" in the Condensed Notes to Interim Consolidated Financial Statements. There are no conditions or events since that notification that management believes have changed Equity Bank's category.

Total stockholders' equity was $443.2 million at September 30, 2018, an increase of $69.1 million, or 18.5%, compared with December 31, 2017. The increase was attributable to common stock of $31.9 million, net of issuance expenses, issued as part of the merger with KBC, common stock of $13.2 million, net of issuance expenses, issued as part of the merger with Adams, retained earnings of $25.9 million for the nine months ended September 30, 2018, common stock issued upon the exercise of stock options of $123 thousand, stock based compensation of $2.0 million and a change in accumulated other comprehensive income of $4.0 million.

Non-GAAP Financial Measures

We identify certain financial measures discussed in this Quarterly Report as being "non-GAAP financial measures." In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheet or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Quarterly Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Quarterly Report may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their

financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Quarterly Report when comparing such non-GAAP financial measures.

Tangible Book Value Per Common Share and Tangible Book Value Per Diluted Common Share: Tangible book value is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) tangible common equity as total stockholders' equity less preferred stock, goodwill, core deposit intangibles, net of accumulated amortization, mortgage servicing asset and naming rights; (b) tangible book value per common share as tangible common equity (as described in clause (a)) divided by shares of common stock outstanding; and tangible book value per diluted common share as tangible common equity (as described in clause (a)) divided by diluted shares of common stock outstanding. For tangible book value, the most directly comparable financial measure calculated in accordance with GAAP is book value.

Management believes that these measures are important to many investors who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity, tangible book value per common share, and tangible book value per diluted common share and compares these values with book value per common share:

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	(Dollars in thousands, except per share data)				
Total stockholders' equity	$ 443,237	$ 433,282	$ 381,487	$ 374,144	$ 291,835
Less: goodwill	131,723	125,485	103,412	104,907	64,587
Less: core deposit intangibles, net	22,466	19,800	10,355	10,738	5,476
Less: mortgage servicing asset, net	13	14	16	17	19
Less: naming rights, net	1,228	1,239	1,249	1,260	1,271
Tangible common equity	$ 287,807	$ 286,744	$ 266,455	$ 257,222	$ 220,482
Common shares issued at period end	15,792,695	15,780,777	14,609,414	14,605,607	12,230,319
RSU shares vested	—	6,768	11,844	—	—
Common shares outstanding at period end	15,792,695	15,787,545	14,621,258	14,605,607	12,230,319
Diluted common shares outstanding at period end	16,118,067	16,131,096	14,923,798	14,873,257	12,501,484
Book value per common share	$ 28.07	$ 27.44	$ 26.09	$ 25.62	$ 23.86
Tangible book value per common share	$ 18.22	$ 18.16	$ 18.22	$ 17.61	$ 18.03
Tangible book value per diluted common share	$ 17.86	$ 17.78	$ 17.85	$ 17.29	$ 17.64

Tangible Common Equity to Tangible Assets: Tangible common equity to tangible assets is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) tangible common equity as total stockholders' equity less preferred stock, goodwill, core deposit intangibles, net of accumulated amortization and mortgage servicing asset; (b) tangible assets as total assets less goodwill, core deposit intangibles, net of accumulated amortization, mortgage servicing asset, and naming rights; and (c) tangible common equity to tangible assets as tangible common equity (as described in clause (a)) divided by tangible assets (as described in clause (b)). For tangible common equity to tangible assets, the most directly comparable financial measure calculated in accordance with GAAP is total stockholders' equity to total assets.

Management believes that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total stockholders' equity and total assets while not increasing tangible common equity or tangible assets.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity and total assets to tangible assets:

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
			(Dollars in thousands)		
Total stockholders' equity	$ 443,237	$ 433,282	$ 381,487	$ 374,144	$ 291,835
Less: goodwill	131,723	125,485	103,412	104,907	64,587
Less: core deposit intangibles, net	22,466	19,800	10,355	10,738	5,476
Less: mortgage servicing asset, net	13	14	16	17	19
Less: naming rights, net	1,228	1,239	1,249	1,260	1,271
Tangible common equity	$ 287,807	$ 286,744	$ 266,455	$ 257,222	$ 220,482
Total assets	$ 3,931,036	$ 3,712,185	$ 3,176,062	$ 3,170,509	$ 2,405,426
Less: goodwill	131,723	125,485	103,412	104,907	64,587
Less: core deposit intangibles, net	22,466	19,800	10,355	10,738	5,476
Less: mortgage servicing asset, net	13	14	16	17	19
Less: naming rights, net	1,228	1,239	1,249	1,260	1,271
Tangible assets	$ 3,775,606	$ 3,565,647	$ 3,061,030	$ 3,053,587	$ 2,334,073
Equity to assets	11.28%	11.67%	12.01%	11.80%	12.13%
Tangible common equity to tangible assets	7.62%	8.04%	8.70%	8.42%	9.45%

Return on Average Tangible Common Equity: Return on average tangible common equity is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate: (a) average tangible common equity as total average stockholders' equity less average goodwill, core deposit intangibles, net of accumulated amortization, mortgage servicing asset, naming rights and preferred stock; (b) adjusted net income allocable to common stockholders as net income allocable to common stockholders plus intangible asset amortization less tax effect on intangible assets amortization; and (c) return on average tangible common equity as annualized adjusted net income allocable to common stockholders (as described in clause (b)) divided by average tangible common equity (as described in clause (a)). For return on average tangible common equity, the most directly comparable financial measure calculated in accordance with GAAP is return on average equity.

Management believes that this measure is important to many investors in the marketplace who are interested in earnings quality on tangible common equity. Goodwill and other intangible assets have the effect of increasing total stockholders' equity while not increasing tangible common equity.

The following table reconciles, as of the dates set forth below, return on average stockholders equity and return on average tangible common equity:

	As of and for the three months ended				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
			(Dollars in thousands)		
Total average stockholders' equity	$ 439,771	$ 413,474	$ 377,895	$ 337,519	$ 289,007
Less: average intangible assets	150,256	134,146	116,634	96,620	71,465
Average tangible common equity	$ 289,515	$ 279,328	$ 261,261	$ 240,899	$ 217,542
Net income allocable to common stockholders	$ 10,322	$ 6,867	$ 8,711	$ 4,274	$ 5,157
Amortization of intangible assets	707	637	396	349	256
Less: tax effect of intangible assets amortization	148	134	83	122	90
Adjusted net income allocable to common stockholders	$ 10,881	$ 7,370	$ 9,024	$ 4,501	$ 5,323
Return on total average stockholders' equity (ROAE) annualized	9.31%	6.66%	9.35%	5.02%	7.08%
Return on average tangible common equity (ROATCE) annualized	14.91%	10.58%	14.01%	7.41%	9.71%

Efficiency Ratio: The efficiency ratio is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate the efficiency ratio by dividing non-interest expense, excluding merger expenses and loss on debt extinguishment, by the sum of net interest income and non-interest income, excluding net gain from securities transactions and

net gain on acquisition. The GAAP-based efficiency ratio is non-interest expenses divided by net interest income plus non-interest income.

In management's judgment, the adjustments made to non-interest expense and non-interest income allow investors and analysts to better assess operating expenses in relation to operating revenue by removing merger expenses, loss on debt extinguishment, net gain from securities transactions and net gain on acquisition.

The following table reconciles, as of the dates set forth below, the efficiency ratio to the GAAP-based efficiency ratio:

	Three months ended				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	(Dollars in thousands)				
Non-interest expense	$ 23,647	$ 25,975	$ 19,627	$ 20,718	$ 16,388
Less: Merger expenses	757	5,236	531	3,267	1,023
Non-interest expense, excluding merger expenses	$ 22,890	$ 20,739	$ 19,096	$ 17,451	$ 15,365
Net interest income	$ 32,755	$ 30,920	$ 27,787	$ 24,589	$ 20,321
Non-interest income	$ 5,433	$ 4,592	$ 4,251	$ 4,104	$ 4,035
Less: net gain (loss) from securities transactions	(4)	(2)	(8)	—	175
Non-interest income, excluding net gain from securities transactions	$ 5,437	$ 4,594	$ 4,259	$ 4,104	$ 3,860
Net interest income plus non-interest income, excluding net gain from securities transactions	$ 38,192	$ 35,514	$ 32,046	$ 28,693	$ 24,181
Non-interest expense to net interest income plus non-interest income	61.92%	73.14%	61.26%	72.21%	67.29%
Efficiency Ratio	59.93%	58.40%	59.59%	60.82%	63.54%

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Our asset-liability policy provides guidelines to management for effective funds management, and management has established a measurement system for monitoring net interest rate sensitivity position within established guidelines.

As a financial institution, the primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short-term held-to-maturity. Interest rate risk is the potential of economic gains or losses due to future interest rate changes. These changes can be reflected in future net interest income and/or fair market values. The objective is to measure the effect on net interest income ("NII") and economic value of equity ("EVE") and to adjust the balance sheet to minimize the inherent risk, while at the same time maximizing income.

We manage exposure to interest rates by structuring the balance sheet in the ordinary course of business. We have the ability to 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; however, currently we do not have a material exposure to these instruments. We also have the ability to enter into interest rate swaps as an accommodation to our customers in connection with an interest rate swap program. 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 ("ALCO"), which is composed of certain members of senior management, in accordance with policies approved by the Board of Directors. The ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO 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 ALCO meets monthly 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, securities purchase and sale activities, commitments to originate loans and the maturities of investment securities and borrowings. Additionally, the ALCO reviews liquidity, projected cash flows, maturities of deposits and consumer and commercial deposit activity.

ALCO uses a simulation analysis to monitor and manage the pricing and maturity of assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on net interest income. The simulation tests the sensitivity of NII and EVE. Contractual maturities and repricing opportunities of loans are incorporated in the simulation model as are prepayment assumptions, maturity data and call options within the investment securities portfolio. Assumptions based on past experience are incorporated into the model for non-maturity deposit accounts. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure the future NII and EVE. 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.

The change in the impact of net interest income from the base case for September 30, 2018 and December 31, 2017, was primarily driven by the rate and mix of variable and fixed rate financial instruments, the underlying duration of the financial instruments, and the level of response to changes in the interest rate environment. The increase in the level of negative impact to net interest income in the up interest rate shock scenarios are due to the assumed migration of non-term deposit liabilities to higher rate term deposits; the level of fixed rate investments and loans receivable that will not reprice to higher rates; the variable rate Federal Home Loan Bank advances; the variable rate subordinated debentures, and the non-term deposits that are assumed not to migrate to term deposits that are variable rate and will reprice to the higher rates; and a portion of our portfolio of variable rate loans contain restrictions on the amount of repricing and frequency of repricing that limit the amount of repricing to the current higher rates. These factors result in the negative impacts to net interest income in the up interest rate shock scenarios that are detailed in the table below. In the down interest rate shock scenario the main drivers of the negative impact on net interest income are the decrease in investment income due to the negative convexity features of the fixed rate mortgage backed securities; assumed prepayment of existing fixed rate loans receivable; the downward pricing of variable rate loans receivable; the constraint of the shock on non-term deposits; and the level of term deposit repricing. Our mortgage backed security portfolio is comprised of fixed rate investments and as rates decrease the level of prepayments are assumed to increase and cause the current higher rate investments to prepay and the assumed reinvestment will be at lower interest rates. Similar to our mortgage backed securities, the model assumes that our fixed rate loans receivable will prepay at a faster rate and reinvestment will occur at lower rates. The level of downward shock on the non-term deposits is constrained to limit the downward shock to a non-zero rate which results in a minimal reduction in the average rate paid. Term deposits repricing will only decrease the average cost paid by a minimal amount due to the assumed repricing occurring at maturity. These factors result in the negative impact to net interest income in the down interest rate shock scenario.

The change in the EVE from the base case for September 30, 2018 and December 31, 2017 is due to us being in a liability sensitive position and the level of convexity in our pre-payable assets. Generally, with a liability sensitive position, as interest rates increase the value of your assets decrease faster than the value of liabilities and as interest rates decrease the value of your assets increase at a faster rate than liabilities. However, due to the level of convexity in our fixed rate pre-payable assets we do not experience a similar change in the value of assets in a down interest rate shock scenario. Substantially all investments and approximately 48.3% of loans are pre-payable and fixed rate and as rates decrease the level of modeled prepayments increase. The prepaid principal is assumed to reprice at the assumed current rates, resulting in a smaller positive impact to the EVE.

Management utilizes static balance sheet rate shocks to estimate the potential impact on various rate scenarios. This analysis estimates a percentage of change in the metric from the stable rate base scenario versus alternative scenarios of rising and falling market interest rates by instantaneously shocking a static balance sheet. The following table summarizes the simulated immediate change in net interest income for twelve months as of the dates indicated:

Market Risk

	Impact on Net Interest Income	
Change in prevailing interest rates	**September 30, 2018**	**December 31, 2017**
+300 basis points	(13.1)%	(9.8)%
+200 basis points	(8.1)%	(5.9)%
+100 basis points	(3.6)%	(2.7)%
0 basis points	—	—
-100 basis points	2.4%	0.2%

The following table summarizes the simulated immediate impact on economic value of equity as of the dates indicated:

	Impact on Economic Value of Equity	
Change in prevailing interest rates	September 30, 2018	December 31, 2017
+300 basis points	(18.3)%	(15.4)%
+200 basis points	(10.4)%	(8.5)%
+100 basis points	(2.6)%	(2.0)%
0 basis points	—	—
-100 basis points	1.3%	(2.7)%

Item 4: Controls and Procedures

Evaluation of disclosure controls and procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. 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 judgement in evaluating its controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

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 period covered by this Quarterly Report on Form 10-Q 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

From time to time we are a party to various litigation matters incidental to the conduct of our business. See "NOTE 11 – LEGAL MATTERS" of the Condensed Notes to Interim Consolidated Financial Statements under Item 1 to this Quarterly report for a complete discussion of litigation matters.

Item 1A: Risk Factors

There has been no material changes in the Company's risk factors previously disclosed in our Annual Report on Form 10-K filed with the SEC on March 16, 2018.

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

Recent Sales of Unregistered Equity Securities

None

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 No.	Description
10.1*	Second Amendment to Loan and Security Agreement, by and between Equity Bancshares, Inc. and ServisFirst Bank.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** These exhibits are furnished herewith and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

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.

Equity Bancshares, Inc.

November 9, 2018	By: /s/ Brad S. Elliott
Date	Brad S. Elliott
	Chairman and Chief Executive Officer
November 9, 2018	By: /s/ Gregory H. Kossover
Date	Gregory H. Kossover
	Executive Vice President and Chief Financial Officer

Exhibit 10.1

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and dated as of March 12, 2018, between **EQUITY BANCSHARES, INC.**, a Kansas corporation (the "Borrower"), and **SERVISFIRST BANK**, an Alabama banking corporation (the "Lender").

R E C I T A L S

A. Borrower and Lender are parties to that certain Loan and Security Agreement dated as of January 28, 2016, as amended (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement"; capitalized terms used and not otherwise defined or amended in this Amendment shall have the meanings respectively assigned to them in the Loan Agreement). Under the terms and conditions, and subject to the limitations, set forth in the Loan Agreement, Lender has provided to Borrower a Commitment to extend Loans to Borrower in an aggregate principal amount of up to $30,000,000.00.

B. The Commitment Maturity Date is the date hereof. Borrower has requested that Lender consent to (i) the renewal of the Commitment and extension of the Commitment Maturity Date for a period of 364 days from the date hereof, and (ii) certain other amendments to the Loan Agreement, in each case in accordance with and subject to the terms set forth hereunder.

C. Lender, by execution hereof, has agreed to consent to the foregoing and to amend the Loan Agreement accordingly, upon the terms and conditions set forth herein, including, without limitation, the condition that Borrower acknowledge and reaffirm its obligations under the Loan Agreement and the other documents related thereto.

D. The parties hereto have consulted with, and obtained the representation and advice of, their respective legal counsel with regard to the terms and conditions of this Amendment. Each party to this Amendment has had the opportunity to participate fully in the drafting of this Amendment.

A G R E E M E N T

In consideration of the foregoing and the mutual covenants and agreements hereinafter set forth, the parties hereto hereby agree as follows:

1. Recitals. The recitals set forth above are true and correct and the parties hereto agree to be bound thereby.

2. Amendments to the Loan Agreement. The Loan Agreement is hereby amended as follows:

A. To the extent applicable, the Loan Agreement and each related agreement, instrument, and other document are amended by replacing any and all references to "850 Shades Creek Parkway, Suite 200, Birmingham, Alabama 35209" in Lender's notice or principal business address with references to "2500 Woodcrest Place, Birmingham, Alabama 35209."

B. Section 1.01 of the Loan Agreement is amended by amending and restating the definition of "Commitment Maturity Date" to read as follows:

"Commitment Maturity Date" means the earlier of March 11, 2019, or the date that either the Commitment is terminated or the maturity of any Note is accelerated pursuant to Section 7.02 of this Agreement.

C. Section 3.02(H) of the Loan Agreement is amended and restated to read as follows:

(H) There shall be no material adverse change in the consolidated financial condition or business of Borrower since December 31, 2017, or the Subsidiary Bank since December 31, 2017.

D. Section 5.01(I) of the Loan Agreement is amended and restated to read as follows:

(I) Borrower's and the Subsidiary Bank's financial statements (including Call Reports, in the case of the Subsidiary Bank) furnished to Lender, including any schedules and notes pertaining thereto, have been prepared in accordance with Generally Accepted Accounting Principles consistently applied, and fully and fairly present the financial condition of Borrower at the dates thereof and the results of operations for the periods covered thereby, and there have been no material adverse changes in the consolidated financial condition or business of Borrower, from December 31, 2017, to the date hereof, or the Subsidiary Bank, from December 31, 2017, to the date hereof;

E. Section 5.01(J) of the Loan Agreement is amended and restated to read as follows:

(J) As of March 12, 2018, neither Borrower nor the Subsidiary Bank has any material Indebtedness of any nature, including, but without limitation, liabilities for taxes and any interest or penalties relating thereto, except to the extent reflected (in a footnote or otherwise) and reserved against in the December 31, 2017, financial statements of Borrower, or the December 31, 2017, Call Report of the Subsidiary Bank, or as disclosed in or permitted by this Agreement, as applicable; Borrower does not know and has no reasonable ground to know of any basis for the assertion against it or the Subsidiary Bank as of December 31, 2017, of any material Indebtedness of any nature not fully reflected and reserved against in the above referenced respective financial statements or Call Reports, as applicable;

F. Section 5.01(R) of the Loan Agreement is amended and restated to read as follows:

(R) The Subsidiary Bank's retained earnings, as reported on Schedule RC of the Subsidiary Bank's most recent quarterly Call Report, were $33,585,000.00.

G. Exhibit C to the Loan Agreement is deleted in its entirety, and Exhibit C to this Amendment is inserted in lieu thereof.

3. Effectiveness. This Amendment shall be and become effective as of the date first above written; provided, that each of the following conditions is satisfied, all as reasonably determined by and satisfactory to Lender:

A. Lender shall have received an Unused Commitment Fee from Borrower in the amount of $58,333.13, which shall cover the period of time from and including March 13, 2017, through and including March 12, 2018. On and after the date of this Amendment, the Unused Commitment Fee shall continue to accrue and otherwise be in effect in accordance with Section 2.09 of the Loan Agreement.

B. Lender shall have received (including by facsimile) counterparts of this Amendment, duly executed by or on behalf of Borrower.

C. Lender shall have approved the amendments set forth in this Amendment, such approval to be evidenced by Lender's execution of counterparts of this Amendment.

D. All documents executed or submitted pursuant hereto shall be reasonably satisfactory in form and substance to Lender and its counsel prior to or by the time of closing. Prior to or by the time of closing, Lender and its counsel shall have received all information, certificates, resolutions, legal opinions and other documents, and such counterpart originals or such certified or other copies of such originals as Lender or its counsel may reasonably request, and all legal matters incident to the transactions contemplated by this Amendment shall be reasonably satisfactory to Lender and its counsel.

E. The representations and warranties set forth in paragraph 4 below shall be true and correct in all respects.

Notwithstanding the satisfaction (or waiver) of each of the conditions set forth above and/or the execution of this Amendment by Borrower, this Amendment, in any event, shall not be or become effective and binding upon the parties until executed and accepted by Lender.

4. Representations and Warranties. In order to induce Lender to enter into this Amendment, Borrower represents and warrants that:

A. The execution, delivery and performance by Borrower of this Amendment and the documents contemplated hereby are (i) within its entity powers and have been duly authorized by all necessary entity action, (ii) not in contravention of any law, rule or regulation, or any judgment, decree, writ, injunction, order to award of any arbitrator, court or governmental authority, (iii) not in contravention of the terms of Borrower's organizational documents, and (iv) not in contravention of any contract or undertaking to which Borrower is a party or by which Borrower or its properties are or may be bound or affected.

B. Each of this Amendment and, to the extent Borrower is a party thereto, the other documents contemplated hereby, is a legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its respective terms.

C. No consent, approval or authorization of or declaration, registration or filing with any governmental authority or any nongovernmental person or entity, including without limitation any creditor, stockholder, member, partner or other owner of Borrower, is required on the part of Borrower in connection with the execution, delivery and performance of this Amendment and the documents contemplated hereby, or the transactions contemplated hereby, or as a condition to the legality, validity or enforceability of this Amendment and the documents contemplated hereby.

D. After giving effect to the amendments to the Loan Agreement contained in this Amendment: (i) the representations and warranties contained in the Loan Agreement and in each other document related thereto are true and correct on and as of the date hereof with the same force and effect as if made on and as of the date hereof, (ii) Borrower is in full compliance with all the covenants and agreements established under the Loan Agreement and the other documents related thereto, (iii) no Default has occurred and is continuing, and (iv) no material adverse change has occurred in the financial condition of Borrower since the as-of date of the most recent financial statements delivered by Borrower to Lender.

5. Reaffirmation and Ratification of Loan Documents.

A. Borrower acknowledges, ratifies, reaffirms and confirms to Lender the obligations, liabilities and undertakings of Borrower under the Loan Agreement, as amended hereby, and the other documents related thereto to which Borrower is a party. All provisions of the Loan Agreement and the other documents related thereto to which Borrower is a party are in full force and effect and remain unchanged, except as amended hereby.

B. Borrower agrees that (i) the amendments effectuated hereunder do not adversely affect or impair in any way the validity or enforceability of the Loan Agreement and the other documents related thereto to which Borrower is a party, and (ii) the Loan Agreement, as amended hereby, and the documents related thereto to which Borrower is a party are legal, valid and binding obligations of Borrower, enforceable by Lender against Borrower and in accordance with their respective terms.

C. Borrower acknowledges and agrees that the Loan Agreement, as amended hereby, and the other documents related thereto to which Borrower is a party, and the Obligations (including, without limitation, Borrower's obligation to pay the outstanding amounts under the Loan Agreement and each Note related thereto), are not subject to any defense, claim, counterclaim, setoff, right of recoupment, abatement or other determination whatsoever, legal, equitable or otherwise. Borrower waives any and all defenses of

any nature whatsoever, legal, equitable or otherwise, which Borrower may now have with respect to Borrower's obligations under the Loan Agreement, as amended hereby, and the other documents related thereto to which Borrower is a party.

6. Acknowledgments Regarding Collateral. Borrower acknowledges, certifies and agrees that (i) all of the Collateral described in the Loan Agreement, including, without limitation, the Pledged Stock, currently secures and shall continue to secure all of the Obligations, (ii) Lender's security interests in and liens on the Collateral have been duly perfected and are fully enforceable against Borrower and the property encumbered thereby, and (iii) there has been no interruption, cessation, or other lapse of the aforesaid security interests and liens of Lender in the Collateral.

7. No Waiver by Lender, Etc. Notwithstanding the agreement of Lender to enter into this Amendment and to amend the Loan Agreement as set forth herein, Borrower acknowledges and agrees that, by so agreeing to enter into this Amendment, except as specifically set forth in this Amendment, Lender shall not be deemed to have waived (or to be estopped from asserting) any provisions of the Loan Agreement, as amended hereby, or any other document related thereto, including without limitation, any existing or future Default thereunder and, if Borrower now or at any time in the future shall be in breach of any of the provisions of the Loan Agreement or any other document related thereto or if any Default has occurred and is continuing, Lender shall be entitled to withhold further Loans under the Loan Agreement at any time and to exercise any of its other default rights and remedies thereunder or under any other document related thereto, from time to time, upon, if applicable, notice to Borrower, and that no failure or delay on the part of Lender in exercising any right or remedy under the Loan Agreement or under any other document related thereto, and no course of dealing with Borrower, on the one hand, and Lender, on the other hand, shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy under the Loan Agreement or under any other document related thereto preclude any other or further exercise thereof or the exercise of any other right or remedy hereunder or thereunder.

8. Release of Claims. In consideration of the matters set forth in this Amendment, Borrower, for itself and on behalf of its legal representatives, successors and assigns, hereby fully, finally and irrevocably releases Lender, and its officers, representatives, agents, attorneys, employees, predecessors, successors and assigns (collectively, the "Released Parties"), from any and all defenses (other than payment or performance), affirmative defenses, claims, counterclaims, offsets, cross-claims, damages, demands, actions and causes of action of any kind or nature existing as of the date of this Amendment or based on facts or circumstances arising at any time up through and including the date of this Amendment, whether known or unknown and whenever and howsoever arising, relating to the Loan Agreement or the liabilities and obligations of Borrower thereunder, the other Obligations or the other documents related thereto, or any of them, or any past relationship between Borrower and Lender. In addition, Borrower hereby agrees not to commence, join in, prosecute, or participate in any suit or other proceeding in a position adverse to that of any of the Released Parties arising directly or indirectly from any of the foregoing matters.

9. Event of Default. If Borrower shall fail to perform or observe any term, covenant or agreement in this Amendment, or any representation or warranty made by Borrower in this Amendment shall prove to have been incorrect in any material respect when made, such occurrence shall be deemed to constitute a Default.

10. Payment of Fees and Expenses. Borrower agrees to pay all out-of-pocket costs and expenses of Lender, including the attorneys' fees, charges and disbursements of counsel for Lender, in connection with the negotiation, preparation, execution and delivery of this Amendment and the documents referred to herein and the consummation of the transactions contemplated hereby.

11. Counterparts; Facsimile Signatures. This Amendment may be executed in one or more counterpart copies, each of which constitutes an original, but all of which, when taken together, shall constitute one agreement binding upon all of the parties hereto. Further, the parties hereto may execute facsimile copies of this Amendment and the facsimile signature of any such party shall be deemed an original and fully binding on said party; provided, however, any party executing this Amendment by facsimile signature agrees to promptly provide an original executed copy of this Amendment to Lender.

12. Governing Law, Etc. This Amendment shall be governed by and construed in accordance with the applicable terms and provisions of Section 8.08 (Applicable Law; Jurisdiction and Venue) of the Loan Agreement,

which terms and provisions are incorporated herein by reference.

13. Successors and Assigns. This Amendment shall inure to and be binding upon and enforceable by Borrower, Lender, and their respective successors and assigns.

14. No Other Modifications. Except as hereby amended, no other term, condition or provision of the Loan Agreement shall be deemed modified or amended, and this Amendment shall not be considered a novation. From and after the effective date hereof, all references in the Loan Agreement, and any other document or instrument entered into in connection therewith, to the Loan Agreement shall be deemed to be references to the Loan Agreement as amended by this Amendment.

15. Reaffirmation and Ratification of Pledge Agreement. Without limiting anything set forth in paragraph 5 above or elsewhere in this Amendment, Borrower hereby acknowledges and agrees that the Pledge Agreement dated as of January 28, 2016, between Borrower and Lender remains in full force and effect as of the date hereof, and that the Pledged Stock described therein continues to secure all Obligations (as defined in such Pledge Agreement) in all respects.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed as of the day and year first above written.

BORROWER:

EQUITY BANCSHARES, INC.

By: /s/ Gregory H. Kossover
Name: Gregory H. Kossover
Title: Chief Financial Officer

LENDER:

SERVISFIRST BANK

By: /s/ Henry Abbott
Name: Henry Abbott
Title: Senior Vice President

EXHIBIT C TO
LOAN AND SECURITY AGREEMENT

STATES QUALIFIED, PRINCIPAL PLACES OF BUSINESS

Entity	State(s) Qualified	Principal Place of Business
Equity Bancshares, Inc.	Kansas	7701 E. Kellogg Ave. Wichita, Kansas 67207
Equity Bank	Kansas	7701 E. Kellogg Ave. Wichita, Kansas 67207

NAME CHANGES AND MERGERS WITHIN FIVE YEARS AND ONE MONTH

Borrower:

No name changes.
2012 merger with First Community Bancshares.
2015 merger with First Independence Corporation
2016 merger with Community First Bancshares, Inc.
2017 merger with Prairie State Bancshares, Inc.
2017 merger with Eastman National Bancshares, Inc.
2017 merger with Cache Holdings, Inc.

Subsidiary Bank:

No name changes.
2012 merger with First Community Bank.
2012 merger with Signature Bank.
2012 merger with The Citizens National Bank of Chillicothe.
2015 merger with First Federal Savings and Loan of Independence
2016 merger with Community First Bank
2017 merger with State Bank (Hoxie, Kansas)
2017 merger with The Eastman National Bank of Newkirk
2017 merger with Patriot Bank

Exhibit 31.1

CERTIFICATION

I, Brad S. Elliott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Equity Bancshares, Inc.;
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(s) 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(s) 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.

November 9, 2018

/s/ Brad S. Elliott

Brad S. Elliott
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Gregory H. Kossover, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Equity Bancshares, Inc.;
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(s) 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(s) 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.

November 9, 2018

/s/ Gregory H. Kossover

Gregory H. Kossover
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this report of Equity Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brad S. Elliott, 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 Section 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.

EQUITY BANCSHARES, INC.

November 9, 2018

/s/ Brad S. Elliott

Brad S. Elliott
Chairman and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this report of Equity Bancshares, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory H. Kossover, Executive Vice President and 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 Section 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.

EQUITY BANCSHARES, INC.

November 9, 2018

/s/ Gregory H. Kossover

Gregory H. Kossover
Executive Vice President and Chief Financial Officer