Triumph Bancorp, Inc.
Form 10-K
February 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO
Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of Registrant as specified in its Charter)

Texas (State or other jurisdiction of incorporation or organization)	20-0477066 (I.R.S. Employer Identification No.)
12700 Park Central Drive, Suite 1700 Dallas, TX (Address of principal executive offices)	75251 (Zip Code)

Registrant’s telephone number, including area code: (214) 365-6900

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of Class:	Name of Exchange on Which Registered:
Common Stock, Par Value $0.01 Per Share	NASDAQ

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the NASDAQ Global Market on June 30, 2017 was approximately $393,376,000.

The number of shares of Registrant’s Common Stock outstanding as of February 9, 2018 was 20,825,937.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders, which will be filed within 120 days after December 31, 2017, are incorporated by reference into Part III of this Report.

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PART I

ITEM 1. BUSINESS.

Overview

Triumph Bancorp, Inc. ("we", "Triumph" or the "Company"), is a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). Through our wholly owned bank subsidiary, TBK Bank, SSB ("TBK Bank"), we offer traditional banking services as well as commercial finance products to businesses that require specialized financial solutions. Our community banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance products include factoring, asset-based lending, equipment lending, and premium finance products offered on a nationwide basis. These product offerings supplement the asset generation capacity in our community banking markets and enhance the overall yield of our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of December 31, 2017, we had consolidated total assets of $3.499 billion, total loans held for investment of $2.811 billion, total deposits of $2.621 billion and total stockholders' equity of $391.7 million.

Our business is conducted through four reportable segments (Banking, Factoring, Asset Management, and Corporate). For the year ended December 31, 2017, our banking segment generated 66% of our total revenue (comprised of interest and noninterest income), our factoring segment generated 22% of our total revenue, our asset management segment generated 1% of our total revenue, and our corporate segment generated 11% of our total revenue. On March 31, 2017 we sold our 100% membership interest in Triumph Capital Advisors, LLC ("Triumph Capital Advisors") and no longer provide fee based asset management services. Asset Management segment results reflect activity through the date of the Triumph Capital Advisors sale. The $20.9 million pre-tax gain on the sale of Triumph Capital Advisors is included in the Corporate segment's revenue for the year ended December 31, 2017.

Our Corporate Structure

We operate our business through several corporate entities.

- TBK Bank, SSB is a Texas state savings bank. TBK Bank operates retail branch networks in two geographic markets, (i) a mid-western division consisting of ten branches in the Quad Cities Metropolitan Area of Iowa and Illinois, together with seven other branches throughout central and northwestern Illinois and one branch in northeastern Illinois, and (ii) a western division consisting of thirty-two branches located throughout central and eastern Colorado and two branches in far western Kansas. Through this branch network, we offer our customers a variety of financial products and services that both augment our revenue (fee and interest income) and help us expand and retain our core deposit network, including checking and savings accounts, debit cards, electronic banking, trust services and treasury management. TBK Bank also operates one location in Dallas, Texas, in which we maintain our corporate office, originate certain commercial finance, mortgage warehouse, and commercial real estate loan products, and operate a branch that is dedicated to deposit gathering activities. Through TBK Bank, we originate a full suite of commercial and retail loans including commercial real estate, general commercial, commercial agriculture, mortgage warehouse, one-to-four family residential and construction and development loans, primarily focused on customers in and around our primary market areas. In addition, TBK Bank originates many of our commercial finance products and services, including asset-based loans, equipment finance loans, general factoring

products, and premium finance loans. These commercial finance products and services are offered on a nationwide basis.

- Advance Business Capital, LLC (d/b/a "Triumph Business Capital") is a Delaware limited liability company and wholly owned subsidiary of TBK Bank that focuses on providing working capital financing through the purchase of accounts receivable, a product known as factoring. A substantial portion of Triumph Business Capital's factoring relationships are currently originated with small-to-mid-sized owner-operators, trucking fleets and freight brokers in the transportation industry, with an increasing representation in non-transportation sectors such as energy services, temporary staffing, and government contracting. Triumph Business Capital operates out of our Coppell, Texas location and employs a network of nationwide sales personnel.
- Triumph Insurance Group, Inc. is a Texas corporation and a wholly owned subsidiary of TBK Bank. Triumph Insurance Group was formed to provide insurance brokerage services, primarily focused on the insurance needs of our commercial finance and agriculture lending clients.
- Triumph Capital Advisors, LLC is a Texas limited liability company and registered investment advisor that provided investment management services for primarily institutional clients, focused on the management of collateralized loan obligations. On March 31, 2017 we sold our 100% membership interest in Triumph Capital Advisors and no longer provide fee based asset management services.

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Lending and Factoring Activities

We offer a broad range of lending and factoring products. Our business lending categories include commercial, commercial real estate, factoring, agriculture, construction and development, and mortgage warehouse facilities. Consumer lending represents a small portion of our overall loan portfolio and is focused primarily on meeting the needs of customers in our retail banking markets.

Our strategy is to maintain a broadly diversified loan portfolio by type and location. Within this general strategy, we focus on growth in the commercial finance areas where we believe we have expertise and market insights, including our factoring operations, asset-based lending, equipment finance, and premium finance.

A substantial portion of our lending is in the areas surrounding our community banking operations in Iowa, Illinois, Colorado and Kansas. We expect that we will continue to focus on the commercial and personal credit needs of businesses and individuals in these markets. We also have a significant amount of lending in Texas, the home of our corporate headquarters and a significant portion of our commercial finance operations. With respect to our commercial finance products, we also seek out customers and maintain loan production offices or sales personnel for such product lines on a nationwide basis.

The following is a discussion of our major types of lending activity:

Commercial Loans. We offer commercial loans to small-to-mid-sized businesses across a variety of industries. These loans include general commercial and industrial loans, loans to purchase capital equipment and business loans for working capital and operational purposes.

A portion of our commercial loan portfolio consists of commercial finance products including asset-based loans, equipment loans, and premium finance loans. A more detailed description of these product lines is set forth below:

- Asset-Based Loans. We originate asset-based loans to borrowers to support general working capital needs. Our asset-based loan structure involves advances of loan proceeds against a "borrowing base," which typically consists of accounts receivable, identified readily marketable inventory or other collateral of the borrower. The maximum amount a customer may borrow at any time is fixed as a percentage of the borrowing base outstanding. These loans typically bear interest at a floating rate comprised of LIBOR or the prime rate plus a premium and include certain other transaction fees, such as origination and unused line fees. We target asset-based loan facilities between $1 million and $20 million and originate asset-based loans across a variety of industries.
- Equipment Loans. We originate equipment loans primarily secured by new or used revenue producing, essential-use equipment from major manufacturers that is movable, may be used in more than one type of business, and generally has broad resale markets. Core markets include transportation, construction, and waste. Our equipment loans are typically fully amortizing, fixed rate loans secured by the underlying collateral with a term of three to five years.
- Premium Finance Loans. We originate premium finance loans that provide customized premium financing solutions for the acquisition of property and casualty insurance coverage. In effect, these short term premium finance loans allow insureds to pay their insurance premiums over the life of the underlying policy, instead of paying the entire premium at the outset.

Commercial Real Estate Loans. We originate real estate loans to finance commercial property that is owner-occupied as well as commercial property owned by real estate investors. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as office buildings, warehouses, production facilities, hotels and mixed-use residential/commercial and multifamily properties. We originate these loans both in our community banking markets and on a nationwide basis.

Factored Receivables. As a part of our commercial finance product offerings, we offer factoring services to our customers, primarily in the transportation sector, with an increasing focus on other industries. In contrast to a lending relationship, in a factoring transaction we directly purchase the receivables generated by our clients at a discount to

their face value. These transactions are structured to provide our clients with immediate liquidity to meet operating expenses when there is a mismatch between payments to our client for a good or service and the incurrence of operating costs required to provide such good or service. For example, in the transportation industry, invoices are typically paid 30 to 60 days after delivery whereas the truckers providing such transportation services require immediate funds to pay for fuel and other operating costs.

Our transportation factoring clients include small owner-operator trucking companies (one-to-four trucks), mid-sized fleets (5-to-50 trucks) and freight broker relationships whereby we manage all carrier payments on behalf of a broker client. The features and pricing of our transportation factoring relationships vary by client type. Typically our smaller owner-operator relationships are structured as “non-recourse” relationships (i.e., we retain the credit risk associated with the ability of the account debtor on an invoice we purchase to ultimately make payment) and our larger relationships are structured as “recourse” relationships (i.e., our client agrees to repurchase from us any invoices for which payment is not ultimately received from the account debtor).

Our non-transportation factoring business targets small businesses with annual sales between $1 million and $50 million in industries such as manufacturing, distribution, and staffing.

Agriculture Loans. We originate a variety of loans to borrowers in the agriculture industry, including (i) real estate loans secured by farmland, (ii) equipment financing for specific agriculture equipment, including irrigation systems, (iii) crop input loans primarily focused on corn, wheat and soybeans, and (iv) loans secured by cattle and other livestock. We originate these loans primarily in the areas surrounding our community banking markets in Iowa, Illinois, Colorado and Kansas.

Commercial Construction, Land and Land Development Loans. We offer loans to small-to-mid-sized businesses to construct owner-user properties, as well as loans to developers of commercial real estate investment properties and residential developments. These loans are typically disbursed as construction progresses and carry interest rates that vary with the prime rate.

Mortgage Warehouse Facilities. Mortgage warehouse arrangements allow unaffiliated mortgage originators to close one-to-four family real estate loans in their own name and manage its cash flow needs until the loans are sold to investors. Although not bound by any legally binding commitment, when a purchase decision is made, we purchase a 100% interest in the mortgage loans originated by our mortgage banking company customers using a Purchase/Repurchase agreement. The mortgage banking company customer closes mortgage loans consistent with underwriting standards established by the Agencies (FNMA, FHLMC and GNMA) and approved investors and, once all pertinent documents are received, the mortgage note is delivered by the Company to the investor selected by the originator.

The unaffiliated mortgage originating customers are located across the U.S. and originate loans primarily through traditional retail, wholesale and correspondent business models. These customers are strategically targeted for their experienced management teams and thoroughly analyzed to ensure long-term and profitable business models. By using this approach, we believe that this type of lending carries a lower risk profile than other one-to-four family mortgage loans held for investment in our portfolio, due to the short-term nature (averaging less than 30 days) of the exposure and the additional strength offered by the mortgage originator sponsorship.

At December 31, 2017, maximum aggregate outstanding purchases ranged in size from $10 million to $100 million. Typical covenants include minimum tangible net worth, maximum leverage and minimum liquidity. As loans age, the Company requires loan curtailments to reduce our risk involving loans that are not purchased by investors on a timely basis.

At December 31, 2017, the Company had 14 mortgage banking company customers with a maximum aggregate exposure of $550 million and an actual aggregate outstanding balance of $298 million. The average mortgage loan being purchased by the Company reflects a blend of both Conforming and Government loan characteristics, including an average loan to value ratio (LTV) of 86%, an average credit score of 698 and an average loan size of $191,720. These characteristics illustrate the low risk profile of loans purchased under the mortgage warehouse arrangements. To date, we have not experienced a loss on any of our mortgage warehouse loans.

Residential Real Estate Loans. We historically offered first and second mortgage loans to our individual customers primarily for the purchase of primary and secondary residences. However, we made the decision to exit the residential mortgage production business in the fourth quarter of 2015 as the operational and compliance risk associated with the business outweighed the amount of profitability generated.

Consumer Loans. We also originate personal loans for our retail banking customers. These loans originate exclusively out of our community banking operations in Iowa, Illinois, Colorado and Kansas.

Other Products and Services

Additional Products and Services. We offer a full range of commercial and retail banking services to our customers, including checking and savings accounts, debit cards, electronic banking, and trust services. These products both augment our revenue and help us expand our core deposit network. We also seek to make these additional banking products and services (many of which are not offered by non-bank lenders) to our commercial finance clients in order to improve acquisition and retention of these clients. Through Triumph Insurance Group, an insurance brokerage agency focused on meeting the insurance needs of our commercial clients, particularly our factoring clients in the transportation industry and our equipment lending clients, as well as our agriculture lending clients, we provide insurance brokerage services. We believe these ancillary product offerings have the ability to diversify our revenue and increase customer acquisition and retention for our primary product lines.

Asset Management. We historically offered asset management services through our wholly owned subsidiary, Triumph Capital Advisors, LLC. Triumph Capital Advisors generated fee income through providing asset management to, or other staffing and services for, collateralized loan obligation vehicles. On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors and no longer provide fee based asset management services.

Credit Risk Management

We mitigate credit risk both through disciplined underwriting of each transaction we originate, as well as active credit management processes and procedures to manage risk and minimize loss throughout the life of a transaction. We seek to maintain a broadly diversified loan portfolio in terms of type of customer, type of loan product, geographic area and industries in which our business customers are engaged. We have developed tailored underwriting criteria and credit management processes for each of the various loan product types we offer our customers.

Underwriting

In evaluating each potential loan relationship, we adhere to a disciplined underwriting evaluation process including the following:

- understanding of the customer's financial condition and ability to repay the loan;
- verifying that the primary and secondary sources of repayment are adequate in relation to the amount and structure of the loan;
- observing appropriate loan to value guidelines for collateral secured loans;
- maintaining our targeted levels of diversification for the loan portfolio, including industry, collateral, geography, and product type; and
- ensuring that each loan is properly documented with perfected liens on collateral.

Our non-owner occupied commercial real estate loans are generally secured by income producing property with adequate margins, supported by a history of profitable operations and cash flows and proven operating stability in the case of commercial loans. Our commercial real estate loans and commercial loans are often supported by personal guarantees from the principals of the borrower.

With respect to our asset-based loans, in addition to an overall evaluation of the borrower and the transaction considering the applicable criteria set forth above, we also engage in an evaluation of the assets comprising the borrowing base for such loans, to confirm that such assets are readily recoverable and recoverable at rates in excess of the advance rate for such loans.

Our factoring relationships in particular require a specialized underwriting process. For each factoring transaction, in addition to a credit evaluation of our client, we also evaluate the creditworthiness of underlying account debtors, as such account debtors represent the substantive underlying credit risk. Transportation factoring also presents the additional challenge of underwriting high volumes of invoices of predominantly low value per invoice and managing credit requests for a large industry pool of account debtors. We facilitate this process through a proprietary web-based "Online Broker Credit" application, which processes invoice purchase approval requests for our clients through an online proprietary scoring model and delivers either preliminary responses for small dollar requests or immediate referral to our servicing personnel for larger dollar requests. We also set and monitor concentration limits for individual account debtors that are tracked across all of our clients (as multiple clients may have outstanding invoices from a particular account debtor).

Our bank implements its underwriting evaluation and approval process through a tiered system of loan authorities. Under these authorities, transactions at certain identified levels are eligible to be approved by a designated officer or a combination of designated officers. Transactions above such individual thresholds require approval of a management-level loan committee. Transactions above the approval levels for our management-level loan committee must be approved by an executive loan committee comprised of directors of TBK Bank. Our underwriting and approval processes also employ limits we believe to be appropriate as to loan type and category, loan size, and other attributes.

Ongoing Credit Risk Management

We also perform ongoing risk monitoring and review processes for all credit exposures. Although we grade and classify our loans internally, we have an independent third party professional firm perform regular loan reviews to confirm loan classification. We strive to identify potential problem loans early in an effort to seek resolution of these situations before the loans create a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses incurred in the loan portfolio. In general, whenever a particular loan or overall borrower relationship is downgraded to pass-watch or substandard based on one or more standard loan grading factors, our credit officers engage in active evaluation of the asset to determine the appropriate resolution strategy. Management regularly reviews the status of the watch list and classified assets portfolio as well as the larger credits in the portfolio.

In addition to our general credit risk management processes, we employ specialized risk management processes and procedures for certain of our commercial finance products, in particular our asset-based lending and factoring products. With respect to our asset-based lending relationships, we require dominion over the borrower's cash accounts in order to actively control and manage the cash flows from the conversion of borrowing base collateral into cash and its application to the loan. We also engage in active review and monitoring of the borrowing base collateral itself, including field audits typically conducted on a 90-180 day cycle.

With respect to our factoring operations, we employ a proprietary risk management program whereby each client is assigned a risk score based on measurable criteria. Our risk model is largely geared toward early detection and mitigation of fraud, which we believe represents the most material risk of loss in this asset class. Risk scores are presented on a daily basis through a proprietary software application. These risk scores are then used to assign such client into a particular classification level. The classification level is not a predictor of loss exposure but rather the determinant for monitoring levels and servicing protocols, such as the percentage requirements for collateral review and invoice verification prior to purchase. This scoring and risk allocation methodology helps us to manage and control fraud and credit risk.

Marketing

We market our loans and other products and services through a variety of channels. Fundamentally, we focus on a high-touch direct sales model and building long-term relationships with our customers. In our community banking markets, our lending officers actively solicit new and existing businesses in the communities we serve. For our commercial finance product lines, we typically maintain sales personnel across the country with designated regional responsibilities for clients within their territories. We market our products and services through secondary channels, including e-marketing and search engine optimization, as well as key strategic sourcing relationships. Importantly, while we seek to ensure that the pricing on all of our loans and factoring products is competitive, we also attempt to distinguish ourselves with our clients on criteria other than price, including service, industry knowledge and a more complete value proposition than our competitors. We believe that our suite of complementary commercial finance product options and our other available banking services, including treasury management services and our insurance brokerage initiatives, allow us to offer full-service banking relationships to clients and industries that have historically been served by smaller non-bank commercial finance companies.

Deposits

Deposits are our primary source of funds to support our earning assets. We offer depository products, including checking, savings, money market and certificates of deposit with a variety of rates. Deposits at our bank subsidiary are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. In addition, required deposit balances associated with our commercial loan arrangements and treasury management relationships maintained by our commercial lending clients provide an additional source of deposits. In our community banking markets, we have a network of 52 deposit-taking branch offices. We also maintain a branch office in Dallas, Texas, dedicated to deposit generation activities.

Competitors

The bank and non-bank financial services industries in our markets and the surrounding areas are highly competitive. We compete with a wide range of regional and national banks located in our market areas as well as non-bank commercial finance and factoring companies on a nationwide basis. We experience competition in both lending and attracting funds from commercial banks, savings associations, credit unions, consumer finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, non-bank lenders, government agencies and certain other non-financial institutions. Many of these competitors have more assets, capital and lending limits, and resources than we do and may be able to conduct more intensive and broader-based promotional efforts to reach both commercial and individual customers. Competition for deposit

products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.

Supervision and Regulation

Banking is a complex, highly regulated industry. Consequently, our growth and earnings performance can be affected, not only by management decisions and general and local economic conditions, but also by the statutes administered by and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Federal Reserve, the FDIC, the Texas Department of Savings and Mortgage Lending (“TDSML”), the Internal Revenue Service (“IRS”), and state taxing authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of those goals, the U.S. Congress and the individual states have created numerous regulatory agencies and enacted numerous laws, such as the Dodd-Frank Act, that govern banks and the banking industry. The system of supervision and regulation applicable to the Company establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors and the public, rather than the stockholders and creditors.

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. The federal banking agencies have issued a number of significant new regulations as a result of the Dodd-Frank Act and a number of additional regulations are pending or may be proposed. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which any of our businesses may be affected by any new regulation or statute.

The following is an attempt to summarize some of the relevant laws, rules and regulations governing banks and bank holding companies, but does not purport to be a complete summary of all applicable laws, rules and regulations governing banks. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Bank Holding Company Regulation

The Company is a financial holding company registered under the BHC Act and is subject to supervision and regulation by the Federal Reserve. Federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions, for violation of laws and policies.

Activities Closely Related to Banking

The BHC Act prohibits a bank holding company, with certain limited exceptions, from acquiring direct or indirect ownership or control of any voting shares of any company that is not a bank or from engaging in any activities other than those of banking, managing or controlling banks and certain other subsidiaries or furnishing services to or performing services for its subsidiaries. Bank holding companies also may engage in or acquire interests in companies that engage in a limited set of activities that are closely related to banking or managing or controlling banks. If a bank holding company has become a financial holding company (an "FHC"), as we have, it may engage in a broader set of activities, including insurance underwriting and broker-dealer services as well as activities that are jointly determined by the Federal Reserve and the U.S. Treasury to be financial in nature or incidental to such financial activity. FHCs may also engage in activities that are determined by the Federal Reserve to be complementary to financial activities. The Company has elected to be an FHC. To maintain FHC status, the bank holding company and all subsidiary depository institutions must be well managed and "well capitalized." Additionally, all subsidiary depository institutions must have received at least a "Satisfactory" rating on its most recent Community Reinvestment Act ("CRA") examination. Failure to meet these requirements may result in limitations on activities and acquisitions.

Safe and Sound Banking Practices

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve may order a bank holding company to terminate an activity or control of a non-bank subsidiary if such activity or control constitutes a significant risk to the financial safety, soundness or stability of a subsidiary bank and is inconsistent with sound banking principles. Regulation Y also requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth.

Consistent with the Dodd-Frank Act codification of the Federal Reserve's policy that bank holding companies must serve as a source of financial strength for their subsidiary banks, the Federal Reserve has stated that, as a matter of prudence, a bank holding company generally should not maintain a rate of distributions to stockholders unless its available net income has been sufficient to fully fund the distributions and the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality and overall financial condition. In addition, we are subject to certain restrictions on the making of distributions as a result of the requirement that our subsidiary bank maintains an adequate level of capital as described below.

In addition, the Federal Reserve Supervisory Letter SR 09-4 provides guidance on the declaration and payment of dividends, capital redemptions and capital repurchases by a bank holding company. Supervisory Letter SR 09-4 provides that, as a general matter, a bank holding company should eliminate, defer or significantly reduce its dividends if: (i) the bank holding company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) the bank holding company's prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the bank holding company is operating in an unsafe and unsound manner.

Limitations on our subsidiary bank paying dividends could, in turn, affect our ability to pay dividends to our stockholders. For more information concerning our subsidiary bank's ability to pay dividends, see below.

The Federal Reserve has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. Notably, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") provides that the Federal Reserve Board can assess civil money penalties for such practices or violations which can be as high as $1 million per day. FIRREA contains expansive provisions regarding the scope of individuals and entities against which such penalties may be assessed.

Annual Reporting and Examinations

The Company is required to file annual and quarterly reports with the Federal Reserve and such additional information as the Federal Reserve may require pursuant to the BHC Act. The Federal Reserve may examine a bank holding company or any of its subsidiaries and charge the bank holding company for the cost of such an examination. The Company is also subject to reporting and disclosure requirements under state and federal securities laws.

Rules on Regulatory Capital

Regulatory capital rules pursuant to the Basel III requirements, released in July 2013, implemented higher minimum capital requirements for bank holding companies and banks effective on January 1, 2015. The rules include a common equity Tier 1 capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. These enhancements were designed to both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions. The capital rules require banks and bank holding companies to maintain a minimum common equity Tier 1 ("CET1") capital ratio of 4.5%, a total Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. Bank holding companies are also required to hold a capital conservation buffer of CET1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. Under the rules, bank holding companies must maintain a total risk-based capital ratio of 10% and a total Tier 1 risk-based capital ratio of 6% to be considered "well capitalized" for purposes of certain rules and requirements.

The capital rules also require banks to maintain a CET1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10% and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements. The risk-based ratios include a "capital conservation buffer" of 2.5%. The capital conservation buffer requirement began being phased in in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution is subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffer amount. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress.

The regulatory capital rules attempt to improve the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments, such as trust preferred securities, in Tier 1 capital going forward and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions. In addition, the rules require that most regulatory capital deductions be made from common equity Tier 1 capital.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well-capitalized standards and future regulatory change could impose higher capital standards as a routine matter. The Company’s regulatory capital ratios and those of its subsidiary bank are in excess of the levels established for “well-capitalized” institutions under the rules.

The regulatory capital rules also set forth certain changes in the methods of calculating certain risk-weighted assets, which in turn affects the calculation of risk-based ratios. Under the rules, higher or more sensitive risk weights are assigned to various categories of assets, including, certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on nonaccrual, foreign exposures and certain corporate exposures. In addition, the rules include (i) alternative standards of credit worthiness consistent with the Dodd-Frank Act, (ii) greater recognition of collateral and guarantees and (iii) revised capital treatment for derivatives and repo-style transactions.

In addition, the rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, banking organizations with less than $15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis, without any phase out. Community banks were also able to elect on a one time basis in their March 31, 2015 quarterly filings to opt-out of the requirement to include most accumulated other comprehensive income (“AOCI”) components in the calculation of CET1 capital and, in effect, retain the AOCI treatment under the current capital rules. Under the rules, we elected to make the one-time permanent election to continue to exclude AOCI from capital.

Imposition of Liability for Undercapitalized Subsidiaries

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of nontraditional activities, as well as reflect the actual performance and expected risk of loss on multifamily mortgages.

As discussed above, in accordance with the law, each federal banking agency has specified, by regulation, the levels at which an insured institution would be considered “well capitalized,” adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 31, 2017, the Company’s subsidiary bank exceeded the capital levels required to be deemed “well capitalized.”

Additionally, FDICIA requires bank regulators to take prompt corrective action to resolve problems associated with insured depository institutions. In the event an institution becomes undercapitalized, it must submit a capital restoration plan.

Under these prompt corrective action provisions of FDICIA, if a controlled bank is undercapitalized, then the regulators could require the bank to submit a capital restoration plan. If an institution becomes significantly undercapitalized or critically undercapitalized, additional and significant limitations are placed on the institution. The capital restoration plan of an undercapitalized institution will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan until it becomes adequately capitalized. The Company has control of its subsidiary bank for the purpose of this statute.

Further, by statute and regulation, a bank holding company must serve as a source of financial and managerial strength to each bank that it controls and, under appropriate circumstances, may be required to commit resources to support each such controlled bank. This support may be required at times when the bank holding company may not have the resources to provide the support. In addition, if the Federal Reserve believes that a bank holding company’s activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such actions are not in the best interests of the bank holding company or its stockholders.

Acquisitions by Bank Holding Companies

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider the financial and managerial resources and future prospects of the bank holding company and banks concerned, the convenience and needs of the communities to be served, the effect on competition as well as the financial stability of the United States. The Attorney General of the United States may, within 30 days after approval of an acquisition by the Federal Reserve, bring an action challenging such acquisition under the federal antitrust laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts. Under certain circumstances, the 30-day period may be shortened to 15 days.

Control Acquisitions

The Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company.

In addition, the CBCA prohibits any entity from acquiring 25% (the BHC Act has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. On September 22, 2008, the Federal Reserve Board issued a policy statement on equity investments in bank holding companies and banks, which states that the Federal Reserve generally will not consider an entity's investment to be "controlling" if the entity owns or controls less than 25% of the voting shares and 33% total equity of the bank holding company or bank and has limited business relationships, director representation or other indicia of control. Depending on the nature of the overall investment and the capital structure of the banking organization, the Federal Reserve will permit, based on the policy statement, noncontrolling investments in the form of voting and nonvoting shares that represent in the aggregate (i) less than one-third of the total equity of the banking organization (and less than one-third of any class of voting securities, assuming conversion of all convertible nonvoting securities held by the entity) and (ii) less than 15% of any class of voting securities of the banking organization.

Anti-Tying Restrictions

Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Bank Regulation

TBK Bank

TBK Bank is a Texas state savings bank and is subject to various requirements and restrictions under the laws of the United States and Texas and to regulation, supervision and regular examination by the FDIC and the TDSML. TBK Bank is required to file reports with the FDIC and the TDSML concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. The regulators have the power to enforce compliance with applicable banking statutes and regulations. Those regulations include requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged on loans and restrictions relating to investments and other activities of TBK Bank.

Standards for Safety and Soundness

As part of FDICIA's efforts to promote the safety and soundness of depository institutions and their holding companies, appropriate federal banking regulators are required to have in place regulations specifying operational and management standards (addressing internal controls, loan documentation, credit underwriting and interest rate risk), asset quality and earnings. As discussed above, the Federal Reserve and the FDIC have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the FDIC may terminate the deposit insurance of any institution that it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties of up to $1 million per day, issue cease-and-desist or removal orders, seek injunctions and publicly disclose such actions.

The ability of TBK Bank, as a Texas state savings bank, to pay dividends is restricted under the Texas Finance Code. Pursuant to the Texas Finance Code, a Texas state savings bank may declare and pay a dividend out of current or retained earnings, in cash or additional stock, to the holders of record of the stock outstanding on the date the dividend is declared. However, without the prior approval of the TDSML, a cash dividend may not be declared by the board of a Texas state savings bank that the TDSML considers to be in an unsafe condition or to have less than zero total retained earnings on the date of the dividend declaration.

TBK Bank is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain an adequate level of capital in accordance with guidelines promulgated from time to time by the federal regulators.

The present and future dividend policy of TBK Bank is subject to the discretion of its board of directors. In determining whether to pay dividends to Triumph and, if made, the amount of the dividends, the board of directors of TBK Bank considers many of the same factors discussed above. TBK Bank cannot guarantee that they will have the financial ability to pay dividends to Triumph, or if dividends are paid, that they will be sufficient for Triumph to make distributions to stockholders. TBK Bank is not obligated to pay dividends.

Restrictions on Transactions with Affiliates

Section 23A of the Federal Reserve Act imposes quantitative and qualitative limits on transactions between a bank and any affiliate and requires certain levels of collateral for such loans. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company. Section 23B of the Federal Reserve Act requires that certain transactions between the Company's subsidiary bank and its affiliates must be on terms substantially the same, or at least as favorable, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. In the absence of such comparable transactions, any transaction between the bank and its affiliates must be on terms and under circumstances, including credit standards, which in good faith would be offered to or would apply to nonaffiliated companies.

Capital Adequacy

In addition to the capital rules applicable to both banks and bank holding companies discussed above, under the prompt corrective action regulations, the federal bank regulators are required and authorized to take supervisory actions against undercapitalized banks. For this purpose a bank is placed in one of the following five categories based on the bank's capital:

- well-capitalized (at least 5% leverage capital, 6.5% common equity Tier 1 risk-based capital, 8% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% common equity Tier 1 risk-based capital, 4% Tier 1 risk-based capital and 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, banking regulators must appoint a receiver or conservator for an institution that is "critically undercapitalized." The federal banking agencies have specified by regulation the relevant capital level for each category. An institution that is categorized as "undercapitalized," "significantly undercapitalized," or "critically undercapitalized" is required to submit an acceptable capital restoration plan to its appropriate federal banking agency.

Failure to meet capital guidelines could subject our subsidiary bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits and other restrictions on our business.

Deposit Insurance

The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor, through the Deposit Insurance Fund ("DIF") and safeguards the safety and soundness of the banking and thrift industries. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The FDIC's deposit insurance premium assessment is based on an institution's average consolidated total assets minus average tangible equity.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or

decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, TBK Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau ("CFPB") is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Depository institutions with less than $10 billion in assets, such as our subsidiary depository institution, are subject to rules promulgated by the CFPB, which may increase their compliance risk and the costs associated with their compliance efforts, but the banks will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products.

The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB.

The CFPB has issued a number of regulations related to the origination of mortgages, foreclosure, and overdrafts as well as many other consumer issues. Additionally, the CFPB has proposed, or will be proposing, additional regulations on issues that directly relate to our business. Although it is difficult to predict at this time the extent to which the CFPB's final rules impact the operations and financial condition of our subsidiary bank, such rules may have a material impact on the bank's compliance costs, compliance risk and fee income. These additional compliance costs and associated compliance risks were one of the factors in our decision to exit the residential mortgage production business in the fourth quarter of 2015.

Privacy

Under the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers.

The Patriot Act, International Money Laundering Abatement and Financial Anti-Terrorism Act and Bank Secrecy Act

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The Patriot Act and the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and penalties, specifically related to the Bank Secrecy Act and expanded the extra-territorial jurisdiction of the United States. The U.S. Treasury has issued a number of implementing regulations which apply various requirements of the Patriot Act to financial institutions such as TBK Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

Failure of a financial institution and its holding company to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution. Because of the significance of regulatory emphasis on these requirements, TBK Bank will continue to expend significant staffing, technology and financial resources to

maintain programs designed to ensure compliance with applicable laws and regulations and an effective audit function for testing of the bank's compliance with the Bank Secrecy Act on an ongoing basis.

Community Reinvestment Act

The CRA requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC and the state banking regulators, as applicable, evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Additionally, we must publicly disclose the terms of various CRA-related agreements.

Qualified Thrift Lender

As a Texas state savings bank, TBK Bank is required to meet a Qualified Thrift Lender ("QTL") test to avoid certain restrictions on its activities. TBK Bank is currently, and expects to remain, in compliance with QTL standards.

Other Regulations

Interest and other charges that our subsidiary bank collects or contracts for are subject to state usury laws and federal laws concerning interest rates.

Our bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various governmental agencies charged with the responsibility of implementing these federal laws.

In addition, our subsidiary bank's deposit operations are subject to the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Concentrated Commercial Real Estate Lending Regulations

The Federal Reserve and other federal banking regulatory agencies promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and increasing capital requirements.

All of the above laws and regulations add significantly to the cost of operating the Company and our subsidiary depository institution and thus have a negative impact on profitability. We would also note that there has been a tremendous expansion experienced in recent years by certain financial service providers that are not subject to the same rules and regulations as the Company and our subsidiary depository institution. These institutions, because they are not so highly regulated, have a competitive advantage over us and our subsidiary depository institution and may continue to draw large amounts of funds away from banking institutions, with a continuing adverse effect on the banking industry in general.

Effect of Governmental Monetary Policies

The commercial banking business is affected not only by general economic conditions but also by both U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the “discount window,” open market operations, the imposition of and changes in reserve requirements against member banks’ deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence to a significant extent the overall growth of bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. We cannot predict the nature of future fiscal and monetary policies and the effect of such policies on the future business and our earnings.

Employees

As of December 31, 2017, we had 820.5 full-time equivalent employees. None of our employees are represented by any collective bargaining unit or are a party to a collective bargaining agreement.

Available Information

The Company's internet address is www.triumphbancorp.com. The Company makes available at this address, free of charge, its annual report on Form 10-K, its annual reports to stockholders, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). These documents are also available on the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS.

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The material risks and uncertainties that management believes affect the Company are described below. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment. Some statements in the following risk factors constitute forward-looking statements. Please refer to "Cautionary Note Regarding Forward-Looking Statements" in Item 7 of this report.

Risks Relating to Our Business

Acquisitions may disrupt our business and dilute stockholder value. We may not be able to overcome the integration, costs and other risks associated with our recently completed and possible future acquisitions, which could adversely affect our growth and profitability.

Our business strategy focuses on both organic growth and targeted acquisitions. We anticipate that any future acquisitions would involve substantial transaction expenses and expenses associated with integrating the operations of the acquired businesses with our operations. These expenses may exceed the savings that we expect to receive for the elimination of duplicative expenses and the realization of economies of scale. We may fail to realize some or all of the anticipated benefits of our recently completed and possible future acquisitions if the integration process for these acquisitions takes longer or is more costly than expected or otherwise fails to meet our expectations. Such integration processes will be a time-consuming and expensive process that could significantly disrupt our existing services, even if effectively and efficiently planned and implemented.

In addition, our acquisition activities could be material to our business and involve a number of risks, including the following:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, tax and market risks with respect to the target institution or assets;
- exposure to potential asset quality issues of the target company;
- intense competition from other banking organizations and other acquirers for acquisitions;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including, without limitation, liabilities for regulatory and compliance issues;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence and other projected benefits of the acquisition;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short term effect on our results of operations;
- losing key employees and customers;
- significant problems relating to the conversion of the financial and customer data of the entity;
- integration of acquired customers into our financial and customer product systems;
- potential changes in banking or tax laws or regulations that may affect the target company; or
- risks of impairment to goodwill or other than temporary impairment of investment securities.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any

other problems encountered in connection with potential acquisitions and any acquisition we may consider will be subject to prior regulatory approval. Our inability to overcome these risks could have an adverse effect on our profitability, return on equity and return on assets, our ability to implement our business strategy and enhance stockholder value, which, in turn, could have an adverse effect on our business, financial condition and results of operations.

As a business operating in the bank and non-bank financial services industries, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

As a business operating in the bank and non-bank financial services industries, our business and operations are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and asset management services could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal and state governments (including possible ratings downgrades) and future tax rates (or other amendments to the Internal Revenue Code of 1986, as amended (the "Code") or to state tax laws) is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries, including uncertainty over the stability of the Euro and Chinese Yuan currencies, could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak national economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates at historically low levels, and our ability to retain or grow our deposit base could be hindered by higher market interest rates in the future. All of these factors may be detrimental to our business and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have an adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Bank and non-bank financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties and through transactions with counterparties in the bank and non-bank financial services industries, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more bank or non-bank financial services companies, or the bank or non-bank financial services industries generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have an adverse effect on our business, financial condition and results of operations.

We rely heavily on our management team and could be adversely affected by the unexpected loss of key officers.

We are led by an experienced core management team with substantial experience in the markets that we serve and the financial products that we offer. Our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. We may not be successful in retaining our key employees and the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our business because of their skills, knowledge of our market and financial products, years of industry experience, long-term customer relationships and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, which could have an adverse effect on our business, financial condition and results of operations.

We are subject to interest rate risk, which could adversely affect our financial condition and profitability.

The majority of our banking assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest earning assets, such as loans and investment securities, and interest paid by us on our interest bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest bearing liabilities will be more sensitive to changes in market interest rates than our interest earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. If short term interest rates continue to remain at their historically low levels for a prolonged period and assuming longer-term interest rates fall further, we could experience net interest margin compression as our interest earning assets would continue to reprice downward while our interest bearing liability rates could fail to decline in tandem. Such an occurrence would have an adverse effect on our net interest income and could have an adverse effect on our business, financial condition and results of operations.

Our acquisition history and continued planned acquisitions as part of our growth strategy may make it difficult for investors to evaluate our business, financial condition and results of operations and also impairs our ability to accurately forecast our future performance.

We have grown historically through multiple acquisitions, and we anticipate to continue acquisitions in the future as part of our growth strategy. On October 15, 2013, we acquired National Bancshares, Inc. and its banking subsidiary, THE National Bank, N.A., which represented a significant portion of our total operations immediately following such acquisition. On August 1, 2016, we completed our acquisition of ColoEast Bankshares, Inc. and its wholly owned subsidiary bank, Colorado East Bank & Trust. In 2017, we acquired nine branches in Colorado from Independent Bank Group, Inc.'s banking subsidiary, Independent Bank on October 6, 2017, and we acquired Valley Bancorp, Inc. and its subsidiary bank, Valley Bank & Trust, effective December 9, 2017. In addition, we expect additional acquisitions in the future as part of our growth strategy. Our previous acquisitions may make it more difficult for investors to evaluate historical trends in our financial results and operating performance, as the impact of such acquisitions make it more difficult to identify organic trends that would be reflected absent such acquisitions. In addition, our strategic plan assumes additional merger and acquisition activity to improve our operating leverage and to create a partial source of excess liquidity to support our organic loan growth, which has historically grown at a faster rate than our ability to grow transactional deposits. Consequently, predictions and forecasts about our future revenue and expense will depend in part on our ability to source and execute acquisitions, the terms of such acquisitions, and the specific attributes of the acquired companies, each of which are subject to factors outside of our control and which may vary materially depending on any future acquisition targets ultimately pursued. Thus any predictions or forecasts about our future operations may not be as accurate as they would be if we were to pursue a primarily organic growth strategy.

New lines of business or new products and services may subject us to additional risks. A failure to successfully manage these risks may have a material adverse effect on our business.

As part of our growth strategy, we have implemented and may continue to implement new lines of business, offer new products and services within our existing lines of business or shift the focus to our asset mix. There are substantial risks and uncertainties associated with these efforts, particularly in instances where such product lines are not fully mature. In developing and marketing new lines of business and/or new products and services and/or shifting the focus of our asset mix, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the

effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have an adverse effect on our business, financial condition and results of operations.

Our factoring services are concentrated in the transportation industry and economic conditions or other factors negatively impacting the transportation industry could adversely affect our factoring business.

Factoring for small-to-mid-sized trucking businesses constituted approximately 77% of our total factoring portfolio as of December 31, 2017, calculated based on the gross receivables from the purchase of invoices from such trucking businesses compared to our total gross receivables in the purchase of factored receivables as of such date. Given the concentration of our factoring business in the transportation industry, economic conditions or other factors that negatively impact the transportation industry could impact our factoring revenues, as the revenues we earn from purchasing transportation invoices are directly correlated with the amount of transportation activity generated by our factoring clients (i.e., the volume of transportation invoices they are able to generate by providing their services). Reductions in economic activity will typically cause a decrease in the volume of goods in commerce available to be transported by our factoring clients. Increased costs associated with operating a trucking business, such as may be caused by increases in the prices of oil and diesel fuel, may cause a diminished demand for trucking services as our clients pass those costs along to their customers. Conversely, decreases in the price of diesel fuel may cause the size of our factoring portfolio to decrease, as the price of diesel fuel typically directly correlates with the size of the invoices we purchase from our factoring clients. Additionally, the factoring industry may not continue its historical growth and we may face increased competition. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share. Any of such events could impact the returns we realize on our factoring activity or result in a decrease in the overall amount of our factoring activity and could have an adverse effect on our business, financial condition and results of operations.

Additional regulations and rule making impacting the transportation industry may have a disproportionate impact on the small-to-mid-sized trucking businesses that comprise our primary transportation factoring clients and adversely affect our factoring business.

Our primary transportation factoring clients are small-to-mid-sized owner-operators and trucking fleets. Recently implemented federal regulations, and regulations proposed to be implemented in the future, may significantly increase the costs and expenses associated with owning or operating a trucking fleet. These regulations include rule making proposed by the Federal Motor Carrier Safety Administration of the United States Department of Transportation (“FMCSA”) under the Compliance, Safety, Accountability (“CSA”) initiative, maximum hours of service limitations imposed the FMCSA, electronic log requirements, and regulations proposed by the federal Food and Drug Administration (“FDA”) requiring increased labeling and monitoring by carriers of any commodity transported that is regulated by the FDA. The costs and burdens of compliance with these requirements will have a disproportionate impact on the small-to-mid-sized trucking businesses that comprise our client base and may force some or all of these businesses out of the market. Such an occurrence could impact the returns we realize on our factoring activity or result in a decrease in the overall amount of our factoring activity and could have an adverse effect on our business, financial condition and results of operations.

Our asset-based lending and factoring products may expose us to an increased risk of fraud.

We rely on the structural features embedded in our asset-based lending and factoring products to mitigate the credit risk associated with such products. With respect to our asset-based loans, we limit our lending to a percentage of the customer’s borrowing base assets that we believe can be readily liquidated in the event of financial distress of the borrower. With respect to our factoring products, we purchase the underlying invoices of our customers and become the direct payee under such invoices, thus transferring the credit risk in such transactions from our customers to the underlying account debtors on such invoices. In the event one or more of our customers fraudulently represents the existence or valuation of borrowing base assets in the case of an asset-based loan, or the existence or validity of an invoice we purchase in the case of a factoring transaction, we may advance more funds to such customer than we otherwise would and lose the benefit of the structural protections of our products with respect to such advances. In such event we could be exposed to material additional losses with respect to such loans or factoring products. Although we believe we have controls in place to monitor and detect fraud with respect to our asset-based lending and

factoring products, there is no guarantee such controls will be effective. We have experienced fraud with respect to these products in the past and we anticipate that we will experience such fraud in the future. Losses from such fraudulent activity could have a material impact on our business, financial condition and results of operations.

Our commercial finance clients, particularly with respect to our factoring and asset-based lending product lines, may lack the operating history, cash flows or balance sheet necessary to support other financing options and may expose us to additional credit risk, especially if our additional controls for such products are ineffective in mitigating such additional risks.

A significant portion of our loan portfolio consists of commercial finance products. Some of these commercial finance products, particularly asset-based loans and our factored receivables, arise out of relationships with clients who lack the operating history, cash flows or balance sheet necessary to qualify for other financing options. We attempt to control for the additional credit risk in these relationships through credit management processes employed in connection with these transactions. However, if such controls are ineffective in controlling this additional risk or if we fail to follow the procedures we have established for managing this additional risk, we could be exposed to additional losses with respect to such product lines that could have an adverse effect on our business, financial condition and results of operations.

Our healthcare asset-based lending product line may expose us to additional risks associated with the U.S. healthcare industry.

A portion of our asset-based loans as of December 31, 2017 were originated in the healthcare industry. The U.S. healthcare industry is currently undergoing significant regulatory changes, both at the federal and state level, including changes associated with the adoption and implementation of the Patient Protection and Affordable Care Act of 2010. Such changes could negatively impact our existing healthcare asset-based loan portfolio or our ability to grow our healthcare asset-based loan portfolio in the future. For example, changes in reimbursement rates for healthcare receivables could impact the value and collectability of our healthcare loans, as such reimbursement obligations constitute the borrowing base collateral for such loans. While we believe our healthcare asset-based loans have features in place to protect against such risks (including the ability to reduce the available borrowing base or cease advances in the event of regulatory changes that jeopardize the collectability or valuation of the collateral), there is no guarantee that such protections will be effective. In addition, changes in the regulatory landscape for healthcare may cause certain service providers to leave the industry or cause consolidation in the industry that will decrease demand for our healthcare lending products. Any of such changes or occurrences could have an adverse effect on our business, financial condition and results of operations. On January 19, 2018, we entered into an agreement to sell our portfolio of healthcare asset-based loans and exit this line of business. We will however, remain subject to these risks with respect to our current portfolio of such loans pending the consummation of such sale, which is anticipated to occur in the first quarter of 2018, or if such sale were not to close in the manner that is currently anticipated.

Our agriculture loans may expose us to risk of credit defaults due to changes in commodity prices.

Our agriculture loans generally consist of (i) real estate loans secured by farmland, (ii) equipment financing for specific agriculture equipment, including irrigation systems, (iii) crop input loans primarily focused on corn, wheat and soybeans, and (iv) loans secured by cattle and other livestock. Decreases in commodity prices, such as currently impacting the agriculture industry, may negatively affect both the cash flows of the borrowers and the value of the collateral supporting such loans. Although we attempt to account for the possibility of such commodity price fluctuations in underwriting, structuring and monitoring our agriculture loans, there is no guarantee that efforts will be successful and we may experience increased delinquencies or defaults in this portfolio or be required to increase our provision for loan losses, which could have an adverse effect on our business, financial condition and results of operations.

Lack of seasoning in portions of our loan portfolio could increase risk of credit defaults in the future.

As a result of our growth over the past several years, certain portions of our loan portfolio, such as the asset-based loans and equipment loans originated as part of our commercial finance portfolio, are of relatively recent origin. Loans may not begin to show signs of credit deterioration or default until they have been outstanding for some period of

time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because such portions of our portfolio are relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could have an adverse effect on our business, financial condition and results of operations.

We may not be able to adequately measure and limit the credit risk associated with our loan portfolio, our business and financial condition, which could adversely affect profitability.

As a part of our products and services, we make commercial and commercial real estate loans. The principal economic risk associated with each class of loans is the creditworthiness of the borrower, which is affected by the strength of the relevant business market segment, local market conditions and general economic conditions. Additional factors related to the credit quality of commercial loans include the quality of the management of the business and the borrower's ability both to properly evaluate changes in the supply and demand characteristics affecting our market for products and services and to effectively respond to those changes. Additional factors related to the credit quality of commercial real estate loans include tenant vacancy rates and the quality of management of the property. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have an adverse effect on our business, financial condition and results of operations.

The small-to-mid-sized businesses that comprise a material portion of our loan portfolio may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to us, which could materially harm our operating results.

A significant element of our growth strategy involves offering our commercial finance products to small-to-mid-sized businesses. These small-to-mid-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small-to-mid-sized business often depends on the management talents and efforts of one or two persons or a small group of persons and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could have an adverse effect on our business, financial condition and results of operations.

Our concentration of large loans to certain borrowers may increase our credit risk.

While we attempt to monitor the concentration of our loan portfolio by borrower, geography and industry, we nonetheless may have concentrations in these areas that increase the risk to our loan portfolio resulting from adverse changes impacting such borrowers, geographies or industries. For example, we have made a significant number of large loans to a small number of borrowers, resulting in a concentration of large loans to these borrowers. Consequently, we may have significant exposure if any of these borrowers becomes unable to pay their loan obligations as a result of economic or market conditions, or personal circumstances, such as divorce or death. In addition, a large portion of our loans are made in our community banking markets of Iowa, Illinois, Colorado, Kansas and in Texas, the home of our corporate headquarters and the majority of our commercial finance operations. We also have lending concentrations in industries such as transportation, construction and energy services. As a result, the performance of our portfolio could be adversely impacted by economic or market conditions affecting these geographies or industries, such as the impact of falling oil prices on the energy services industry specifically or the Texas economy more generally, all of which could have an adverse effect on our business, financial condition and results of operations.

The amount of our nonperforming assets may increase significantly, resulting in additional losses and costs and expenses that will negatively affect our operations.

At December 31, 2017, we had a total of approximately $48.5 million of nonperforming assets or approximately 1.39% of total assets. Should the amount of nonperforming assets increase in the future, we may incur losses and the costs and expenses to maintain such assets likewise can be expected to increase and potentially negatively affect earnings. Any additional increase in losses due to such assets could have an adverse effect on our business, financial condition and results of operations. Such effects may be particularly pronounced in a market of reduced real estate values and excess inventory.

The amount of other real estate owned ("OREO") may increase significantly, resulting in additional losses and costs and expenses that will negatively affect our operations.

At December 31, 2017, the amount of OREO we held totaled $9.2 million. In the event the amount of OREO should increase due to an increase in defaults on bank loans, our losses and the costs and expenses to maintain the real estate, likewise would increase. Any additional increase in losses and maintenance costs and expenses due to OREO may have material adverse effects on our business, financial condition and results of operations. Such effects may be particularly pronounced in a market of reduced real estate values and excess inventory, which may make the disposition of OREO properties more difficult, increase maintenance costs and expenses and may reduce our ultimate realization from any OREO sales, which could have an adverse effect on our business, financial condition and results of operations.

Nonperforming assets take significant time and resources to resolve and adversely affect our results of operations and financial condition.

Nonperforming assets adversely affect our net income in various ways. We generally do not record interest income on nonperforming loans or OREO, thereby adversely affecting our income and increasing loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair value of the collateral less estimated selling costs, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could have an adverse effect on our business, financial condition and results of operations. In addition, the resolution of nonperforming assets requires significant commitments of time from management, which may materially and adversely impact their ability to perform their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

Our ALLL and fair value adjustments for loans acquired in acquisitions may prove to be insufficient to absorb potential losses in our loan portfolio, which may adversely affect our business, financial condition and results of operations.

ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. 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. The provision for loan losses is charged against earnings in order to maintain our ALLL and reflects management's best estimate of probable incurred losses inherent in our loan portfolio at the balance sheet date.

As of December 31, 2017, our ALLL as a percentage of total loans was 0.67% and as a percentage of total nonperforming loans was 48.41%. Additional loan losses will likely occur in the future and may occur at a rate greater than we have previously experienced. We may be required to take additional provisions for loan losses in the future to further supplement our ALLL, either due to management's decision to do so or requirements by our banking regulators. In addition, bank regulatory agencies will periodically review our ALLL and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require us to recognize future charge-offs. These adjustments could have an adverse effect on our business, financial condition and results of operations.

The application of the acquisition method of accounting in our acquisitions has impacted our allowance. Under the acquisition method of accounting, all loans acquired in acquisitions were recorded in our consolidated financial statements at their fair value at the time of acquisition and the related allowance was eliminated because credit quality, among other factors, was considered in the determination of fair value. To the extent that our estimates of fair value are too high, we could incur losses associated with the acquired loans. The allowance associated with our purchased credit impaired ("PCI") loans reflects a deterioration in cash flows since acquisition resulting from our quarterly re-estimation of cash flows, which involves cash flow projections and significant judgment on timing of loan resolution.

A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, Federal Home Loan Bank advances, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash flows from operations, investment maturities and sales of investment securities and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Home Loan Bank and our ability to raise brokered deposits. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the bank or non-bank financial services industries or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the bank or non-bank financial services industries.

As of December 31, 2017, approximately $687.2 million, or 26.2%, of our deposits consisted of interest bearing demand deposits and money market accounts. Based on past experience, we believe that our deposit accounts are relatively stable sources of funds. If we increase interest rates paid to retain deposits, our earnings may be adversely affected, which could have an adverse effect on our business, financial condition and results of operations.

Historically, our loan portfolio has grown at a faster rate than our ability to organically grow transactional deposits in our community banking markets. We have offset this trend in part through acquiring additional banks with excess liquidity. If we are unable to find suitable acquisition targets meeting this profile in the future, or are unable to successfully consummate acquisitions of such targets, we will likely be required to rely on higher cost sources of funding, such as certificates of deposit, to fund continued loan growth, which could have an adverse effect on our business, financial condition and results of operations.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

The fair value of our investment securities can fluctuate due to factors outside of our control.

As of December 31, 2017, the fair value of our investment securities portfolio was approximately $263.1 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect to the securities, defaults by the issuer or with respect to the underlying securities and changes in market interest rates and instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have an adverse effect on our business, financial condition and results of operations. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security.

Impairment of investment securities, goodwill, other intangible assets or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing whether the impairment of investment securities is other-than-temporary, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. A decline in our stock price or occurrence of a triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our goodwill may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, 2017, we had goodwill of $44.1 million, representing approximately 11% of total equity.

The Company's intangible assets primarily relate to core deposits and customer relationships. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. A triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform an intangible asset impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our intangible assets may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, 2017, we had intangible assets of $19.7 million, representing approximately 5% of total equity.

In assessing the potential for realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence, both negative and positive, including the recent trend of quarterly earnings. Positive evidence necessary to overcome the negative evidence includes whether future taxable income in sufficient amounts and character within the carryback and carryforward periods is available under the tax law, including the use of tax planning strategies. When negative evidence (e.g., cumulative losses in recent years, history of operating loss or tax credit carryforwards expiring unused) exists, more positive evidence than negative evidence will be necessary. We have concluded that, based on the level of positive evidence, it

is more likely than not that at December 31, 2017 all but $0.3 million which is recorded as a valuation allowance of the deferred tax asset will be realized. At December 31, 2017, net deferred tax assets were approximately $9.0 million. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations and financial condition.

Our risk management strategies may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk.

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our risk management strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. As our products and services change and grow and the markets in which we operate evolve, our risk management strategies may not always adapt to those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management’s judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. In addition, our limited operating history reduces the historical information on which to predict future results or trends. Management of market, credit, liquidity, operational, legal, regulatory and compliance risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events and these policies and procedures may not be fully effective. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. Any of these circumstances could have an adverse effect on our business, financial condition and results of operations.

Risks for environmental liability apply to the properties under consideration as well as properties that are contiguous or upgradient to the subject properties.

In the course of our business, we may purchase real estate in connection with our acquisition and expansion efforts, or we may foreclose on and take title to real estate that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

The cost of removal or abatement may not substantially exceed the value of the affected properties or the loans secured by those properties, that we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the property or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced and, as a result, we may suffer a loss upon collection of the loan. Currently, we are not a party to any legal proceedings involving potential liability to us under applicable environmental laws. Any significant environmental liabilities could have an adverse effect on our business, financial condition and results of operations.

We face significant competition to attract and retain customers, which could adversely affect our growth and profitability.

We operate in the highly competitive bank and non-bank financial services industries and face significant competition for customers from bank and non-bank competitors, particularly regional and nationwide institutions, including U.S. banks, mortgage banking companies, consumer finance companies, credit unions, insurance companies and other institutional lenders and purchasers of loans in originating loans, attracting deposits and providing other financial services. Many of our competitors are significantly larger and have significantly more resources, greater name recognition and more extensive and established branch networks than we do. Because of their scale, many of these

competitors can be more aggressive than we can on loan and deposit pricing. Also, many of our non-bank competitors have fewer regulatory constraints and may have lower cost structures. We expect competition to continue to intensify due to financial institution consolidation; legislative, regulatory and technological changes; and the emergence of alternative banking sources.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;
- the scope, relevance and pricing of products and services that we offer;
- customer satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share, which could have an adverse effect on our business, financial condition and results of operations.

The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosure in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in Item 7 of this report captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations", describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider "critical" because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

Additionally, as a result of our recent acquisitions, our financial results are heavily influenced by the application of the acquisition method of accounting. The acquisition method of accounting requires management to make assumptions regarding the assets purchased and liabilities assumed to determine their fair value. If our assumptions are incorrect, any resulting change or modification could have an adverse effect on our business, financial condition and results of operations.

If we fail to correct any material weakness that we subsequently identify in our internal control over financial reporting or otherwise fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and timely, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports and the price of our common stock may decline.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on our system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act, which requires us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. In addition, unless we remain an emerging growth company and elect additional transitional relief available to emerging growth companies, our independent registered public accounting firm will be required to report on the effectiveness of our internal control over financial reporting.

If we identify material weaknesses in our internal control over financial reporting in the future, if we cannot comply with the requirements of the Sarbanes-Oxley Act in a timely manner or attest that our internal control over financial reporting is effective, or if our independent registered public accounting firm cannot express an opinion as to the effectiveness of our internal control over financial reporting when required, we may not be able to report our financial results accurately and timely. As a result, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, the Federal Reserve, the FDIC, or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.

We face significant operational risks due to the high volume and the high dollar value nature of transactions we process.

We operate in many different businesses in diverse markets and rely on the ability of our employees and systems to process transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our Company, the execution of unauthorized transactions, errors relating to transaction processing and technology, breaches of our internal control systems, compliance failures, business continuation and disaster recovery issues and other external events. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action and suffer damage to our reputation.

To the extent we engage in derivative transactions, we will be exposed to credit and market risk, which could adversely affect our profitability and financial condition.

While we do not currently engage in derivative or hedging activity, we may in the future manage interest rate risk by, among other things, utilizing derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. To the extent we engage in derivative transactions, we will be exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in the derivative. Market risk exists to the extent that interest rates change in ways that are significantly different from what we expect when we enter into the derivative transaction. The existence of credit and market risk associated with any derivative instruments we enter into could adversely affect our net interest income and, therefore, could have an adverse effect on our business, financial condition and results of operations.

System failure or cyber security breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

The computer systems and network infrastructure we use could be vulnerable to hardware and cyber security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal sources. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break-ins, cyber security breaches and other disruptive problems caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our Internet banking services by current and potential customers. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

If our trademarks and trade names are not adequately protected, or if we are deemed to infringe the trademarks or trade names of others, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, or determined to be infringing on other marks. Competitors may have adopted or may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. Additionally, our efforts to enforce or protect our proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources. Each of the foregoing could adversely impact our financial condition or results of operations.

We are subject to litigation, which could result in substantial judgment or settlement costs and legal expenses.

We are regularly involved in litigation matters in the ordinary course of business. We believe that these litigation matters should not have a material adverse effect on our business, financial condition, results of operations or future prospects. We cannot assure you, however, that we will be able to successfully defend or resolve any current or future litigation matters, in which case those litigation matters could have an adverse effect on our business, financial condition and results of operations.

We may invest in CLO securities or CLO warehouse financing structures, which may expose us to losses in connection with such investments.

As part of our relationship with our former Triumph Capital Advisors subsidiary, we currently hold investments in certain CLO subordinated notes or preference shares or other CLO securities, and may continue to make such investments in the future. The subordinated notes or preference shares of a CLO are usually entitled to all of the income generated by the CLO after the CLO pays all of the interest due on the debt notes and its expenses. However, there will be little or no income available to the CLO subordinated notes or preference shares if there are defaults on the underlying collateral in excess of certain amounts or if the recoveries on such defaulted collateral are less than certain amounts. Similarly, any investment we make in debt securities of a CLO that are junior to other debt securities of the entity will be payable only in the event that the underlying collateral generates sufficient income to make the interest payments on the securities of the CLO that are senior to any such junior debt instruments. Consequently, the value of any investment we make in the subordinated notes, preference shares or other debt securities of CLOs could decrease substantially depending on the performance of the underlying collateral in such CLO. In addition, the subordinated notes, preference shares and other debt securities of CLOs are generally illiquid, and because they represent a leveraged investment in the CLO's assets, their value will generally fluctuate more than the values of the underlying collateral. As of December 31, 2017, we had investments with a carrying amount of $8.6 million in the subordinated notes of three CLOs.

In addition, we have historically, and may in the future, invest in the subordinated notes or preference shares of CLO warehouse financing structures. Such investments will be entitled to all income generated by the underlying investments acquired during the warehouse period after the financing cost from warehouse credit facility is paid, but will bear the first loss incurred on such investments if they decrease in value and the CLO or other investment product is unable to be issued and the warehouse portfolio is liquidated. In such event, the subordinate note or preference share investors in such CLO warehouse would be exposed to losses up to the total amount of such investment if the CLO or other investment product does not close and the underlying investment pool is liquidated for a loss. Such a scenario may become more likely in times of economic distress or when the loans comprising the collateral pool of such warehouse, although still performing, may have declined in market value. Although we generally expect CLO warehouse arrangements to last approximately six to nine months before a CLO is issued, the CLO issuer may not be able to complete the issuance within the expected time frame or at all. We did not hold any CLO warehouse investments as of December 31, 2017.

Risks Relating to the Regulation of Our Industry

Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment in which we operate.

As a financial holding company, we are subject to federal supervision and regulation. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules and standards, may limit our operations significantly and control the methods by which we conduct business, as they limit those of other banking organizations. Many of these regulations are intended to protect depositors, the public or the FDIC insurance funds, not stockholders. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. There are laws and regulations which restrict transactions between us and our subsidiaries. These requirements may constrain our operations and the adoption of new laws and changes to or repeal of existing laws may have a further impact on our business, financial condition, results of operations and future prospects. Also, the burden imposed by those federal and state regulations may place banks in general and we in particular, at a competitive disadvantage compared to less regulated competitors.

We are also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identity, business, personal financial information, employment and other matters. We require our personnel to agree to keep all such information confidential and we monitor compliance. Failure to comply with confidentiality

requirements could result in material liability and adversely affect our business, financial condition, results of operations and future prospects.

Bank holding companies and financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable laws, regulations, interpretations, enforcement policies and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. We cannot assure our stockholders that such future changes will not have an adverse effect on our business, financial condition and results of operations.

Federal and state regulatory agencies may adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulations to our Company. Compliance with current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner by requiring us to expend significant time, effort and resources to ensure compliance. Additionally, evolving regulations and guidance concerning executive compensation may impose limitations on us that affect our ability to compete successfully for executive and management talent.

The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of the "Federal consumer financial laws and to prevent evasions thereof," with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service ("UDAAP authority"). The ongoing broad rulemaking powers of the CFPB and its UDAAP authority have the potential to have a significant impact on the operations of financial institutions offering consumer financial products or services. The CFPB has indicated that they are examining proposing new rules on overdrafts and other consumer financial products or services and if any such rule limits our ability to provide such financial products or services it may have an adverse effect on our business.

In addition, given the current economic and financial environment, regulators may elect to alter the standards or the interpretation of the standards used to measure regulatory compliance or used to determine the adequacy of liquidity, certain risk management or other operational practices for bank or non-bank financial services companies. Such actions may impact our ability to implement our strategy and could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations. Furthermore, the regulatory agencies have extremely broad discretion in their interpretation of the regulations and laws and their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If any regulatory agency's assessment of the quality of our assets differs from our assessment, we may be required to take additional charges that would have the effect of materially reducing our earnings, capital ratios and share price.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

We are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we provide as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the bank or non-bank financial services industries. The Dodd-Frank Act significantly changed the regulation of financial institutions and the bank and non-bank financial services industries. The Dodd-Frank Act and the regulations thereunder affect large and small financial institutions alike, including several provisions that will affect how community banks, thrifts and small bank and thrift holding companies will be regulated in the future.

The Dodd-Frank Act, among other things, imposes new capital requirements on bank holding companies; changes the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base and permanently raises the current standard deposit insurance limit to $250,000 and expands the FDIC's authority to raise insurance premiums. The legislation also calls for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to "offset the effect" of increased assessments on insured depository institutions with assets of less than $10 billion. The Dodd-Frank Act also limits interchange fees payable on debit card transactions. The Dodd-Frank Act establishes the Consumer Financial Protection Bureau as an independent entity within the Federal Reserve, which will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards and contains provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. The Dodd-Frank

Act also includes provisions that affect corporate governance and executive compensation at all publicly traded companies and allows financial institutions to pay interest on business checking accounts. Although the applicability of certain elements of the Dodd-Frank Act is limited to institutions with more than $10 billion in assets, there can be no guarantee that such applicability will not be extended in the future or that regulators or other third parties will not seek to impose such requirements on institutions with less than $10 billion in assets.

New proposals for legislation may be introduced in the U.S. Congress that could further substantially increase regulation of the bank and non-bank financial services industries, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Certain aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the TDSML periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. In addition, our asset management business is subject to inspection and examination by the SEC. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

Our FDIC deposit insurance premiums and assessments may increase.

The deposits of our bank subsidiary are insured by the FDIC up to legal limits and, accordingly, subject our bank subsidiary to the payment of FDIC deposit insurance assessments. The bank’s regular assessments are based on our bank subsidiary’s average consolidated total assets minus average tangible equity as well as by risk classification, which includes regulatory capital levels and the level of supervisory concern. High levels of bank failures since the beginning of the financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the Deposit Insurance Fund. In order to maintain a strong funding position and restore the reserve ratios of the Deposit Insurance Fund, the FDIC has, in the past, increased deposit insurance assessment rates and charged a special assessment to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have an adverse effect on our business, financial condition and results of operations.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve’s policy on serving as a source of financial strength. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled

subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the bank holding company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Future acquisitions generally will require regulatory approvals and failure to obtain them would restrict our growth.

We intend to explore complementing and expanding our products and services by pursuing strategic acquisitions. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us will require approval by and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve and the FDIC, as well as state banking regulators. In acting on applications, federal banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under the Community Reinvestment Act of 1977;
- the effectiveness of the applicant in combating money-laundering activities;
- the applicant's regulatory compliance record; and
- the extent to which the acquisition would result in greater or more concentrated risks to the stability of the United States banking or financial system.

Such regulators could deny our application based on the above criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. In addition, we may be required to make certain capital commitments to our regulators in connection with any acquisition. The existence of such capital requirements, or the failure to meet any such requirements, may have material adverse effect on our stockholders.

Future legislation or actions could harm our competitive position.

In addition to the enactment of the Dodd-Frank Act, various legislative bodies have also recently been considering altering the existing framework governing creditors' rights, including legislation that would result in or allow loan modifications of various sorts. Such legislation may change banking statutes and the operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business; limit or expand permissible activities; or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it or any regulations would have on our activities, financial condition or results of operations.

We are subject to commercial real estate lending guidance issued by the federal banking regulators that impacts our operations and capital requirements.

The federal banking regulators have issued final guidance regarding concentrations in commercial real estate lending directed at institutions that have particularly high concentrations of commercial real estate loans within their lending portfolios. This guidance suggests that institutions whose commercial real estate loans exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk and may be required to maintain higher capital ratios than institutions with lower concentrations in commercial real estate lending. Based on our commercial real estate concentration as of December 31, 2017, we believe that we are operating within the guidelines. However, increases in our commercial real estate lending could subject us to additional supervisory analysis. We cannot guarantee that any risk management practices we implement will be effective to prevent losses relating to our commercial real estate portfolio. Management has implemented controls to monitor our commercial real estate lending concentrations, but we cannot predict the extent to which this guidance will continue to impact our operations or capital requirements.

Regulatory initiatives regarding bank capital requirements may require heightened capital.

New regulatory capital rules, released in July 2013, implement higher minimum capital requirements for bank holding companies and banks. The new rules include a new common equity Tier 1 capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. These enhancements are expected to both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions. The revised capital rules require banks and bank holding companies to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a total Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. Bank holding companies are also required to hold a capital conservation buffer of common equity Tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. The revised capital rules also require banks and bank holding companies to maintain a common equity Tier 1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10% and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well-capitalized standards and future regulatory change could impose higher capital standards as a routine matter. The Company's and its subsidiary's regulatory capital ratios currently are in excess of the levels established for "well-capitalized" institutions.

These new standards may require the Company or our bank subsidiary to maintain materially more capital, with common equity as a more predominant component, or manage the configuration of our assets and liabilities to comply with formulaic liquidity requirements. Such regulation could significantly impact our return on equity, financial condition, operations, capital position and ability to pursue business opportunities which could have an adverse effect on our business, financial condition and results of operations.

We are subject to numerous laws designed to protect consumers, including the CRA and fair lending laws and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies, including the CFPB, are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new product lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have an adverse effect on our business, financial condition and results of operations.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have an adverse effect on our business, financial condition and results of operations.

There are substantial regulatory limitations on changes of control of a bank holding company.

With certain limited exceptions, federal regulations prohibit a person, a company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our Company without prior notice or application to and the approval of the Federal Reserve. Companies investing in banks and bank holding companies receive additional review and may be required to become bank holding companies, subject to regulatory supervision. Accordingly, prospective investors must be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. These provisions effectively inhibit certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

Risks Relating to the Company's Common Stock

The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our common stock, including, without limitation:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- publication of research reports about us, our competitors or the bank and non-bank financial services industries generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- operating and stock price performance of companies that investors deem comparable to us;
- future issuances of our common stock or other securities;
- additions or departures of key personnel;
- proposed or adopted changes in laws, regulations or policies affecting us;
- perceptions in the marketplace regarding our competitors and/or us;
- our treatment as an "emerging growth company" under federal securities laws;
- changes in accounting principles, policies and guidelines;
- rapidly changing technology;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the bank and non-bank financial services industries.

The stock market and, in particular, the market for financial institution stocks, have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

Securities analysts may not continue coverage on our common stock, which could adversely affect the market for our common stock.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts and they may not cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect our market price. If we are covered by securities analysts and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

We are an "emerging growth company," and the reduced reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years from the date of our initial public offering, although we could lose that status sooner if our gross revenues exceed $1.0 billion, if we issue more than $1.0 billion in nonconvertible debt in a three-year period or if the fair value of our common stock held by non-affiliates exceeds $700 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions, or if we choose to rely on additional exemptions in the future. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

The rights of our common stockholders are subordinate to the rights of the holders of our Series A Preferred Stock and Series B Preferred Stock and any debt securities that we may issue and may be subordinate to the holders of any other class of preferred stock that we may issue in the future.

We have issued 96,576 shares of our Series A Preferred Stock and Series B Preferred Stock. These shares have rights that are senior to our common stock. As a result, we must make payments on the preferred stock before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the Series A Preferred Stock and Series B Preferred Stock must be satisfied in full before any distributions can be made to the holders of our common stock. Our board of directors has the authority to issue in the aggregate up to 1,000,000 shares of preferred stock and to determine the terms of each issue of preferred stock without stockholder approval. Accordingly, you should assume that any shares of preferred stock that we may issue in the future will also be senior to our common stock and could have a preference on liquidating distributions or a preference on dividends that could limit our ability to pay dividends to the holders of our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital-raising efforts is uncertain. Thus, common stockholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

We depend on the profitability of our bank subsidiary.

Our principal source of funds to pay dividends on our common and preferred stock and service any of our obligations are dividends received directly from our subsidiaries. A substantial percentage of our current operations are currently conducted through our bank subsidiary. As is the case with all financial institutions, the profitability of our bank subsidiary is subject to the fluctuating cost and availability of money, changes in interest rates and in economic conditions in general. In addition, various federal and state statutes limit the amount of dividends that our bank subsidiary may pay to us, with or without regulatory approval.

We do not intend to pay dividends in the foreseeable future and our future ability to pay dividends is subject to restrictions.

We have not historically declared or paid any cash dividends on our common stock since inception. Holders of our common stock are entitled to receive only such cash dividends as our board of directors may declare out of funds legally available for such payments. Any declaration and payment of dividends on common stock will depend upon our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate,

our ability to service any equity or debt obligations senior to the common stock and other factors deemed relevant by the board of directors. Furthermore, consistent with our business plans, growth initiatives, capital availability, projected liquidity needs and other factors, we have made and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends, if any, paid to our common stockholders. We are also restricted from paying dividends on our common stock if we do not pay dividends on our Series A Preferred Stock and Series B Preferred Stock for the same dividend period.

Our board of directors intends to retain all of our earnings to promote growth and build capital. Accordingly, we do not expect to pay dividends in the foreseeable future. In addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. Further, the Federal Reserve issued Supervisory Letter SR 09-4 on February 24, 2009 and revised as of March 27, 2009, which provides guidance on the declaration and payment of dividends, capital redemptions and capital repurchases by bank holding companies. Supervisory Letter SR 09-4 provides that, as a general matter, a financial holding company should eliminate, defer or significantly reduce its dividends, if: (1) the financial holding company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (2) the financial holding company's prospective rate of earnings retention is not consistent with the financial holding company's capital needs and overall current and prospective financial condition; or (3) the financial holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the financial holding company is operating in an unsafe and unsound manner.

Our corporate governance documents and certain corporate and banking laws applicable to us, could make a takeover more difficult.

Certain provisions of our articles of incorporation and bylaws and corporate and federal banking laws and regulations could delay, defer or prevent a third party from acquiring control of our organization or conducting a proxy contest, even if those events were perceived by many of our stockholders as beneficial to their interests. These provisions, laws and regulations applicable to us:

- enable our board of directors to issue additional shares of authorized but unissued capital stock;
- enable our board of directors to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors;
- enable our board of directors to increase the size of our board of directors and fill the vacancies created by the increase;
- enable our board of directors to serve for three-year terms;
- provide for a plurality voting standard in the election of directors;
- do not provide for cumulative voting in the election of directors;
- enable our board of directors to amend our bylaws without stockholder approval;
- do not allow for the removal of directors without cause;
- limit the right of stockholders to call a special meeting;
- do not allow stockholder action by less than unanimous written consent;
- require the affirmative vote of two-thirds of the outstanding shares of common stock to approve all amendments to our charter and approve mergers and similar transactions;
- require advance notice for director nominations and other stockholder proposals; and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our stockholders might otherwise receive a premium over the market price of our shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Our corporate office is located at 12700 Park Central Drive, Suite 1700, Dallas, Texas 75251.

As of December 31, 2017, TBK Bank operates ten branches in the Quad Cities Metropolitan Area of Iowa and Illinois, seven other branches throughout central and northwestern Illinois, one branch in northeastern Illinois, thirty-two branches located throughout central and eastern Colorado, two branches in far western Kansas, and loan production offices in Portland, Oregon, Kansas City, Missouri, and Colorado Springs, Colorado. TBK Bank also operates from our corporate office facility in Dallas, Texas which includes an additional branch office limited to deposit gathering activities. We lease nine of these offices and own the remaining forty-seven. Our owned offices are freestanding permanent facilities and the leased offices are part of larger retail facilities. Most of TBK Bank's branches are equipped with automated teller machines ("ATM") and drive-through facilities.

Triumph Business Capital operates from a leased facility within a larger business park located in Coppell, Texas.

ITEM 3. LEGAL PROCEEDINGS.

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information and Common Equity Holders

Our common stock is listed on the NASDAQ Global Select Market under the symbol "TBK." The following table presents the high and low intra-day sales prices of our common stock for the periods indicated:

	2017	
Sales Price Per Share	High	Low
Fourth quarter	$35.45	$28.46
Third quarter	$32.60	$24.40
Second quarter	$26.25	$20.50
First quarter	$27.95	$24.15

	2016	
Sales Price Per Share	High	Low
Fourth quarter	$27.50	$18.36
Third quarter	$19.90	$15.51
Second quarter	$17.00	$14.40
First quarter	$16.72	$12.63

At February 9, 2018, there were 20,825,937 shares outstanding and 324 stockholders of record for the Company's common stock.

Dividends

We have not historically declared or paid cash dividends on our common stock since inception and we do not intend to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any future determination relating to our dividend policy will be made by our board of directors and will depend on a number of factors, including:

- our historic and projected financial condition, liquidity and results of operations;
- our capital levels and needs;
- tax considerations;
- any acquisitions or potential acquisitions that we may examine;
- statutory and regulatory prohibitions and other limitations;
- the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends;
- general economic conditions; and
- other factors deemed relevant by our board of directors.

We are not obligated to pay dividends on our common stock.

As a Texas corporation, we are subject to certain restrictions on dividends under the Texas Business Organizations Code (the "TBOC"). Generally, a Texas corporation may pay dividends to its stockholders out of its surplus (the excess of its assets over its liabilities and stated capital) or out of its net profits for the then-current and preceding fiscal year

unless the corporation is insolvent or the dividend would render the corporation insolvent. In addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies.

Because we are a financial holding company and do not engage directly in business activities of a material nature, our ability to pay dividends to our stockholders depends, in large part, upon our receipt of dividends from our bank subsidiary, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. The present and future dividend policy of our bank subsidiary is subject to the discretion of its board of directors. Our subsidiary bank is not obligated to pay dividends.

Securities authorized for issuance under equity compensation plans

See “Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters”.

Performance Graph

The following Performance Graph and related discussion are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed to be “soliciting materials” or to be “filed” with the SEC (other than as provided in Item 201) nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that the Company specifically incorporates it by reference into a filing.

The following Performance Graph compares the cumulative total shareholder return on the Company’s common stock for the period beginning at the close of trading on November 7, 2014 (the end of the first day of trading of the Company’s common stock on the NASDAQ Global Select Market) through December 31, 2017, with the cumulative total return of the NASDAQ Global Select Market Index and the NASDAQ Bank Index for the same period. Cumulative total return is computed by dividing the difference between the Company’s share price at the end and the beginning of the measurement period by the share price at the beginning of the measurement period. The Performance Graph assumes an initial investment of $100 in the Company’s common stock, the NASDAQ Global Select Market Index and the NASDAQ Bank Index. Historical stock price performance is not necessarily indicative of future stock price performance.

	November 7, 2014	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Triumph Bancorp, Inc.	$ 100.00	$ 106.27	$ 129.41	$ 205.10	$ 247.06
Nasdaq Global Select Market Index	100.00	102.17	108.41	116.64	149.81
Nasdaq Bank Index	100.00	101.16	107.86	145.64	150.75

Recent sales of unregistered equity securities

During 2012, the Company issued a warrant to Triumph Consolidated Cos., LLC (“TCC”) to purchase 259,067 shares of the Company’s common stock. The warrant had an exercise price of $11.58 per share, was immediately exercisable, and had an expiration date of December 12, 2022. TCC exercised the warrant in full on August 2, 2017 and was issued 153,134 shares of common stock, net of shares withheld by the Company to cover the exercise price. The shares of common stock were issued in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended.

Purchases of equity securities by the issuer and affiliated purchasers

No purchases of the Company’s common shares were made by or on behalf of the Company or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) under the Exchange Act during the year ended December 31, 2017. There is currently

no authorization to repurchase shares of outstanding common stock.

ITEM 6. SELECTED FINANCIAL DATA.

Certain historical consolidated financial data as of and for each of the years in the five year period ended December 31, 2017 is derived from our audited historical consolidated financial statements. The following table shows our selected historical financial data for the periods indicated. You should read our selected historical financial data, together with the notes thereto, in conjunction with the more detailed information contained in our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

	As of and for the years ended December 31,				
(Dollars in thousands, except per share amounts)	2017	2016	2015	2014	2013
Income Statement Data:					
Interest income	$177,224	$124,492	$98,760	$87,230	$42,630
Interest expense	21,540	12,134	8,109	6,770	3,947
Net interest income	155,684	112,358	90,651	80,460	38,683
Provision for loan losses	11,628	6,693	4,529	5,858	3,412
Net interest income after provision	144,056	105,665	86,122	74,602	35,271
Gain on sale of subsidiary	20,860	—	—	—	—
Gain on branch sale	—	—	—	12,619	—
Bargain purchase gain	—	—	15,117	—	9,014
Other noninterest income	19,796	20,956	18,180	12,148	3,999
Noninterest income	40,656	20,956	33,297	24,767	13,013
Noninterest expense	123,614	93,112	81,865	69,202	32,724
Net income before income taxes	61,098	33,509	37,554	30,167	15,560
Income tax expense	24,878	12,809	8,421	10,378	2,133
Net income	36,220	20,700	29,133	19,789	13,427
Income attributable to noncontrolling interests	—	—	—	(2,060)	(867)
Dividends on preferred stock	(774)	(887)	(780)	(780)	(721)
Net income available to common stockholders	$35,446	$19,813	$28,353	$16,949	$11,839
Balance Sheet Data:					
Total assets	$3,499,033	$2,641,067	$1,691,313	$1,447,898	$1,288,239
Cash and cash equivalents	134,129	114,514	105,277	160,888	85,797
Investment securities	264,166	304,381	163,169	162,769	185,397
Loans held for sale	—	—	1,341	3,288	5,393
Loans held for investment, net	2,792,108	2,012,219	1,279,318	997,035	877,454
Total liabilities	3,107,335	2,351,722	1,423,275	1,210,389	1,127,642
Noninterest bearing deposits	564,225	363,351	168,264	179,848	150,238
Interest bearing deposits	2,057,123	1,652,434	1,080,686	985,381	894,616
FHLB advances	365,000	230,000	130,000	3,000	21,000
Senior secured note	—	—	—	—	12,573
Subordinated notes	48,828	48,734	—	—	—
Junior subordinated debentures	38,623	32,740	24,687	24,423	24,171
Noncontrolling interests	—	—	—	—	26,997
Total stockholders' equity	391,698	289,345	268,038	237,509	133,600
Preferred stockholders' equity	9,658	9,746	9,746	9,746	9,746
Common stockholders' equity [(1)]	382,040	279,599	258,292	227,763	123,854

	As of and for the years ended December 31,				
	2017	2016	2015	2014	2013
Per Share Data:					
Basic earnings per common share	$1.85	$1.11	$1.60	$1.55	$1.40
Diluted earnings per common share	$1.81	$1.10	$1.57	$1.52	$1.39
Book value per share	$18.35	$15.47	$14.34	$12.68	$12.60
Tangible book value per share (1)	$15.29	$12.89	$12.79	$11.06	$9.70
Shares outstanding end of period	20,820,445	18,078,247	18,018,200	17,963,783	9,832,585
Weighted average shares outstanding - basic	19,133,745	17,856,828	17,720,479	10,940,083	8,481,137
Weighted average shares outstanding - diluted	20,000,288	18,053,531	18,524,889	11,672,780	8,629,611
Adjusted Per Share Data(1):					
Adjusted diluted earnings per common share	$1.37	$1.17	$0.80	$0.82	$0.51
Adjusted weighted average shares outstanding - diluted	20,000,288	18,729,882	17,848,538	10,996,429	8,486,254
Performance ratios:					
Return on average assets	1.27 %	1.00 %	1.89 %	1.46 %	2.40 %
Return on average total equity	10.66 %	7.33 %	11.31 %	10.87 %	12.13 %
Return on average common equity (1)	10.73 %	7.29 %	11.44 %	11.61 %	11.98 %
Return on average tangible common equity (1)	12.50 %	8.37 %	12.98 %	14.51 %	14.50 %
Yield on loans	7.55 %	7.71 %	8.62 %	8.90 %	10.90 %
Adjusted yield on loans (1)	7.23 %	7.23 %	8.20 %	7.96 %	9.69 %
Cost of interest bearing deposits	0.78 %	0.70 %	0.67 %	0.54 %	0.92 %
Cost of total deposits	0.62 %	0.59 %	0.58 %	0.46 %	0.84 %
Cost of total funds	0.86 %	0.68 %	0.64 %	0.58 %	0.89 %
Net interest margin	5.92 %	5.91 %	6.49 %	6.67 %	7.77 %
Adjusted net interest margin (1)	5.65 %	5.52 %	6.16 %	5.93 %	6.85 %
Efficiency ratio	62.96 %	69.84 %	66.05 %	65.77 %	63.30 %
Adjusted efficiency ratio (1)	66.55 %	68.63 %	73.59 %	74.73 %	73.11 %
Net noninterest expense to average assets	2.92 %	3.47 %	3.16 %	3.28 %	3.53 %
Adjusted net noninterest expense to average total assets (1)	3.41 %	3.39 %	4.03 %	4.22 %	4.87 %
Asset Quality ratios(2):					
Past due to total loans	2.33 %	3.61 %	2.41 %	2.57 %	2.78 %
Nonperforming loans to total loans	1.38 %	2.23 %	1.03 %	1.66 %	1.41 %
Nonperforming assets to total assets	1.39 %	1.98 %	1.10 %	1.73 %	2.03 %
ALLL to nonperforming loans	48.41 %	34.00 %	94.10 %	53.02 %	29.41 %
ALLL to total loans	0.67 %	0.76 %	0.97 %	0.88 %	0.41 %
Net charge-offs to average loans	0.28 %	0.25 %	0.07 %	0.07 %	0.45 %
Capital ratios:					
Tier 1 capital to average assets	11.80 %	10.85 %	16.56 %	15.92 %	12.87 %

Tier 1 capital to risk-weighted assets	11.15	%	11.85	%	18.23	%	19.56	%	14.11	%
Common equity Tier 1 capital to risk-weighted assets	9.70	%	10.18	%	16.23	%	N/A		N/A	
Total capital to risk-weighted assets	13.21	%	14.60	%	19.11	%	20.35	%	14.47	%
Total equity to total assets	11.19	%	10.96	%	15.85	%	16.40	%	12.47	%
Total stockholders' equity to total assets	11.19	%	10.96	%	15.85	%	16.40	%	10.37	%
Tangible common stockholders' equity ratio (1)	9.26	%	8.98	%	13.85	%	14.00	%	7.57	%

(1) The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The non-GAAP measures used by the Company include the following:

- "Common stockholders' equity" is defined as total stockholders' equity at end of period less the liquidation preference value of the preferred stock.
- "Adjusted diluted earnings per common share" is defined as adjusted net income available to common stockholders divided by adjusted weighted average diluted common shares outstanding. Excluded from net income available to common stockholders are material gains and expenses related to merger and acquisition-related activities, net of tax. In our judgment, the adjustments made to net income available to common stockholders allow management and investors to better assess our performance in relation to our core net income by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business. Weighted average diluted common shares outstanding are adjusted as a result of changes in their dilutive properties given the gain and expense adjustments described herein.
- "Tangible common stockholders' equity" is defined as common stockholders' equity less goodwill and other intangible assets.
- "Total tangible assets" is defined as total assets less goodwill and other intangible assets.
- "Tangible book value per share" is defined as tangible common stockholders' equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.
- "Tangible common stockholders' equity ratio" is defined as the ratio of tangible common stockholders' equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to period in common equity and total assets, each exclusive of changes in intangible assets.
- "Return on Average Tangible Common Equity" is defined as net income available to common stockholders divided by average tangible common stockholders' equity.
- "Adjusted efficiency ratio" is defined as noninterest expenses divided by our operating revenue, which is equal to net interest income plus noninterest income. Also excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business.
- "Adjusted net noninterest expense to average total assets" is defined as noninterest expenses net of noninterest income divided by total average assets. Excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. This metric is used by our management to better assess our operating efficiency.
- "Adjusted yield on loans" is defined as our yield on loans after excluding loan accretion from our acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on our yield on loans, as the effect of loan discount accretion is expected to decrease as the acquired loans roll off of our balance sheet.
- "Adjusted net interest margin" is defined as net interest margin after excluding loan accretion from the acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on net interest margin, as the effect of loan discount accretion is expected to decrease as the acquired loans mature or roll off of our balance sheet.

(2) Asset quality ratios exclude loans held for sale.

GAAP Reconciliation of Non-GAAP Financial Measures

We believe the non-GAAP financial measures included above provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures:

	As of and for the years ended December 31,				
(Dollars in thousands, except per share amounts)	2017	2016	2015	2014	2013
Total stockholders' equity	$391,698	$289,345	$268,038	$237,509	$133,600
Preferred stock liquidation preference	(9,658)	(9,746)	(9,746)	(9,746)	(9,746)
Total common stockholders' equity	382,040	279,599	258,292	227,763	123,854
Goodwill and other intangibles	(63,778)	(46,531)	(27,854)	(29,057)	(28,518)
Tangible common stockholders' equity	$318,262	$233,068	$230,438	$198,706	$95,336
Common shares outstanding	20,820,445	18,078,247	18,018,200	17,963,783	9,832,585
Tangible book value per share	$15.29	$12.89	$12.79	$11.06	$9.70
Total assets at end of period	$3,499,033	$2,641,067	$1,691,313	$1,447,898	$1,288,239
Goodwill and other intangibles	(63,778)	(46,531)	(27,854)	(29,057)	(28,518)
Adjusted total assets at period end	3,435,255	2,594,536	1,663,459	1,418,841	1,259,721
Tangible common stockholders' equity ratio	9.26%	8.98%	13.85%	14.00%	7.57%
Net income available to common stockholders	$35,446	$19,813	$28,353	$16,949	$11,839
Gain on sale of subsidiary	(20,860)	—	—	—	—
Gain on branch sale	—	—	—	(12,619)	—
Bargain purchase gain	—	—	(15,117)	—	(9,014)
Transaction related costs	2,013	1,618	243	—	1,521
Incremental bonus related to transaction	4,814	—	1,750	—	—
Escrow recovery from DHF	—	—	(300)	—	—
Tax effect of adjustments	5,153	(251)	(592)	4,727	—
Adjusted net income available to common stockholders	$26,566	$21,180	$14,337	$9,057	$4,346
Dilutive effect of convertible preferred stock	774	783	—	—	—
Adjusted net income available to common stockholders - diluted	$27,340	$21,963	$14,337	$9,057	$4,346
Weighted average shares outstanding - diluted	20,000,288	18,053,531	18,524,889	11,672,780	8,629,611
Adjusted effects of assumed Preferred Stock conversion	—	676,351	(676,351)	(676,351)	(143,357)
Adjusted weighted average shares outstanding - diluted	20,000,288	18,729,882	17,848,538	10,996,429	8,486,254

Adjusted diluted earnings per common share	$1.37		$1.17		$0.80		$0.82		$0.51	
Net income available to common stockholders	$35,446		$19,813		$28,353		$16,949		$11,839	
Average tangible common equity	283,561		236,660		218,392		116,817		81,636	
Return on average tangible common equity	12.50	%	8.37	%	12.98	%	14.51	%	14.50	%
Reported yield on loans	7.55	%	7.71	%	8.62	%	8.90	%	10.90	%
Effect of accretion income on acquired loans	(0.32	%)	(0.48	%)	(0.42	%)	(0.94	%)	(1.21	%)
Adjusted yield on loans	7.23	%	7.23	%	8.20	%	7.96	%	9.69	%
Reported net interest margin	5.92	%	5.91	%	6.49	%	6.67	%	7.77	%
Effect of accretion income on acquired loans	(0.27	%)	(0.39	%)	(0.33	%)	(0.74	%)	(0.92	%)
Adjusted net interest margin	5.65	%	5.52	%	6.16	%	5.93	%	6.85	%

(Dollars in thousands, except per share amounts)	Years Ended December 31, 2017	2016	2015	2014	2013
Adjusted efficiency ratio:					
Net interest income	$155,684	$112,358	$90,651	$80,460	$38,683
Noninterest income	40,656	20,956	33,297	24,767	13,013
Operating revenue	196,340	133,314	123,948	105,227	51,696
Gain on sale of subsidiary	(20,860)	—	—	—	—
Gain on branch sale	—	—	—	(12,619)	—
Bargain purchase gain	—	—	(15,117)	—	(9,014)
Escrow recovery from DHF	—	—	(300)	—	—
Adjusted operating revenue	$175,480	$133,314	$108,531	$92,608	$42,682
Noninterest expenses	$123,614	$93,112	$81,865	$69,202	$32,724
Transaction related costs	(2,013)	(1,618)	(243)	—	(1,521)
Incremental bonus related to transaction	(4,814)	—	(1,750)	—	—
Adjusted noninterest expenses	$116,787	$91,494	$79,872	$69,202	$31,203
Adjusted efficiency ratio	66.55 %	68.63 %	73.59 %	74.73 %	73.11 %
Adjusted net noninterest expense to average assets ratio:					
Noninterest expenses	$123,614	$93,112	$81,865	$69,202	$32,724
Transaction related costs	(2,013)	(1,618)	(243)	—	(1,521)
Incremental bonus related to transaction	(4,814)	—	(1,750)	—	—
Adjusted noninterest expense	116,787	91,494	79,872	69,202	31,203
Noninterest income	40,656	20,956	33,297	24,767	13,013
Gain on sale of subsidiary	(20,860)	—	—	—	—
Gain on branch sale	—	—	—	(12,619)	—
Bargain purchase gain	—	—	(15,117)	—	(9,014)
Escrow recovery from DHF	—	—	(300)	—	—
Adjusted noninterest income	19,796	20,956	17,880	12,148	3,999
Adjusted net noninterest expenses	$96,991	$70,538	$61,992	$57,054	$27,204
Average total Assets	$2,844,916	$2,079,756	$1,537,856	$1,353,421	$558,946
Adjusted net noninterest expense to average assets ratio	3.41 %	3.39 %	4.03 %	4.22 %	4.87 %

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Cautionary Note Regarding Forward-Looking Statements

This document contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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,” “ “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those other comparable 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.

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:

- our limited operating history as an integrated company and our recent acquisitions;
- business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market areas;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- risks related to the integration of acquired businesses (including our acquisition of nine branches from Independent Bank in Colorado and Valley Bancorp, Inc.) and any future acquisitions;
- changes in management personnel;
- interest rate risk;
- concentration of our factoring services in the transportation industry;
- credit risk associated with our loan portfolio;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- time and effort necessary to resolve nonperforming assets;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity;
- fluctuations in the fair value and liquidity of the securities we hold for sale;
- impairment of investment securities, goodwill, other intangible assets or deferred tax assets;
- risks related to our acting as the asset manager for one or more CLOs;
- our risk management strategies;
- environmental liability associated with our lending activities;
- increased competition in the bank and non-bank financial services industries, nationally, regionally or locally, which may adversely affect pricing and terms;
- the accuracy of our financial statements and related disclosures;
- material weaknesses in our internal control over financial reporting;
- system failures or failures to prevent breaches of our network security;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- changes in carry-forwards of net operating losses;
- changes in federal tax law or policy;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations, such as the Dodd-Frank Act and their application by our regulators;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC insurance and other coverages;
- failure to receive regulatory approval for future acquisitions; and
- increases in our capital requirements.

The foregoing factors should not be construed as exhaustive. 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 factors emerge from time to time and it is not possible for us to predict which will arise. 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. See the "Forward-Looking Statements" section above.

Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act. Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services as well as commercial finance product lines focused on businesses that require specialized financial solutions. Our banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance product lines include factoring, asset-based lending, equipment lending and premium finance products offered on a nationwide basis. As of December 31, 2017, we had consolidated total assets of $3.499 billion, gross loans held for investment of $2.811 billion, total deposits of $2.621 billion and total stockholders' equity of $391.7 million.

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary operates in a highly specialized niche and earns substantially higher yields on its factored accounts receivable portfolio than our other lending products. This business also has a legacy and structure as a standalone company. In addition, through our Triumph Capital Advisors asset management subsidiary, we previously provided fee-based asset management services distinct from our traditional banking offerings and operations. As a result, we have determined our reportable segments are Banking, Factoring, Asset Management, and Corporate. For the year ended December 31, 2017, our banking segment generated 66% of our total revenue (comprised of interest and noninterest income), our factoring segment generated 22% of our total revenue, our asset management segment generated 1% of our total revenue, and our corporate segment generated 11% of our total revenue. As discussed below, on March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC ("TCA") and no longer provide fee based asset management services. Asset Management segment results reflect activity through the date of the TCA sale. The $20.9 million pre-tax gain on the sale of TCA is included in the Corporate segment's revenue for the year ended December 31, 2017.

2017 Highlights

Net income available to common stockholders for the year ended December 31, 2017 was $35.4 million, or $1.81 per diluted share, compared to net income available to common stockholders for the year ended December 31, 2016 of $19.8 million, or $1.10 per diluted share. Excluding material gains and expenses related to merger and acquisition

related activities, including divestitures, adjusted net income to common stockholders was $26.6 million, or $1.37 per diluted share, for the year ended December 31, 2017 compared to $21.2 million, or $1.17 per diluted share for the year ended December 31, 2016. For the year ended December 31, 2017, our return on average common equity was 10.73% and our return on average assets was 1.27%.

At December 31, 2017, we had total assets of $3.499 billion, including gross loans of $2.811 billion, compared to $2.641 billion of total assets and $2.028 billion of gross loans at December 31, 2016. The year-over-year increases in total assets and gross loans were due in part to the acquisition of nine branches from Independent Bank in Colorado and our acquisition of Valley Bancorp, Inc. discussed below. Excluding the acquired balances, organic loan growth totaled $587 million during the year ended December 31, 2017. Our commercial finance loans increased from $693.7 million in aggregate as of December 31, 2016 to $897.5 million as of December 31, 2017, an increase of 29%, and constitute 32% of our total loan portfolio at December 31, 2017.

At December 31, 2017, we had total liabilities of $3.107 billion, including total deposits of $2.621 billion compared to $2.352 billion of total liabilities and $2.016 billion of total deposits at December 31, 2016. The year-over-year increase in total deposits of $605 million was due in part to the acquisition of nine branches from Independent Bank in Colorado and our acquisition of Valley Bancorp, Inc. discussed below. Excluding the assumed balances, organic deposit growth totaled $151 million during the year ended December 31, 2017.

At December 31, 2017, we had total stockholders' equity of $391.7 million. During the year ended December 31, 2017, total stockholders' equity increased $102.4 million, primarily due to $65.5 million of net proceeds from the August 1, 2017 common stock offering discussed below and our net income for the period. Capital ratios remained strong with Tier 1 capital and total capital to risk weighted assets ratios of 11.15% and 13.21%, respectively, at December 31, 2017.

Triumph Capital Advisors

On March 31, 2017, the Company sold its 100% membership interest in Triumph Capital Advisors, LLC (“TCA”). As part of the TCA sale on March 31, 2017, the Company recorded a pre-tax gain on sale of $20.9 million, net of $0.4 million of direct transaction costs. In addition, the Company incurred other indirect transaction related costs of $0.3 million and recorded $4.8 million in incremental bonus expense for the amount paid to team members to recognize their contribution to the transaction and building the value realized in the sale of the business. The TCA sale resulted in a net pre-tax contribution to earnings for the year ended December 31, 2017 of $15.7 million, or approximately $10.0 million net of tax. Consideration received by the Company included a seller financed loan receivable in the amount of $10.5 million.

For further information, see Note 2 – Business Combinations and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Common Stock Offering

On August 1, 2017, the Company completed an underwritten common stock offering issuing 2.53 million shares of the Company’s common stock, including 0.33 million shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at $27.50 per share for total gross proceeds of $69.6 million. Net proceeds after underwriting discounts and offering expenses were $65.5 million. The Company used a portion of the net proceeds of the offering to fund a portion of the consideration paid for the acquisition of Valley Bancorp, Inc. and for general corporate purposes.

Independent Bank – Colorado Branches

On October 6, 2017, the Company, through its subsidiary TBK Bank, completed its acquisition of nine branch locations in Colorado from Independent Bank Group, Inc.’s banking subsidiary Independent Bank (the “Acquired Branches”) for an aggregate deposit premium of approximately $6.8 million or 4.2%. As part of the acquisition, the Company acquired $95.8 million of loans, assumed $160.7 million of deposits associated with the branches and recorded $3.3 million of core deposit intangible assets and $5.8 million of goodwill.

For further information, see Note 2 – Business Combinations and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Valley Bancorp, Inc.

Effective December 9, 2017, the Company acquired Valley Bancorp, Inc. (“Valley”) and its community banking subsidiary, Valley Bank & Trust, which was merged into TBK Bank upon closing, in an all-cash transaction for $40.1 million. As part of the Valley acquisition, the Company acquired $171.2 million of loans, assumed $293.4 million of

deposits associated with Valley and recorded $6.1 million of core deposit intangible assets and $10.5 million of goodwill.

For further information, see Note 2 – Business Combinations and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Triumph Healthcare Finance

On January 19, 2018, we entered into an agreement to sell the assets (the "Disposal Group") of Triumph Healthcare Finance ("THF") and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the carrying amount of the Disposal Group, including loans with a recorded balance of $68.7 million, net of an allowance for loan and lease losses of $2.1 million, was transferred to assets held for sale.

For further information, see Note 2 – Business Combinations and Divestitures in the accompanying Notes to the Consolidated Financial Statements included in Item 8 of this report.

Commercial Finance Product Lines

A key element of our strategy is to supplement the asset generation capacity in our community banking markets with commercial finance product lines which are offered on a nationwide basis and which serve to enhance the overall yield of our portfolio. These products include our factoring services, provided principally in the transportation sector (though increasingly in other industries as well), our asset-based lending and equipment finance products. Our aggregate outstanding balances for these products increased from $693.7 million as of December 31, 2016 to $897.5 million as of December 31, 2017. This increase was driven by organic growth and partially offset by the transfer of $70.8 million of healthcare asset-based lending loans to Assets Held for Sale during the fourth quarter.

The following table sets forth our commercial finance loan portfolios held for investment as of December 31, 2017 and 2016:

(Dollars in thousands)	December 31, 2017	December 31, 2016
Commercial finance		
Equipment	$ 254,119	$ 190,393
Asset-based lending (general)	213,471	161,454
Asset-based lending (healthcare)	—	79,668
Premium finance	55,520	23,971
Factored receivables	374,410	238,198
Total commercial finance loans	$ 897,520	$ 693,684

In general, we view the long term market fundamentals for our commercial finance product offerings as sound, with continued opportunity to increase our market share within very large markets. In particular, we note continued positive performance in the transportation factored receivables industry, with consistent growth in the number of clients and number of invoices processed, coupled with freight invoice prices near historical highs, which has contributed to the strong year-over-year growth in our factored receivables. These positive trends have caused increased competition from existing as well as new lenders that have entered these markets, which resulted in increased pricing pressure. Despite competitive conditions, we remain disciplined in our structuring and underwriting parameters.

We incurred expense increases during 2017 associated with the growth in our commercial finance lending lines as we continued to invest in additional personnel and resources necessary to grow these products and manage the risk of larger portfolios. In general, we believe these expenses, consisting primarily of increased headcount and the occupancy and technology expenses necessary to support such additional headcount, represent costs that may be

leveraged or scaled to support increased loan production in these areas.

Results of Operations

Net Income

Fiscal year ended December 31, 2017 compared with year ended December 31, 2016. We earned net income of $36.2 million for the year ended December 31, 2017 compared to $20.7 million for the year ended December 31, 2016, an increase of $15.5 million, or 75%.

The results for the year ended December 31, 2017 reflect the sale of our 100% membership interest in TCA. As part of the TCA sale on March 31, 2017, the Company recorded a pre-tax gain on sale of $20.9 million, net of $0.4 million of direct transaction costs. In addition, the Company incurred other indirect transaction related costs of $0.3 million and recorded $4.8 million in incremental bonus expense for the amount paid to team members to recognize their contribution to the transaction and building the value realized in the sale of the business. The TCA sale resulted in a net pre-tax contribution to earnings for the year ended December 31, 2017 of $15.7 million, or approximately $10.0 million net of tax.

The results for the year ended December 31, 2017 also include the results of operations of the Acquired Branches since the October 6, 2017 acquisition date and the results of operations of Valley since the December 9, 2017 acquisition date. We incurred $1.7 million of pre-tax transaction and restructuring costs related to these acquisitions which is reported as noninterest expense. During the first quarter of the year ended December 31, 2017, the Company also incurred $0.3 million of pre-tax transaction and restructuring costs related to the acquisition of ColoEast.

The results for the year ended December 31, 2016 include the results of operations of ColoEast since the August 1, 2016 acquisition date and were impacted by $1.6 million of pretax transaction and restructuring costs associated with our acquisition of ColoEast and reported as noninterest expense.

Excluding the tax-effected impact of the TCA gain on sale and the various transaction costs incurred during the years ended December 31, 2017 and 2016, we earned adjusted net income of $26.6 million for the year ended December 31, 2017 compared to $21.2 million for the year ended December 31, 2016, an increase of $5.4 million, or 25%. The adjusted increase was primarily the result of a $43.3 million increase in net interest income, offset in part by a $4.9 million increase in the provision for loan losses, a $1.2 million decrease in adjusted noninterest income, a $25.3 million increase in adjusted noninterest expense and a $6.7 million increase in adjusted income tax expense. The increased tax expense includes a $3.0 million charge related to the remeasurement of our deferred tax assets and deferred tax liabilities at our new expected effective tax rate due to the enactment of the Tax Cuts and Jobs Act (the "Act") enacted on December 22, 2017.

Fiscal year ended December 31, 2016 compared with year ended December 31, 2015. We earned net income of $20.7 million for the year ended December 31, 2016 compared to $29.1 million for the year ended December 31, 2015, a decrease of $8.4 million.

The results for the year ended December 31, 2016 include the results of operations of ColoEast since the August 1, 2016 acquisition date and were impacted by $1.6 million of pre-tax transaction and restructuring costs associated with our acquisition of ColoEast and reported as noninterest expense.

The results for the year ended December 31, 2015 were impacted by our acquisition of Doral Money, Inc. ("Doral Money"). The Doral Money acquisition resulted in a nontaxable bargain purchase gain in the amount of $15.1 million included in noninterest income for the year ended December 31, 2015, offset by an additional $1.8 million bonus accrual and approximately $0.3 million of transaction costs recorded in connection with the Doral Money acquisition and reported as noninterest expense.

Excluding the impact of the ColoEast transaction costs and the Doral Money acquisition, we earned adjusted net income of $22.1 million for the year ended December 31, 2016 compared to $15.1 million for the year ended December 31, 2015, an increase of $7.0 million, or 46%. The adjusted increase was primarily the result of a $21.7 million increase in net interest income and a $3.1 million increase in adjusted noninterest income, offset in part by a $2.2 million increase in the provision for loan losses, an $11.6 million increase in adjusted noninterest expense and a $4.0 million increase in adjusted income tax expense.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

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

The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities for the years ended December 31, 2017, 2016, and 2015:

	For the years ended December 31,								
	2017			2016			2015		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest earning assets:									
Cash and cash equivalents	$124,802	$1,450	1.16%	$107,969	$653	0.60%	$123,444	$465	0.38%
Taxable securities	229,181	6,408	2.80%	222,536	4,131	1.86%	154,756	2,499	1.61%
Tax-exempt securities	28,984	415	1.43%	14,712	178	1.21%	3,560	59	1.66%
FHLB & FRB stock	12,674	207	1.63%	6,790	73	1.08%	5,115	156	3.05%
Loans [(1)]	2,235,481	168,744	7.55%	1,550,039	119,457	7.71%	1,109,434	95,581	8.62%
Total interest earning assets	2,631,122	177,224	6.74%	1,902,046	124,492	6.55%	1,396,309	98,760	7.07%
Noninterest earning assets:									
Cash and cash equivalents	39,497			28,138			25,363		
Other noninterest earning assets	174,297			149,572			116,184		
Total assets	$2,844,916			$2,079,756			$1,537,856		
Interest bearing liabilities:									
Deposits:									
Interest bearing demand	331,023	526	0.16%	269,635	278	0.10%	227,251	140	0.06%
Individual retirement accounts	100,731	1,221	1.21%	78,979	927	1.17%	57,216	690	1.21%
Money market	209,229	509	0.24%	156,637	332	0.21%	116,654	266	0.23%
Savings	175,821	105	0.06%	116,928	63	0.05%	72,964	36	0.05%
Certificates of deposit	782,384	9,328	1.19%	640,490	7,005	1.09%	501,293	5,273	1.05%
Brokered deposits	87,395	1,393	1.59%	52,816	551	1.04%	49,867	501	1.00%
Total interest bearing deposits	1,686,583	13,082	0.78%	1,315,485	9,156	0.70%	1,025,245	6,906	0.67%
Subordinated notes	48,779	3,344	6.86%	12,373	835	6.75%	—	—	—

Junior subordinated debentures	33,293	1,955	5.87%	28,059	1,427	5.09%	24,547	1,121	4.57%
Other borrowings	313,357	3,159	1.01%	186,768	716	0.38%	48,017	82	0.17%
Total interest bearing liabilities	2,082,012	21,540	1.03%	1,542,685	12,134	0.79%	1,097,809	8,109	0.74%
Noninterest bearing liabilities and equity:									
Noninterest bearing demand deposits	408,729			243,349			168,565		
Other liabilities	14,264			11,306			13,931		
Total equity	339,911			282,416			257,551		
Total liabilities and equity	$2,844,916			$2,079,756			$1,537,856		
Net interest income		$155,684			$112,358			$90,651	
Interest spread [2]			5.71%			5.76%			6.33%
Net interest margin [3]			5.92%			5.91%			6.49%

1. Balance totals include respective nonaccrual assets.
2. Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.
3. Net interest margin is the ratio of net interest income to average interest earning assets.

Year ended December 31, 2017 compared with year ended December 31, 2016. We earned net interest income of $155.7 million for the year ended December 31, 2016 compared to $112.4 million for the year ended December 31, 2016.

This increase in net interest income was driven by increases in average interest earning assets, which increased to $2.631 billion for the year ended December 31, 2017 from $1.902 billion for the year ended December 31, 2016, an increase of $729 million, or 38.3%. The increase in interest earning assets was impacted by the $95.8 million of loans acquired in the Acquired Branches acquisition on October 6, 2017, which were outstanding for almost three full months during the year ended December 31, 2017. To a lesser extent, the increase in interest earning assets was impacted by the $171.2 million of loans and the $97.7 million of investment securities acquired in the Valley acquisition on December 9, 2017, which were outstanding for approximately 3 weeks during the year ended December 31, 2017. The remaining increase primarily resulted from organic growth in our loan portfolio. With the exception of healthcare asset-based lending loans, our commercial finance product lines, including our factored receivables, asset-based loans, equipment finance loans, and premium finance loans increased on a period over period basis as a result of the continued execution of our growth strategy for such products. In total, our outstanding commercial finance balances increased $203.8 million, or 29.4%, from $693.7 million at December 31, 2016 to $897.5 million at December 31, 2017 and of this growth, $136.2 million, or 66.8%, was the result of growth in our higher yielding factored receivables. We also experienced organic growth in our mortgage warehouse facilities and community banking lending products period over period, including commercial real estate and general commercial and industrial loans.

The increases in our net interest income resulting from changes in the interest income generated by the acquired assets and the organic growth in our loan portfolio discussed above were offset in part by an increase in our interest expense associated with the growth in customer deposits and other borrowings. Average total interest bearing deposits increased to $1.687 billion for the year ended December 31, 2017 from $1.315 billion for the year ended December 31, 2016, an increase of $372 million, or 28.3%. The $160.7 million of customer deposits assumed in the Acquired Branches acquisition on October 6, 2017, which were outstanding for almost three full months during the year ended December 31, 2017, contributed to the increase in average interest bearing deposits during the period. To a lesser extent, the $293.4 million of customer deposits assumed in the Valley acquisition on December 9, 2017, which were outstanding for approximately three weeks during the year ended December 31, 2017, also contributed to the increase in average interest bearing deposits during the period. The remaining increase was partially due to growth in our certificates of deposit as these higher cost deposit products were used to fund our loan growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund growth in our mortgage warehouse lending. Finally, we issued $50.0 million of subordinated notes on September 30, 2016 at an initial fixed rate of 6.5% and a full year impact of this issuance is reflected in the average balance for the year ended December 31, 2017.

Net interest margin increased to 5.92% for the year ended December 31, 2017 from 5.91% for the year ended December 31, 2016.

The increase in our net interest margin primarily resulted from an increase in yields on our interest earning assets. Our average yield on earning assets increased to 6.74% for the year ended December 31, 2017 from 6.55% for the year ended December 31, 2016, an increase of 19 basis points. The increase is primarily attributable to increased average yields on cash and cash equivalents, tax-exempt securities, and FHLB & FRB stock due to increases in the underlying interest rates of these instruments throughout the year ended December 31, 2017. Additionally, we experienced an increase in average yield on our taxable securities due to increases in the underlying interest rates over the same period as well as accelerated interest recognition due to early calls of certain taxable securities acquired at a discount to par during the year ended December 31, 2017. These increases in average yields on our interest earning assets were offset by a decrease in average yield on our loan portfolio of 16 basis points or 2.1% due to a change in the mix within our loan portfolio period over period. The lower yielding community banking loans acquired in the Acquired Branches and Valley acquisitions resulted in a decrease in the average balance of our higher yielding

commercial finance products as a percentage of the average balance of the total portfolio from 38% at December 31, 2016 to 36% at December 31, 2017. Additionally, a full year of the lower yielding community banking loans acquired in the ColoEast acquisition on August 1, 2016 is now fully reflected in the average balances for the year ended December 31, 2017. Our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, remained flat as a percentage of the overall factoring portfolio at 77% as of December 31, 2017 and 2016.

A component of the yield on our loan portfolio consists of discount accretion on acquired loan portfolios. Purchase discounts are being accreted into income over the remaining lives of the acquired loans. Due to growth in our average loans, the aggregate yield on our loan portfolio attributable to accretion of purchase discounts decreased to 32 basis points for the year ended December 31, 2017 compared to 48 basis points for the year ended December 31, 2016. The decreased impact was partially offset by increased accretion associated with our 2017 acquisitions. During the year ended December 31, 2017, we recorded an additional purchase discount of $6.6 million and $3.3 million on loans acquired from Valley and the Acquired Branches, respectively.

Excluding the impact of discount accretion, the adjusted yield on our loan portfolio was flat at 7.23% for the years ended December 31, 2017 and 2016, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding commercial finance product lines which include our factored receivables, asset-based loans, equipment finance loans, and premium finance loans.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 5.65% and 5.52% for the years ended December 31, 2017 and 2016, respectively.

The increase in our yield on total interest earning assets was partially offset by an increase in our average cost of funds. Our average cost of interest bearing liabilities increased to 1.03% for the year ended December 31, 2017 from 0.79% for the year ended December 31, 2016, an increase of 24 basis points. Contributing factors to this increase included increased use of higher rate certificates of deposit to fund our loan growth, higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the economy, and most significantly, a full year effect of our issuance of $50.0 million of subordinated notes on September 30, 2016 at an initial fixed rate of 6.5%. The lower cost customer deposits assumed in the Acquired Branches and Valley acquisitions partially offset these increases.

Year ended December 31, 2016 compared with year ended December 31, 2015. We earned net interest income of $112.4 million for the year ended December 31, 2016 compared to $90.7 million for the year ended December 31, 2015.

This increase in net interest income was driven by increases in average interest earning assets, which increased to $1.902 billion for the year ended December 31, 2016 from $1.396 billion for the year ended December 31, 2015, an increase of $506 million, or 36.2%. The increase in interest earning assets was impacted by the $460.8 million of loans and $161.7 million of investment securities acquired in the ColoEast acquisition on August 1, 2016, which were outstanding for five months during the year ended December 31, 2016. The remaining increase primarily resulted from organic growth in our loan portfolio. Our commercial finance product lines, including our factored receivables, asset-based loans, equipment finance loans, and premium finance loans increased on a period over period basis as a result of the continued execution of our growth strategy for such products. Our outstanding commercial finance balances increased $172.7 million, or 33.1%, from $521.0 million at December 31, 2015 to $693.7 million at December 31, 2016. We also experienced organic growth in our mortgage warehouse facilities and community banking lending products period over period, including commercial real estate and general commercial and industrial loans.

The increases in our net interest income resulting from changes in the interest income generated by the acquired ColoEast assets and the organic growth in our loan portfolio discussed above were offset in part by an increase in our interest expense associated with the growth in customer deposits and other borrowings. Average total interest bearing deposits increased to $1.315 billion for the year ended December 31, 2016 from $1.025 billion for the year ended December 31, 2015, an increase of $290 million, or 28.3%. The $653.0 million of customer deposits assumed in the ColoEast acquisition on August 1, 2016, which were outstanding for five months during the year ended December 31, 2016, contributed to the increase in average interest bearing deposits during the period. The remaining increase was partially due to growth in our certificates of deposit as these higher cost deposit products were used to fund our loan growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund loans. Finally, we issued $50.0 million of subordinated notes on September 30, 2016 at an initial fixed rate of 6.5% that increased our interest expense during 2016.

Net interest margin decreased to 5.91% for the year ended December 31, 2016 from 6.49% for the year ended December 31, 2015, a decrease of 58 basis points.

The decline in our net interest margin primarily resulted from a decrease in yields on our interest earning assets. Our average yield on earning assets decreased to 6.55% for the year ended December 31, 2016 from 7.07% for the year ended December 31, 2015, a decrease of 52 basis points. The decrease is primarily attributable to a change in the mix within our loan portfolio period over period. The lower yielding community banking loans acquired in the ColoEast acquisition resulted in a decrease in the average balance of our higher yielding commercial finance products as a percentage of the average balance of the total portfolio from 40% at December 31, 2015 to 38% at December 31, 2016. In addition, our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, decreased as a percentage of the overall factoring portfolio to 77% at December 31, 2016 compared to 82% at December 31, 2015 as we expanded our non-transportation factoring product lines in 2016.

A component of the yield on our loan portfolio consists of discount accretion on acquired loan portfolios. During the year ended December 31, 2016, we acquired loans in the ColoEast acquisition with an additional purchase discount of $12.0 million which is being accreted into income over the remaining lives of the acquired loans. Due in part to accretion associated with the ColoEast acquired loans, the aggregate increased yield on our loan portfolio attributable to accretion of purchase discounts associated with these acquisitions increased to 48 basis points for the year ended December 31, 2016 compared to 42 basis points for the year ended December 31, 2015. Discount accretion for the year ended December 31, 2016 also included approximately $1.2 million of accretion resulting from the payoff of an individual purchased credit impaired loan in excess of its carrying amount. Excluding the impact of discount accretion, the adjusted yield on our loan portfolio was 7.23% and 8.20% for the years ended December 31, 2016 and 2015, respectively.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 5.52% and 6.16% for the years ended December 31, 2016 and 2015, respectively.

An increase in our average cost of funds also contributed to the decrease in our net interest margin. Our average cost of interest bearing liabilities increased to 0.79% for the year ended December 31, 2016 from 0.74% for the year ended December 31, 2015, an increase of 5 basis points. Contributing factors to this increase included increased use of higher rate certificates of deposit, higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the economy, and our issuance of $50.0 million of subordinated notes on September 30, 2016 at an initial fixed rate of 6.5%. The lower cost customer deposits assumed in the ColoEast acquisition partially offset these increases.

Changes in net interest income due to changes in rates and volume. The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities for the periods indicated. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated to volume.

	Years ended December 31, 2017 Compared to 2016			2016 Compared to 2015		
	Increase (Decrease) Due to:			Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase	Rate	Volume	Net Increase
Interest earning assets:						
Cash and cash equivalents	$601	$196	$797	$282	$(94)	$188
Taxable securities	2,091	186	2,277	374	1,258	1,632
Tax-exempt securities	33	204	237	(16)	135	119
FHLB & FRB stock	38	96	134	(101)	18	(83)
Loans	(2,453)	51,740	49,287	(10,080)	33,956	23,876
Total interest income	310	52,422	52,732	(9,541)	35,273	25,732
Interest bearing liabilities:						
Interest bearing demand	150	98	248	94	44	138
Individual retirement accounts	30	264	294	(18)	255	237
Money market	49	128	177	(19)	85	66
Savings	7	35	42	3	24	27
Certificates of deposit	631	1,692	2,323	210	1,522	1,732
Brokered deposits	291	551	842	19	31	50
Total interest bearing deposits	1,158	2,768	3,926	289	1,961	2,250

Subordinated notes	13	2,496	2,509	—	835	835
Junior subordinated debentures	221	307	528	127	179	306
Other borrowings	1,167	1,276	2,443	102	532	634
Total interest expense	2,559	6,847	9,406	518	3,507	4,025
Change in net interest income	$(2,249)	$45,575	$43,326	$(10,059)	$31,766	$21,707

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses at an appropriate level to absorb estimated losses incurred in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under GAAP. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

The provision for loan losses is primarily driven by the allowance allocation for incurred losses recorded on collectively evaluated loans outstanding for a period. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Finally, loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of impaired loans and factored invoices greater than 90 days past due with negative cash reserves.

Under accounting standards for business combinations, acquired loans are recorded at fair value on the date of acquisition. This fair value adjustment eliminates any of the seller's ALLL associated with such loans as of the purchase date as any credit exposure associated with such loans is incorporated into the fair value adjustment. A provision for loan losses is recorded for the emergence of new incurred and estimable losses on acquired loans after the acquisition date.

Year ended December 31, 2017 compared with year ended December 31, 2016. Our provision for loan losses was $11.6 million for the year ended December 31, 2017 compared to $6.7 million for the year ended December 31, 2016.

The increased provision for loan losses was the result of an increase in loan charge-offs during 2017. We experienced higher net charge-offs of $6.2 million in the year ended December 31, 2017 compared to net charge-offs of $3.9 million for 2016, an increase of $2.3 million.

The increased provision for loan losses was also the result of a higher loan portfolio growth rate period over period in our factored receivables, which generally require higher levels of ALLL. Our factored receivable balances increased by $136.2 million during the year ended December 31, 2017 compared to an increase of $23.1 million during the year ended December 31, 2016. In addition, during the year ended December 31, 2017, excluding the $267.0 million acquired Acquired Branches and Valley loan portfolios, outstanding loans held for investment increased $516.2 million from December 31, 2016. During the year ended December 31, 2016, outstanding loans held for investment increased $275.0 million from December 31, 2015. The larger increase in outstanding loan balances within the year ended December 31, 2017 results in a higher provision for loan losses compared to the year ended December 31, 2016.

Our ALLL was $18.7 million as of December 31, 2017 and $15.4 million as of December 31, 2016, representing an ALLL to total loans ratio of 0.67% and 0.76% respectively. The decrease in ALLL as a percentage of total loans as of December 31, 2017 was primarily due to loans acquired from the Acquired Branches and Valley transactions recorded at a fair value of $267.0 million. This fair value incorporated a discount to account for expected credit exposure associated with the acquired loans at the time of purchase and as a result, the acquired loan portfolios did not require an ALLL on the date of acquisition.

Year ended December 31, 2016 compared with year ended December 31, 2015. Our provision for loan losses was $6.7 million for the year ended December 31, 2016 compared to $4.5 million for the year ended December 31, 2015.

The increased provision for loan losses was the result of an increase in loan charge-offs during 2016. We experienced higher net charge-offs of $3.9 million in the year ended December 31, 2016 compared to net charge-offs of $0.8 million for 2015, an increase of $3.1 million.

Offsetting the increased provision in the year ended December 31, 2016 due to the higher charge-offs, was a decrease due to a lower loan portfolio growth rate period over period in our factored receivables, which generally require higher levels of ALLL. Our factored receivable balances increased by $23.1 million during the year ended December 31, 2016 compared to an increase of $34.2 million during the year ended December 31, 2015. In addition, during the year ended December 31, 2016, excluding the $460.8 million acquired ColoEast portfolio, outstanding loans increased

$275.0 million from December 31, 2015. During the year ended December 31, 2015, outstanding loans increased $286.0 million from December 31, 2014. The smaller increase in outstanding loan balances within the year ended December 31, 2016 results in a lower provision for loan losses compared to the year ended December 31, 2015.

Our ALLL was $15.4 million as of December 31, 2016 and $12.6 million as of December 31, 2015, representing an ALLL to total loans ratio of 0.76% and 0.97% respectively. The decrease in ALLL as a percentage of total loans as of December 31, 2016 was primarily due to acquired ColoEast loans recorded at a fair value of $460.8 million. This fair value incorporated a discount to account for expected credit exposure associated with the acquired loans and as a result, the acquired ColoEast loan portfolio did not require an ALLL on the date of acquisition.

Noninterest Income

The following table presents the major categories of noninterest income for the years ended December 31, 2017, 2016, and 2015:

	Year ended December 31,			2017 Compared to 2016		2016 Compared to 2015	
(Dollars in thousands)	2017	2016	2015	$ Change	% Change	$ Change	% Change
Service charges on deposits	$4,181	$3,447	$2,732	$734	21.3 %	$715	26.2 %
Card income	3,822	2,732	2,234	1,090	39.9 %	498	22.3 %
Net OREO gains (losses) and valuation adjustments	(850)	(1,427)	(108)	577	40.4 %	(1,319)	(1221.3 %)
Net gains (losses) on sale of securities	35	(56)	259	91	162.5 %	(315)	(121.6 %)
Net gains on sale of loans	—	16	1,630	(16)	(100.0 %)	(1,614)	(99.0 %)
Fee income	2,503	2,240	1,931	263	11.7 %	309	16.0 %
Insurance commissions	2,981	1,295	296	1,686	130.2 %	999	337.5 %
Bargain purchase gain	—	—	15,117	—	—	(15,117)	(100.0 %)
Gain on sale of subsidiary	20,860	—	—	20,860	100.0 %	—	—
Asset management fees	1,717	6,574	5,646	(4,857)	(73.9 %)	928	16.4 %
CLO warehouse investment income	2,226	3,184	1,151	(958)	(30.1 %)	2,033	176.6 %
Other	3,181	2,951	2,409	230	7.8 %	542	22.5 %
Total noninterest income	$40,656	$20,956	$33,297	$19,700	94.0 %	$(12,341)	(37.1 %)

Year ended December 31, 2017 compared with year ended December 31, 2016.

We earned noninterest income of $40.7 million for the year ended December 31, 2017 compared to $21.0 million for the year ended December 31, 2016. Our results for 2017 were impacted by a gain of $20.9 million associated with the sale of Triumph Capital Advisors. Excluding the gain on sale of subsidiary in 2017, we earned noninterest income of $19.8 million for the year ended December 31, 2017, resulting in an adjusted decrease in noninterest income of $1.2 million, or 5.5% period over period. The decrease was primarily due to decreases in asset management fees earned by Triumph Capital Advisors and CLO warehouse investment income. These decreases in noninterest income were partially offset by increases in service charges on deposits, card income, OREO gains and insurance commissions. Changes in selected components of noninterest income in the above table are discussed below.

- Service Charges on Deposits. Service charges on deposit accounts, including overdraft and non-sufficient fund fees, increased from $3.4 million for year ended December 31, 2016 to $4.2 million for the year ended December 31, 2017. The increase was primarily due to additional service charges associated with higher customer deposits resulting from a full-year impact of the ColoEast acquisition which occurred on August 1, 2016 as well as additional service charges associated with customer deposits from the Acquired Branches and Valley acquisitions which occurred on October 6, 2017 and December 9, 2017, respectively.
- Card Income. Card income increased from $2.7 million for year ended December 31, 2016 to $3.8 million for the year ended December 31, 2017. The increase was primarily due to additional card fees associated with the increase in customer accounts due to a full-year impact of the ColoEast acquisition as well as additional card fees associated with the increase in customer accounts due to the Acquired Branches and Valley.
- Net OREO Gains (Losses) and Valuation Adjustments. Net OREO gains (losses) and valuation adjustments represents gains on loans transferred to OREO with a fair value in excess of the foreclosed loans' carrying value, gains and losses on the sale of OREO, and valuation allowances recorded due to subsequent write-downs of OREO. The net loss of $0.9 million for year ended December 31, 2017 was primarily due to a $0.8 million loss on the sale of one large property.

- Insurance Commissions. Insurance commissions represent income earned by the Company for binding commercial insurance policies with various individuals and companies (usually in the transportation industry) on behalf of various insurance companies. Insurance commissions increased from $1.3 million for the year ended December 31, 2016 to $3.0 million for the year ended December 31, 2017. The increase was primarily due to an increase in customers resulting in an increase in sales volume during the year ended December 31, 2017.
- Asset Management Fees. Asset management fees earned by Triumph Capital Advisors ("TCA") decreased 73.9% from $6.6 million for the year ended December 31, 2016 to $1.7 million for the year ended December 31, 2017. The decrease in asset management fees was the result of the sale of our 100% membership interest in TCA on March 31, 2017. For the twelve months ended December 31, 2017, asset management fees were only earned for the first three months of the year.

- CLO Warehouse Investment Income. Income from our CLO warehouse investments decreased $1.0 million, from $3.2 million for the year ended December 31, 2016 to $2.2 million for the year ended December 31, 2017 due to decreased investments in the CLO warehouse entities during the period. While there may be opportunities to make additional investments in CLO warehouse instruments going forward, we have no assurance that we will be able to make similar investments in the future.
- Other. Other income increased from $3.0 million for the year ended December 31, 2016 to $3.2 million for the year ended December 31, 2017. Other income includes income for check cashing and wire transfer fees, income associated with trust activities and bank-owned life insurance. The increase was the result of individually insignificant changes in the components of other income as a result of our community bank acquisitions.

Year ended December 31, 2016 compared with year ended December 31, 2015. We earned noninterest income of $21.0 million for the year ended December 31, 2016 compared to $33.3 million for the year ended December 31, 2015. Our results for 2015 were impacted by the realization of a nontaxable bargain purchase gain of $15.1 million associated with the Doral Money acquisition. Excluding the bargain purchase gain in 2015, we earned noninterest income of $18.2 million for the year ended December 31, 2015, resulting in an adjusted increase in noninterest income of $2.8 million, or 15.4% period over period. The increase was primarily due to the increase in CLO asset management fees earned by Triumph Capital Advisors, customer fee income, and other noninterest income. These increases in noninterest income were offset in part by a decrease in OREO valuation adjustments and a decrease in gains on the sale of securities and loans. Changes in selected components of noninterest income in the above table are discussed below.

- Service Charges on Deposits. Service charges on deposit accounts, including overdraft and non-sufficient fund fees, increased from $2.7 million for year ended December 31, 2015 to $3.4 million for the year ended December 31, 2016. The increase was primarily due to additional service charges associated with the increase in customer deposits due to the ColoEast acquisition on August 1, 2016.
- Net OREO Gains (Losses) and Valuation Adjustments. Net OREO gains (losses) and valuation adjustments represents gains on loans transferred to OREO with a fair value in excess of the foreclosed loans' carrying value, gains and losses on the sale of OREO, and valuation allowances recorded due to subsequent write-downs of OREO. The net loss of $1.4 million for year ended December 31, 2016 was primarily due to a $1.2 million OREO write-down related to a branch facility previously transferred to OREO that is no longer being actively operated. The write-down was the result of obtaining an updated appraisal on the property.
- Net Gains on Sale of Loans. Net gains on sale of loans, comprised primarily of residential mortgage loans sold, decreased 99% due to decreased sales activity period over period. Proceeds from residential mortgage loan sales decreased from $62.8 million for the year ended December 31, 2015 to $2.2 million for the year ended December 31, 2016. We made the decision to exit the residential mortgage production business in the fourth quarter of 2015. The decline in residential mortgage loan sale activity experienced during the year ended December 31, 2016 is indicative of the run off of the business and we reported no residential mortgage loans as held for sale at December 31, 2016.
- Asset Management Fees. Asset management fees earned by Triumph Capital Advisors increased 16.4% from $5.6 million for the year ended December 31, 2015 to $6.6 million for the year ended December 31, 2016. Triumph Capital Advisors closed an additional CLO offering in June 2015, assumed two CLO asset management agreements in March 2015 as a result of the Doral Money acquisition, and was named staffing and services provider for additional CLO offerings in June 2016 and September 2016, which increased its asset management fees on a period over period basis. In May 2016, a CLO with approximately $329 million in assets being managed by Triumph Capital Advisors was called, reducing our overall managed CLO assets. As of December 31, 2016, Triumph Capital Advisors managed $1.4 billion of CLO assets earning approximately 31 basis points on average in asset management fees and provides middle and back office services under staffing and services agreements for $800 million of CLO assets earning approximately 26 basis points on average in fees.

- CLO Warehouse Investment Income. Income from our CLO warehouse equity investments increased $2.0 million, from $1.2 million for the year ended December 31, 2015 to $3.2 million for the year ended December 31, 2016 due to our increased investments in the CLO warehouse entities.
- Other. Other income increased from $2.4 million for the year ended December 31, 2015 to $3.0 million for the year ended December 31, 2016. Other income includes income for check cashing and wire transfer fees, income associated with trust activities and bank-owned life insurance. The increase was the result of individually insignificant changes in the components of other income as a result of our community bank acquisitions.

Noninterest Expense

The following table presents the major categories of noninterest expense for the years ended December 31, 2017, 2016, and 2015:

	Year ended December 31,			2017 Compared to 2016		2016 Compared to 2015	
				$	%	$	%
(Dollars in thousands)	2017	2016	2015	Change	Change	Change	Change
Salaries and employee benefits	$72,696	$54,531	$50,175	$18,165	33.3 %	$4,356	8.7 %
Occupancy, furniture and equipment	9,833	7,301	6,259	2,532	34.7 %	1,042	16.6 %
FDIC insurance and other regulatory assessments	1,201	913	1,086	288	31.5 %	(173)	(15.9 %)
Professional fees	7,192	5,529	4,429	1,663	30.1 %	1,100	24.8 %
Amortization of intangible assets	5,201	3,782	3,979	1,419	37.5 %	(197)	(5.0 %)
Advertising and promotion	3,226	2,716	2,061	510	18.8 %	655	31.8 %
Communications and technology	8,843	6,491	4,360	2,352	36.2 %	2,131	48.9 %
Travel and entertainment	2,661	2,364	1,550	297	12.6 %	814	52.5 %
Other	12,761	9,485	7,966	3,276	34.5 %	1,519	19.1 %
Total noninterest expense	$123,614	$93,112	$81,865	$30,502	32.8 %	$11,247	13.7 %

Year ended December 31, 2017 compared with year ended December 31, 2016. Noninterest expense totaled $123.6 million for the year ended December 31, 2017 compared to $93.1 million for the year ended December 31, 2016. The results for the year ended December 31, 2017 were impacted by total transaction costs incurred in the amount of $2.0 million associated with the acquisitions of ColoEast in August 2016, the Acquired Branches in October 2017 and Valley in December 2017. The results for the year ended December 31, 2017 were also impacted by an incremental $4.8 million of bonus expense paid to team members to recognize their contribution to the transaction and building the value realized in the sale of TCA. The results for the year ended December 31, 2016 were impacted by the transaction costs incurred in the amount of $1.6 million associated with the acquisition of ColoEast in August 2016.

Excluding transaction related costs associated with our acquisitions and divestitures, noninterest expense totaled $116.8 million for the year ended December 31, 2017 and $91.5 million for the year ended December 31, 2016, an increase of $25.3 million, or 27.7%. The increase is primarily attributable to continuing investments made in personnel and infrastructure to support growth in organically generated product lines and other strategic initiatives, as well as ongoing operational costs related to the added ColoEast, Acquired Branches and Valley infrastructures. Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses have historically been our largest category of noninterest expense. Salaries and employee benefits expenses were $72.7 million for the year ended December 31, 2017 compared to $54.5 million for the year ended December 31, 2016. We experienced an increase in the total size of our workforce between these periods as our average full-time equivalent employees were 726.0 and 583.3 for the years ended December 31, 2017 and 2016, respectively. Sources of this increased headcount were primarily

employees added through our acquisitions. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense. Results for the year ended December 31, 2017 were further impacted by $0.3 million of severance costs incurred as part of Acquired Branches and Valley restructuring activities during the year ended December 31, 2017 and the accrual of an incremental $4.8 million bonus expense for the amount paid to team members to recognize their contribution to the sale of TCA. Results for the year ended December 31, 2016 were impacted by $0.4 million of severance costs incurred as part of ColoEast restructuring activities.

- Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses were $9.8 million for the year ended December 31, 2017 compared to $7.3 million for year ended December 31, 2016. The increase is primarily due to expenses associated with the assets and facilities added through acquisition activities.

- Professional Fees. Professional fees are primarily comprised of tax, consulting, legal, and external audit fees, and were $7.2 million for the year ended December 31, 2017 compared to $5.5 million for the year ended December 31, 2016. The increase is primarily attributable to $1.2 million of professional fees incurred in the year ended December 31, 2017 associated with the acquisitions of the Acquired Branches and Valley and the sale of TCA compared to $1.0 million of professional fees incurred in the year ended December 31, 2016 associated with the ColoEast acquisition. The remaining increase is comprised of insignificant increases in the remaining components of professional fees primarily resulting from the growth of the Company.
- Amortization of Intangibles. Amortization of intangible assets was $5.2 million for the year ended December 31, 2017 compared to $3.8 million for the year ended December 31, 2016. The increase is primarily due to a $1.3 million impairment charge on core deposit intangible assets associated with acquired public deposits that management decided to no longer hold. The results for the year ended December 31, 2017 also include amortization of acquired core deposit intangible assets associated with the acquisitions of the Acquired Branches and Valley during 2017. As of December 31, 2017, we had total intangible assets with a recorded net carrying amount of $19.7 million, with amortization of $4.3 million scheduled in fiscal year 2018, $3.8 million of amortization scheduled in fiscal year 2019, and the remaining $11.6 million of amortization scheduled thereafter.
- Communications and Technology. Communications and technology expenses were $8.8 million for the year ended December 31, 2017, compared to $6.5 million for the year ended December 31, 2016. The increase is primarily due to the communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies. Communications and technology expenses also include contract termination fees associated with systems acquired from ColoEast, the Acquired Branches and Valley that will no longer be utilized by our integrated organization.
- Other. Increases experienced in other noninterest expense items in the year ended December 31, 2017 versus the year ended December 31, 2016 are generally attributable to our recent acquisitions as well as the impact of continued growth of our business and workforce and include increases in loan-related expenses, training and recruiting, postage, insurance, business travel, and subscription expenses.

Year ended December 31, 2016 compared with year ended December 31, 2015. Noninterest expense totaled $93.1 million for the year ended December 31, 2016 compared to $81.9 million for the year ended December 31, 2015. The results for the year ended December 31, 2016 were impacted by the transaction costs incurred in the amount of $1.6 million associated with the acquisition of ColoEast in August 2016. Noninterest expense was impacted by the accrual of an incremental $1.8 million bonus expense during the year ended December 31, 2015 for the amount paid to team members to recognize their contribution to the Doral Money acquisition and approximately $0.3 million of transactions costs associated with the Doral Money acquisition.

Excluding transaction related costs associated with our acquisitions of ColoEast and Doral Money, noninterest expense totaled $91.5 million for the year ended December 31, 2016 and $79.9 million for the year ended December 31, 2015, an increase of $11.6 million. This increase is primarily attributable to continuing investments made in personnel and infrastructure to support growth in organically generated product lines and other strategic initiatives, as well as ongoing operational costs related to the added ColoEast infrastructure. Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses have historically been our largest category of noninterest expense. Salaries and employee benefits expenses were $54.5 million for the year ended December 31, 2016 compared to $50.2 million for the year ended December 31, 2015. The increase in 2016 was impacted by $0.4 million of severance costs incurred as part of ColoEast restructuring activities during the year ended December 31, 2016 and the accrual of an incremental $1.8 million bonus expense during the year ended December 31, 2015 for the amount paid to team members to recognize their contribution to the Doral Money acquisition. We experienced an increase in the total size of our workforce between these periods as our average full-time equivalent employees were 583.3 and 492.5 for the years ended December 31, 2016 and 2015, respectively. Sources of this increased headcount were primarily employees added through the ColoEast acquisition. In addition, employees were hired to support

growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense.

- Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses were $7.3 million for the year ended December 31, 2016 compared to $6.3 million for year ended December 31, 2015. This increase is primarily due to expenses associated with the assets and facilities added through the ColoEast acquisition.
- Professional Fees. Professional fees are primarily comprised of tax, consulting, legal, and external audit fees, and were $5.5 million for the year ended December 31, 2016 compared to $4.4 million for the year ended December 31, 2015. This increase is primarily attributable to $1.0 million of professional fees incurred in the year ended December 31, 2016 associated with the ColoEast acquisition. Our remaining ongoing external audit, legal, and consulting costs remained relatively flat period over period.

- Amortization of Intangibles. Amortization of intangible assets was $3.8 million for the year ended December 31, 2016 compared to $4.0 million for the year ended December 31, 2015. The decrease is primarily due to the reduction in the amortization of intangible assets recorded in conjunction with our acquisition of Doral Money. During the third quarter of 2015, we adjusted the estimated remaining life of one of the acquired Doral Money CLO contracts based upon an anticipated CLO call date, and the intangible became fully amortized in the first quarter of 2016. The remaining lives of CLO management contracts and the related intangible asset amortization periods depend upon several factors, most notably commercial loan market conditions which impact the distributions to be made to the CLO equity holders upon liquidation of the CLO. These factors are out of our control and can change on a quarter-over-quarter basis. Partially offsetting this decrease is amortization of the ColoEast core deposit intangible recorded from the August 1, 2016 acquisition date through December 31, 2016 and amortization of the customer-related intangible recorded in the Southern Transportation Insurance Agency, Ltd. acquisition from September 1, 2016.
- Communications and Technology. Communications and technology expenses were $6.5 million for the year ended December 31, 2016, compared to $4.4 million for the year ended December 31, 2015. Communications and technology expenses for the year ended December 31, 2016 included $0.3 million of contract termination fees associated with ColoEast systems that will no longer be utilized by our integrated organization as well as incremental increases associated with the ColoEast acquisition. The remaining increase is attributed to the communications and technology expense associated with the investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies.
- Other. Increases experienced in other noninterest expense items in the year ended December 31, 2016 versus the year ended December 31, 2015 are generally attributable to the ColoEast acquisition as well as the impact of continued growth of our business and workforce and include increases in loan-related expenses, training and recruiting, postage, insurance, business travel, and subscription expenses.

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income, changes in the statutory rate and the effect of changes in valuation allowances maintained against deferred tax benefits.

Year ended December 31, 2017 compared with year ended December 31, 2016. Income tax expense for the year ended December 31, 2017 was $24.9 million compared to $12.8 million for the year ended December 31, 2016. During the year ended December 31, 2017, the effective tax rate was 40.7% compared to 38.2% for the year ended December 31, 2016. The higher effective tax rate for the year ended December 31, 2017 reflects an income tax charge of $3.0 million related to the remeasurement of our deferred tax assets and deferred tax liabilities at our new expected effective tax rate due to the enactment of the Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017. Absent enactment of the Act, our effective tax rate for the year ended December 31, 2017 would have been 35.84%. We are currently estimating that our effective tax rate for 2018 will be approximately 23% however, that estimated effective tax rate is subject to change as further authoritative interpretation and guidance regarding the Tax Act becomes available. For further information, see Note 12 – Income Taxes in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Year ended December 31, 2016 compared with year ended December 31, 2015. Income tax expense for the year ended December 31, 2016 was $12.8 million compared to $8.4 million for the year ended December 31, 2015. During the year ended December 31, 2016, the effective tax rate was 38.2% compared to 22.4% for the year ended December 31, 2015. The lower effective tax rate for the year ended December 31, 2015 reflects the increase in nontaxable income attributed to the $15.1 million bargain purchase gain associated with the Doral Money acquisition. Excluding the impact of the bargain purchase gain, our effective tax rate for the year ended December 31, 2015 was 37.5%. For further information, see Note 12 – Income Taxes in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Operating Segment Results

Our reportable segments are Factoring, Banking, Asset Management, and Corporate which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The Banking segment includes the operations of TBK Bank. Our Banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The Banking segment also includes certain factored receivables which are purchased by TBK Bank. The Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. The Asset Management segment included the operations of Triumph Capital Advisors with revenue derived from fees for managing or providing other services related to collateralized loan obligation funds. On March 31, 2017, we sold our 100% membership interest in TCA. As a result, the Asset Management segment had no operations subsequent to March 31, 2017. Corporate includes holding company financing and investment activities and management and administrative expenses to support the overall operations of the Company.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company's prime rate. The provision for loan loss is allocated based on the segment's ALLL determination which considers the effects of charge-offs. Noninterest income and expense directly attributable to a segment are assigned accordingly. Taxes are paid on a consolidated basis and are not allocated for segment purposes.

The following tables present our primary operating results for our operating segments as of and for the years ended December 31, 2017, 2016, and 2015:

(Dollars in thousands) Year Ended December 31, 2017	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$130,480	$45,346	$ 3	$ 1,395	$ 177,224
Intersegment interest allocations	8,023	(8,023)	—	—	—
Total interest expense	16,240	—	—	5,300	21,540
Net interest income (expense)	122,263	37,323	3	(3,905)	155,684
Provision for loan losses	9,310	2,227	—	91	11,628
Net interest income (expense) after provision	112,953	35,096	3	(3,996)	144,056
Gain on sale of subsidiary	—	—	—	20,860	20,860
Other noninterest income	14,336	2,737	1,717	1,006	19,796
Noninterest expense	90,632	22,641	1,456	8,885	123,614
Operating income (loss)	$36,657	$ 15,192	$ 264	$ 8,985	$ 61,098

(Dollars in thousands) Year Ended December 31, 2016	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$90,823	$ 32,824	$ 145	$ 700	$ 124,492
Intersegment interest allocations	4,583	(4,583)	—	—	—
Total interest expense	9,872	—	—	2,262	12,134
Net interest income (expense)	85,534	28,241	145	(1,562)	112,358
Provision for loan losses	6,239	454	—	—	6,693
Net interest income (expense) after provision	79,295	27,787	145	(1,562)	105,665
Noninterest income	9,077	2,256	6,632	2,991	20,956
Noninterest expense	65,795	19,551	5,234	2,532	93,112
Operating income (loss)	$22,577	$ 10,492	$ 1,543	$ (1,103)	$ 33,509

(Dollars in thousands) Year Ended December 31, 2015	Banking	Factoring	Asset Management	Corporate	Consolidated
Total interest income	$65,831	$ 32,103	$ 108	$ 718	$ 98,760
Intersegment interest allocations	3,144	(3,144)	—	—	—
Total interest expense	6,978	—	10	1,121	8,109
Net interest income (expense)	61,997	28,959	98	(403)	90,651
Provision for loan losses	3,226	1,303	—	—	4,529
Net interest income (expense) after provision	58,771	27,656	98	(403)	86,122

Bargain purchase gain	—	—	15,117	—	15,117
Other noninterest income	9,644	1,739	5,757	1,040	18,180
Noninterest expense	51,249	17,871	6,866	5,879	81,865
Operating income (loss)	$ 17,166	$ 11,524	$ 14,106	$ (5,242)	$ 37,554

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(Dollars in thousands) December 31, 2017	Banking	Factoring	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$3,444,322	$360,922	$ —	$504,656	$ (810,867)	$ 3,499,033
Gross loans held for investment	$2,784,147	$346,293	$ —	$11,936	$ (331,520)	$ 2,810,856

(Dollars in thousands) December 31, 2016	Banking	Factoring	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$2,588,509	$223,994	$ 4,879	$391,745	$ (568,060)	$ 2,641,067
Gross loans held for investment	$1,961,552	$212,784	$ —	$1,866	$ (148,578)	$ 2,027,624

Year ended December 31, 2017 compared with year ended December 31, 2016.

Banking

(Dollars in thousands)	Years Ended December 31,		2017 Compared to 2016	
Banking	2017	2016	$ Change	% Change
Total interest income	$130,480	$90,823	$39,657	43.7 %
Intersegment interest allocations	8,023	4,583	3,440	75.1 %
Total interest expense	16,240	9,872	6,368	64.5 %
Net interest income (expense)	122,263	85,534	36,729	42.9 %
Provision for loan losses	9,310	6,239	3,071	49.2 %
Net interest income (expense) after provision	112,953	79,295	33,658	42.4 %
Noninterest income	14,336	9,077	5,259	57.9 %
Noninterest expense	90,632	65,795	24,837	37.7 %
Operating income (loss)	$36,657	$22,577	$14,080	62.4 %

Our Banking segment’s operating income totaled $36.7 million for the year ended December 31, 2017 compared to operating income of $22.6 million for the year ended December 31, 2016. We experienced increases in net interest income and noninterest income for the year ended December 31, 2017. The increases were partially offset by increases in the provision for loan losses and noninterest expense period over period.

The increase in net interest income was primarily the result of increases in the balances of our interest earning assets, primarily loans, due to the continued growth of our community banking and commercial finance products, including equipment loans, asset-based loans, and premium finance loans. During the year ended December 31, 2017, we acquired $267.0 million of loans and $97.7 million of investment securities in our Banking segment as part of the Acquired Branches and Valley acquisitions. Outstanding loans in our Banking segment grew 41.9% from $1.962 billion as of December 31, 2016 to $2.784 billion as of December 31, 2017.

We acquired loans with a combined fair value of $267.0 million in the Acquired Branches and Valley acquisitions, all of which are included in the Banking segment. This fair value included a combined purchase discount of $10.0 million from the acquisition date unpaid principal balance of the acquired loans. This purchase discount incorporated expected credit exposure associated with the acquired loans and as a result, the acquired loan portfolios had limited impact on the provision for loan losses for the year ended December 31, 2017. Our provision for loan losses was $9.3 million for the year ended December 31, 2017 compared with $6.2 million for the year ended December 31, 2016. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Finally, loan loss valuation allowances and charge-offs are recorded on specific at-risk balances, typically consisting of impaired loans. The increase in the provision for loan losses in the year ended

December 31, 2017 was primarily due to an increase in recorded net specific reserves and net charge-offs during 2017. We recorded net specific reserves of $1.8 million and net charge-offs of $4.6 million at our Banking segment during the year ended December 31, 2017 both of which were period over period increases compared to net specific reserves of $1.7 million and net charge-offs of $3.3 million recorded during the year ended December 31, 2016. The increase in the provision for loan losses was also driven by increased organic loan growth in our banking segment during the year ended December 31, 2017 compared to the loan growth during the year ended December 31, 2016. During the year ended December 31, 2017 outstanding loans in our Banking segment, excluding the combined $267.0 million acquired portfolios, increased $555.6 million from December 31, 2016. During the year ended December 31, 2016 outstanding loans in our Banking segment, excluding the $460.8 million acquired ColoEast portfolio, increased $277.7 million from December 31, 2015. The higher increase in outstanding balances within the year ended December 31, 2017 contributes to an increased provision for loan losses compared to the year ended December 31, 2016.

Noninterest income was $14.3 million for the year ended December 31, 2017 compared to $9.1 million for the year ended December 31, 2016. The increase was primarily due to increases in customer-related fees such as service charges on deposits and debit and credit card fees, which was primarily a result of a full-year impact of the ColoEast acquisition, which occurred on August 1, 2016, and the Acquired Branches and Valley acquisitions which occurred on October 6, 2017 and December 9, 2017, respectively. Additionally, insurance commissions increased from $1.3 million for the year ended December 31, 2016 to $3.0 million for the year ended December 31, 2017 due to an increase in customers which resulted in increased sales.

Noninterest expense was $90.6 million for the year ended December 31, 2017, compared to $65.8 million for the year ended December 31, 2016, driven by increased operating expenses in personnel, facilities and infrastructure to support the continued growth in our asset-based lending and equipment lending, including communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies. This includes incremental costs associated with the growth in our Banking segment personnel and infrastructure as a result of our acquisition of ColoEast on August 1, 2016 as well as our acquisitions of the Acquired Branches and Valley on October 6, 2017 and December 9, 2017, respectively. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

(Dollars in thousands)	Years Ended December 31,		2017 Compared to 2016	
Factoring	2017	2016	$ Change	% Change
Total interest income	$45,346	$32,824	$12,522	38.1 %
Intersegment interest allocations	(8,023)	(4,583)	(3,440)	75.1 %
Total interest expense	—	—	—	—
Net interest income (expense)	37,323	28,241	9,082	32.2 %
Provision for loan losses	2,227	454	1,773	390.5 %
Net interest income (expense) after provision	35,096	27,787	7,309	26.3 %
Noninterest income	2,737	2,256	481	21.3 %
Noninterest expense	22,641	19,551	3,090	15.8 %
Operating income (loss)	$15,192	$10,492	$4,700	44.8 %

Our Factoring segment's operating income for the year ended December 31, 2017 was $15.2 million, compared with $10.5 million for the year ended December 31, 2016. This increase was primarily due to increased net interest income partially offset by higher noninterest expenses.

Factored receivables grew 62.7% from $212.8 million as of December 31, 2016 to $346.3 million as of December 31, 2017. Our average number of clients increased from 2,266 for the year ended December 31, 2016 to 2,764 for the year ended December 31, 2017 and the corresponding factored accounts receivable purchases increased from $1.828 billion during the year ended December 31, 2016 to $2.766 billion during the year ended December 31, 2017. Our average invoice size increased 16.3% from $1,303 for the year ended December 31, 2016 to $1,516 for the year ended December 31, 2017, and the number of invoices purchased increased 29.2% period over period.

Net interest income was $37.3 million for the year ended December 31, 2017 compared to $28.2 million for the year ended December 31, 2016. The increase in net interest income is due to an increase in total purchases driven by an increase in average number of clients and increased average invoice sizes. Net funds employed ("NFE") represent the balance of outstanding advances on our customers' accounts against the underlying accounts receivable at a given time. Typically, NFE is equal to the underlying accounts receivable less escrow and cash reserves. Our Factoring segment experienced a 44.7% increase in overall average net funds employed from $168.4 million for the year ended

December 31, 2016 to $243.6 million for the year ended December 31, 2017. A change in the mix within our factored receivables portfolio period over period slightly offset our increased net interest income, as our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, decreased as a percentage of the overall Factoring segment portfolio to 83.8% at December 31, 2017 compared to 85.4% at December 31, 2016 as we continued to expand our non-transportation factoring product lines in 2017.

Our provision for loan losses was $2.2 million for the year ended December 31, 2017 compared with $0.5 million for the year ended December 31, 2016. The provision for loan losses on factored receivables is primarily driven by the allowance allocation for incurred losses recorded on collectively evaluated factored receivables purchased and outstanding for a period. As factored receivables purchased fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of invoices greater than 90 days past due with negative cash reserves. The increased provision in the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to higher net purchases recorded during the year ended December 31, 2017. During the year ended December 31, 2017 factored receivables at our Factoring segment increased approximately $133.5 million from December 31, 2016. During the year ended December 31, 2016 factored receivables at our Factoring segment increased approximately $26 million from December 31, 2015. The higher increase in factored receivable balances within the year ended December 31, 2017 contributes to a higher provision for loan losses compared to the year ended December 31, 2016.

Noninterest income was $2.7 million for the year ended December 31, 2017 compared to $2.3 million for the year ended December 31, 2016. The increase in noninterest income is consistent with the increase in factored receivable purchase volume period over period.

Noninterest expense was $22.6 million for the year ended December 31, 2017 compared with $19.6 million for the year ended December 31, 2016, driven primarily by increased personnel, operating, and technology costs incurred in connection with growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period.

Asset Management

(Dollars in thousands)	Years Ended December 31,		2017 Compared to 2016	
			$	%
Asset Management	2017	2016	Change	Change
Total interest income	$3	$145	$(142)	(97.9%)
Intersegment interest allocations	—	—	—	—
Total interest expense	—	—	—	—
Net interest income (expense)	3	145	(142)	(97.9%)
Provision for loan losses	—	—	—	—
Net interest income (expense) after provision	3	145	(142)	(97.9%)
Noninterest income	1,717	6,632	(4,915)	(74.1%)
Noninterest expense	1,456	5,234	(3,778)	(72.2%)
Operating income (loss)	$264	$1,543	$(1,279)	(82.9%)

Our Asset Management segment's operating income totaled $0.3 million for the year ended December 31, 2017 compared to $1.5 million for the year ended December 31, 2016. This decrease was due to the sale of our 100% membership interest in TCA resulting in the Asset Management segment having no operations subsequent to March 31, 2017. As of December 31, 2016, TCA managed $1.4 billion of CLO assets earning approximately 31 basis points on average in asset management fees and provided middle and back office services under staffing and services agreements for $800 million of CLO assets earning approximately 26 basis points on average in fees.

Corporate

(Dollars in thousands)	Years Ended December 31,		2017 Compared to 2016	
			$	%
Corporate	2017	2016	Change	Change

Total interest income	$1,395	$700	$695	99.3	%
Intersegment interest allocations	—	—	—	—	
Total interest expense	5,300	2,262	3,038	134.3	%
Net interest income (expense)	(3,905)	(1,562)	(2,343)	150.0	%
Provision for loan losses	91	—	91	100.0	%
Net interest income (expense) after provision	(3,996)	(1,562)	(2,434)	155.8	%
Gain on sale of subsidiary	20,860	—	20,860	100.0	%
Other noninterest income	1,006	2,991	(1,985)	(66.4	%)
Noninterest expense	8,885	2,532	6,353	250.9	%
Operating income (loss)	$8,985	$(1,103)	$10,088	914.6	%

The Corporate segment's operating income totaled $9.0 million for the year ended December 31, 2017, compared with an operating loss of $1.1 million for the year ended December 31, 2016. The operating income for the year ended December 31, 2017 is primarily due to the sale of TCA which resulted in a $20.9 million gain which was allocated to the Corporate segment. The decrease in other noninterest income is primarily due to decreased earnings associated with the Corporate segment's equity investments in CLO warehouse entities. The increase in interest expense is due to a full year of interest expense in 2017 related to the subordinated notes issued on September 30, 2016. The decrease in other noninterest income is primarily due to the decrease of $1.0 million in income from our CLO warehouse equity as a result of our decreased investments in the CLO warehouse entities. The increase in noninterest expense is primarily due to $5.1 million of bonus expense and transaction related costs associated with the TCA sale.

Year ended December 31, 2016 compared with year ended December 31, 2015.

Banking

(Dollars in thousands)	Years Ended December 31,		2016 Compared to 2015	
Banking	2016	2015	$ Change	% Change
Total interest income	$90,823	$65,831	$24,992	38.0 %
Intersegment interest allocations	4,583	3,144	1,439	45.8 %
Total interest expense	9,872	6,978	2,894	41.5 %
Net interest income (expense)	85,534	61,997	23,537	38.0 %
Provision for loan losses	6,239	3,226	3,013	93.4 %
Net interest income (expense) after provision	79,295	58,771	20,524	34.9 %
Noninterest income	9,077	9,644	(567)	(5.9 %)
Noninterest expense	65,795	51,249	14,546	28.4 %
Operating income (loss)	$22,577	$17,166	$5,411	31.5 %

Our Banking segment's operating income totaled $22.6 million for the year ended December 31, 2016 compared to operating income of $17.2 million for the year ended December 31, 2015. We experienced an increase in net interest income for the year ended December 31, 2016. This increase in operating income was partially offset by an increase in the provision for loan losses, decreases in noninterest income, and an increase in noninterest expense period over period.

The increase in net interest income was primarily the result of increases in the balances of our interest earning assets, primarily loans, due to the continued growth of our commercial finance products, including equipment loans, asset-based loans, and premium finance loans. In addition, we acquired $460.8 million of loans and $161.7 million of investment securities in our Banking segment as part of the ColoEast acquisition on August 1, 2016. Outstanding loans in our Banking segment grew 60% from $1.223 billion as of December 31, 2015 to $1.962 billion as of December 31, 2016.

On August 1, 2016, we acquired loans with a fair value of $460.8 million in the ColoEast acquisition, all of which are included in the Banking segment. This fair value included a purchase discount of $12.0 million from the acquisition date unpaid principal balance of the ColoEast loans. This purchase discount incorporated expected credit exposure associated with the acquired loans and as a result, the acquired ColoEast loan portfolio had limited impact on the provision for loan losses for the year ended December 31, 2016. Our provision for loan losses was $6.2 million for the year ended December 31, 2016 compared with $3.2 million for the year ended December 31, 2015. As outstanding loan balances fluctuate period over period, the associated provision for loan losses typically increases or decreases accordingly. In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their

credit risk characteristics. Finally, loan loss valuation allowances and charge-offs are recorded on specific at-risk balances, typically consisting of impaired loans. The increase in the provision for loan losses in the year ended December 31, 2016 was primarily due to an increase in recorded net specific reserves and net charge-offs during 2016. We recorded net specific reserves of $1.7 million and net charge-offs of $3.1 million at our Banking segment during the year ended December 31, 2016 compared to net specific reserves of $0.5 million and net charge-offs of $0.3 million recorded during the year ended December 31, 2015. These increases were offset in part by lower levels of organic loan growth recorded during the year ended December 31, 2016 compared to the year ended December 31, 2015. During the year ended December 31, 2016 outstanding loans in our Banking segment, excluding the $460.8 million acquired ColoEast portfolio, increased $277.7 million from December 31, 2015. During the year ended December 31, 2015, outstanding loans in our Banking segment increased $387.6 million from December 31, 2014. The lower increase in outstanding balances within the year ended December 31, 2016 contributes to a lower provision for loan losses compared to the year ended December 31, 2015.

Noninterest income was $9.1 million for the year ended December 31, 2016 compared to $9.6 million for the year ended December 31, 2015. This decrease was primarily due to a $1.2 million OREO write-down during the year ended December 31, 2016 related to a branch facility transferred to OREO that was no longer being actively operated. The write-down was the result of obtaining an updated appraisal on the property. There were no comparable write downs in 2015. In addition, net gains on sale of loans, comprised primarily of residential mortgage loans sold, decreased 99% due to decreased sales activity period over period. Proceeds from residential mortgage loan sales decreased from $62.8 million for the year ended December 31, 2015 to $2.2 million for the year ended December 31, 2016. We made the decision to exit the residential mortgage production business in the fourth quarter of 2015. The decline in residential mortgage loan sale activity experienced during the year ended December 31, 2016 is indicative of the run off of the business. These reductions in noninterest income were offset in part by increases in customer-related fees such as service charges on deposits and debit and credit card fees, primarily the result of the ColoEast acquisition.

Noninterest expense was $65.8 million for the year ended December 31, 2016, compared with $51.2 million for the year ended December 31, 2015, driven by increased operating expenses in personnel, facilities and infrastructure to support the continued growth in our asset-based lending and equipment lending, including communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies. This includes incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisition of ColoEast on August 1, 2016. Noninterest expense for the year ended December 31, 2016 also includes $1.6 million of acquisition-related costs incurred as part of the ColoEast acquisition. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

(Dollars in thousands)	Years Ended December 31,		2016 Compared to 2015	
Factoring	2016	2015	$ Change	% Change
Total interest income	$32,824	$32,103	$721	2.2 %
Intersegment interest allocations	(4,583)	(3,144)	(1,439)	45.8 %
Total interest expense	—	—	—	—
Net interest income (expense)	28,241	28,959	(718)	(2.5 %)
Provision for loan losses	454	1,303	(849)	(65.2 %)
Net interest income (expense) after provision	27,787	27,656	131	0.5 %
Noninterest income	2,256	1,739	517	29.7 %
Noninterest expense	19,551	17,871	1,680	9.4 %
Operating income (loss)	$10,492	$11,524	$(1,032)	(9.0 %)

Our Factoring segment's operating income for the year ended December 31, 2016 was $10.5 million, compared with $11.5 million for the year ended December 31, 2015. This decrease was primarily due to reductions in net interest income and increases in noninterest expenses.

Factored receivables in our Factoring segment grew 14% from $186.5 million as of December 31, 2015 to $212.8 million as of December 31, 2016. Our average number of clients increased from 1,858 for the year ended December 31, 2015 to 2,266 for the year ended December 31, 2016 and the corresponding factored accounts receivable purchases increased from $1.625 billion during the year ended December 31, 2015 to $1.828 billion during the year ended December 31, 2016. Our average invoice size decreased 11% from $1,465 for the year ended December 31, 2015 to $1,303 for the year ended December 31, 2016, however, the number of invoices purchased increased 26% period over period.

Net interest income was $28.2 million for the year ended December 31, 2016 compared to $29.0 million for the year ended December 31, 2015. The decrease in net interest income is partly due to pricing pressure on factored receivable balances in the current period due to increased competition and market conditions, resulting in slightly lower yields on net funds employed at our Factoring segment. In addition, a change in the mix within our factored receivables portfolio period over period contributed to the decrease, as our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, decreased as a percentage of the overall Factoring segment portfolio to 85% at December 31, 2016 compared to 95% at December 31, 2015 as we expanded our non-transportation factoring product lines in 2016. These decreases were offset by an 8% increase in overall average net funds employed from $155.3 million for the year ended December 31, 2015 to $168.4 million for the year ended December 31, 2016.

Our provision for loan losses was $0.5 million for the year ended December 31, 2016 compared with $1.3 million for the year ended December 31, 2015. The lower provision in the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to reductions in specific reserves required on at-risk balances recorded during the year ended December 31, 2016 compared to increases in such specific reserves during the year ended December 31, 2015. These decreases in specific reserves were offset in part by higher net purchases recorded during the year ended December 31, 2016. During the year ended December 31, 2016 factored receivables at our Factoring segment increased approximately $26 million from December 31, 2015. During the year ended December 31, 2015, factored receivables at our Factoring segment increased approximately $16 million from December 31, 2014. The higher increase in factored receivable balances within the year ended December 31, 2016 contributes to a higher provision for loan losses compared to the year ended December 31, 2015.

Noninterest income was $2.3 million for the year ended December 31, 2016 compared to $1.7 million for the year ended December 31, 2015. The increase in noninterest income is consistent with the increase in factored receivable purchase volume period over period.

Noninterest expense was $19.6 million for the year ended December 31, 2016 compared with $17.9 million for the year ended December 31, 2015, driven primarily by increased personnel, operating, and technology costs incurred in connection with growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period.

Asset Management

(Dollars in thousands)	Years Ended December 31,		2016 Compared to 2015	
Asset Management	2016	2015	$ Change	% Change
Total interest income	$145	$108	$37	34.3 %
Intersegment interest allocations	—	—	—	—
Total interest expense	—	10	(10)	(100.0 %)
Net interest income (expense)	145	98	47	48.0 %
Provision for loan losses	—	—	—	—
Net interest income (expense) after provision	145	98	47	48.0 %
Bargain purchase gain	—	15,117	(15,117)	(100.0 %)
Other noninterest income	6,632	5,757	875	15.2 %
Noninterest expense	5,234	6,866	(1,632)	(23.8 %)
Operating income (loss)	$1,543	$14,106	$(12,563)	(89.1 %)

Our Asset Management segment's operating income totaled $1.5 million for the year ended December 31, 2016 compared to $14.1 million for the year ended December 31, 2015. This decrease was impacted by the recording of a pre-tax bargain purchase gain in the amount of $15.1 million associated with the acquisition of Doral Money in 2015, offset by direct transaction costs of $0.3 million and the accrual of a $1.8 million incremental bonus expense for the amount paid to team members to recognize their contribution to the transaction. Excluding the bargain purchase gain net of transaction costs and the incremental bonus accrual, the Asset Management segment reported operating income of $1.0 million for the year ended December 31, 2015. As of December 31, 2016, Triumph Capital Advisors managed $1.4 billion of CLO assets earning approximately 31 basis points on average in asset management fees and provided middle and back office services under staffing and services agreements for $800 million of CLO assets earning approximately 26 basis points on average in fees.

Corporate

(Dollars in thousands)	Years Ended December 31,		2016 Compared to 2015	
Corporate	2016	2015	$ Change	% Change
Total interest income	$700	$718	$(18)	(2.5%)
Intersegment interest allocations	—	—	—	—
Total interest expense	2,262	1,121	1,141	101.8%
Net interest income (expense)	(1,562)	(403)	(1,159)	287.6%
Provision for loan losses	—	—	—	—
Net interest income (expense) after provision	(1,562)	(403)	(1,159)	287.6%
Noninterest income	2,991	1,040	1,951	187.6%
Noninterest expense	2,532	5,879	(3,347)	(56.9%)
Operating income (loss)	$(1,103)	$(5,242)	$4,139	(79.0%)

The Corporate segment's operating loss totaled $1.1 million for the year ended December 31, 2016, compared with an operating loss of $5.2 million for the year ended December 31, 2015. The reduction in the operating loss is primarily due to an increase of $2.0 million in noninterest income and a decrease of $3.3 million in operating expenses for year ended December 31, 2016. The increase in noninterest income is primarily due to earnings associated with the Corporate segment's additional equity investments in CLO warehouse entities. The decrease in operating expenses is primarily related to the reassignment of certain personnel to the Banking segment in connection with the merger of our subsidiary banks in October 2015.

Financial Condition

Assets

Total assets were $3.499 billion at December 31, 2017, compared to $2.641 billion at December 31, 2016, an increase of $858 million, the components of which are discussed below.

As part of the Acquired Branches and Valley acquisitions on October 6, 2017 and December 9, 2017, respectively, the Company acquired loans held for investment with a fair value of $267.0 million, premises and equipment with a fair value of $13.8 million, and core deposit intangible assets with a fair value of $9.3 million. Further, investment securities with a fair value of $97.7 million, OREO with a fair value less costs to sell of $2.3 million, and bank-owned life insurance with a fair value of $7.2 million were acquired by the Company as a result of our acquisition of Valley. The acquisitions of the Acquired Branches and Valley resulted in goodwill of $5.8 million and $10.5 million, respectively.

Loan Portfolio

Loans held for investment were $2.811 billion at December 31, 2017, compared with $2.028 billion at December 31, 2016.

We offer a broad range of lending and credit products. Within our bank subsidiary, we offer a full range of lending products, including commercial real estate, construction and development, residential real estate, production agriculture, general commercial, mortgage warehouse facilities, farmland and consumer loans, focused on our community banking markets in Iowa, Illinois, Colorado, and Kansas. We also originate a variety of commercial finance products offered on a nationwide basis. These products include our factored receivables, the asset-based loans and equipment loans.

On January 19, 2018, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Healthcare Finance (“THF”) and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the carrying amount of the Disposal Group, including loans with a recorded balance of $68.7 million, net of an allowance for loan and lease losses of $2.1 million, was transferred to assets held for sale. As such, THF loans are not included in the balance of loans held for investment at December 31, 2017. The balance of Commercial-General loans held for investment at December 31, 2016 includes THF loans with a gross balance of $79.7 million. Refer to the discussion of Assets Held for Sale below.

As part of the Valley and Acquired Branches acquisitions on December 9, 2017 and October 6, 2017, respectively, the Company acquired loans with an unpaid principal balance of $277.0 million and recorded a fair value purchase discount of $10.0 million, reflecting a fair value of $267.0 million. The following table provides the acquired loans by loan portfolio category as of the respective acquisition dates:

	Acquisition Date Fair Value		
(Dollars in thousands)	Valley	Acquired Branches	Total
Commercial real estate	$73,527	$ 13,382	$86,909
Construction, land development, land	20,969	537	21,506
1-4 family residential properties	26,264	6,986	33,250
Farmland	16,934	31,490	48,424
Commercial - General	25,472	4,119	29,591
Commercial - Agriculture	6,421	38,985	45,406
Factored receivables	—	—	—
Consumer	1,612	295	1,907
Mortgage warehouse	—	—	—
	$171,199	$ 95,794	$266,993

The following table shows our loans by portfolio categories as of the dates indicated:

(Dollars in thousands)	December 31, 2017 Recorded Investment	% of Total	December 31, 2016 Recorded Investment	% of Total	December 31, 2015 Recorded Investment	% of Total	December 31, 2014 Recorded Investment	% of Total	December 31, 2013 Recorded Investment	% of Total
Commercial real estate	$745,893	27 %	$442,237	22 %	$291,819	23 %	$249,164	25 %	$331,462	38 %
Construction, land development, land	134,812	5 %	109,812	5 %	43,876	3 %	42,914	4 %	37,626	4 %
1-4 family residential properties	125,827	4 %	104,974	5 %	78,244	6 %	78,738	8 %	91,301	10 %
Farmland	180,141	6 %	141,615	7 %	33,573	3 %	22,496	2 %	20,294	2 %
Commercial	920,812	33 %	778,643	39 %	495,356	38 %	364,567	37 %	255,655	29 %
Factored receivables	374,410	13 %	238,198	12 %	215,088	17 %	180,910	18 %	117,370	13 %
Consumer	31,131	1 %	29,764	1 %	13,050	1 %	11,941	1 %	13,878	2 %
Mortgage warehouse	297,830	11 %	182,381	9 %	120,879	9 %	55,148	5 %	13,513	2 %
Total Loans	$2,810,856	100%	$2,027,624	100%	$1,291,885	100%	$1,005,878	100%	$881,099	100%

Commercial Real Estate Loans. Our commercial real estate loans were $745.9 million at December 31, 2017, an increase of $303.7 million from $442.2 million at December 31, 2016, due primarily to new loan origination activity during 2017 as we continue to allocate internal resources to source additional commercial real estate opportunities. The increase was also due to $86.9 million of loans acquired as a result of the Acquired Branches and Valley acquisitions.

Construction and Development Loans. Our construction and development loans were $134.8 million at December 31, 2017, an increase of $25.0 million from $109.8 million at December 31, 2016, due primarily to the $21.5 million of Acquired Branches and Valley loans acquired and limited growth of this category in our markets.

Residential Real Estate Loans. Our one-to-four family residential loans were $125.8 million at December 31, 2017, an increase of $20.8 million from $105.0 million at December 31, 2016, due primarily to the $33.3 million of Acquired Branches and Valley loans acquired. This increase was partially offset by paydowns in excess of new loan activity for the period. As previously discussed, we made the decision to exit the residential mortgage production business in the fourth quarter of 2015. As a result, we expect our residential real estate loan balances, including the acquired residential real estate loans, to continue to decline as existing loans payoff.

Farmland Loans. Our farmland loans were $180.1 million at December 31, 2017, an increase of $38.5 million compared to $141.6 million at December 31, 2016, due primarily to the $48.4 million of Acquired Branches and Valley loans acquired offset by limited growth of this category in our markets.

Commercial Loans. Our commercial loans held for investment were $920.8 million at December 31, 2017, an increase of $142.2 million from $778.6 million at December 31, 2016. The increase in commercial loans was driven by growth in the general asset-based and equipment finance loans as we continue to execute on our growth strategy for such products. In addition, premium finance loans continued to grow during the period. The increase in commercial loans was also impacted by the $74.9 million of Acquired Branches and Valley loans acquired. The commercial loans acquired included $45.4 million of balances to support agricultural operations in the Colorado market, which increased our total commercial agriculture lending to $136.6 million at December 31, 2017. Our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, increased from $215.0 million at December 31, 2016 to $261.1 million at December 31, 2017. This increase included $29.6 million of acquired loans. The remaining increase is a result of new originations in our community banking markets in excess of paydowns as we continue to focus on lending activities to support businesses within our local communities. The increase in commercial loans was partially offset by the transfer of $70.8 million of healthcare asset-based lending loans to assets held for sale at December 31, 2017, as discussed below. The following table shows our commercial products as of December 31, 2017 and December 31, 2016:

(Dollars in thousands)	December 31, 2017	December 31, 2016
Commercial		
Equipment	$254,119	$190,393
Asset-based lending (general)	213,471	161,454
Asset-based lending (healthcare)	—	79,668
Premium finance	55,520	23,971
Agriculture	136,649	108,197
Other commercial lending	261,053	214,960
Total commercial loans	$920,812	$778,643

Factored Receivables. Our factored receivables were $374.4 million at December 31, 2017, an increase of $136.2 million, from $238.2 million at December 31, 2016, as we continue to execute on our growth strategy for this product at Triumph Business Capital, our factoring subsidiary, as well as through growth in factored receivables purchased at TBK Bank. Purchase volumes at Triumph Business Capital were $2.766 billion during the year ended December 31, 2017 and TBK bank recorded purchase volume of $196.0 million for the year ended December 31, 2017.

Consumer Loans. Our consumer loans were $31.1 million at December 31, 2017, an increase of $1.3 million compared to $29.8 million at December 31, 2016, due in part to the $1.9 million of Acquired Branches and Valley loans acquired offset by relatively flat growth of this category in our existing markets during the year ended December 31, 2017.

Mortgage Warehouse. Our mortgage warehouse facilities maintained outstanding balances of $297.8 million at December 31, 2017, an increase of $115.4 million from $182.4 million at December 31, 2016. The increase was primarily due to higher utilization of our clients' mortgage warehouse facilities during the period, as well as the addition of new clients. Client utilization of mortgage warehouse facilities may experience significant fluctuation on a day-to-day basis given mortgage origination market conditions.

The following table sets forth the contractual maturities, including scheduled principal repayments, of our loan portfolio and the distribution between fixed and floating interest rate loans as of December 31, 2017.

(Dollars in thousands)	December 31, 2017			
	One Year or	After One but within	After Five	Total

	Less	Five Years	Years	
Commercial real estate	$98,361	$448,801	$198,731	$745,893
Construction, land development, land	54,419	60,988	19,405	134,812
1-4 family residential properties	10,736	40,681	74,410	125,827
Farmland	18,739	43,666	117,736	180,141
Commercial	355,045	502,446	63,321	920,812
Factored receivables	374,410	—	—	374,410
Consumer	3,398	10,964	16,769	31,131
Mortgage warehouse	297,830	—	—	297,830
	$1,212,938	$1,107,546	$490,372	$2,810,856
Sensitivity of loans to changes in interest rates:				
Predetermined (fixed) interest rates		$864,729	$195,130	
Floating interest rates		242,817	295,242	
Total		$1,107,546	$490,372	

As of December 31, 2017, most of the Company's non-factoring business activity is with customers located within certain states. The states of Texas (24%), Colorado (26%), Illinois (17%), and Iowa (7%) make up 74% of the Company's gross loans, excluding factored receivables. Therefore, the Company's exposure to credit risk is affected by changes in the economies in these states. At December 31, 2016, the states of Texas (23%), Colorado (22%), Illinois (21%) and Iowa (7%) made up 73% of the Company's gross loans, excluding factored receivables.

Further, a majority (77%) of our factored receivables, representing approximately 10% of our total loan portfolio as of December 31, 2017, are receivables purchased from trucking fleets and owner-operators in the transportation industry. Although such concentration may cause our future income with respect to our factoring operations to be correlated with demand for the transportation industry in the United States generally, and small-to-mid-sized operators in such industry specifically, we feel the credit risk with respect to our outstanding portfolio is appropriately mitigated as we limit the amount of receivables acquired from individual debtors and creditors thereby achieving diversification across a number of companies and industries. At December 31, 2016, 77% of our factored receivables, representing approximately 9% of our total loan portfolio, were receivables purchased from trucking fleets and owner-operators in the transportation industry.

Nonperforming Assets

We have established procedures to assist us in maintaining the overall quality of our loan portfolio. In addition, we have adopted underwriting guidelines to be followed by our lending officers and require senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we monitor them for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines by the Board of Directors of our bank subsidiary, independent loan review, approval of large credit relationships by our bank subsidiary's applicable loan committees and loan quality documentation procedures. We, like other financial institutions, are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The accrual of interest income on non-PCI loans is discontinued at the time full collection of interest or principal becomes doubtful unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued when a loan is placed on nonaccrual is reversed from interest income. Interest received on these loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The accretion of interest income on PCI loans is discontinued if the estimation of the timing and amount of cash flows expected to be collected involves a high degree of uncertainty and cannot be reasonably projected. Such PCI loans are considered nonaccrual and included in our nonaccrual loan totals, but are not considered impaired unless the loans have experienced further credit deterioration subsequent to acquisition that requires a recorded allowance. PCI loans for which the timing and amount of expected cash flows can be reasonably estimated accrete interest income, regardless of the contractual past due status of the loan, however, the disclosure of past due status of all PCI loans is based on the contractual terms of the loan, including those placed on nonaccrual due to the contractual payment status of the loan.

We obtain appraisals or other valuations of real property and other collateral which secure loans, and may update these valuations of collateral securing loans categorized as nonperforming loans and potential problem loans. In instances where updated valuations reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible write-downs or appropriate additions to the ALLL.

OREO acquired as a result of foreclosure or as part of a business acquisition are held for sale and are initially recorded at fair value less estimated cost to sell at the date of acquisition, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. At the time of acquisition of properties not acquired as part of an acquisition, losses are charged against the ALLL, and gains are realized to the extent fair value exceeds the carrying amount of the foreclosed loan. Improvements to the value of the properties are capitalized, but not in excess of the net realizable value of the property.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as nonperforming loans, OREO, other repossessed assets and nonaccrual loans included in assets held for sale. Nonperforming loans consist of nonaccrual loans (including nonaccrual PCI loans), troubled debt restructurings ("TDRs"), and factored receivables greater than 90 days past due. The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts.

(Dollars in thousands)	December 31, 2017		December 31, 2016	
Nonperforming loans:				
Commercial real estate	$ 1,012		$ 1,456	
Construction, land development, land	136		362	
1-4 family residential properties	2,638		1,039	
Farmland	4,182		1,334	
Commercial	26,592		30,640	
Factored receivables	1,454		2,153	
Consumer	384		89	
Mortgage Warehouse	—		—	
Purchased credit impaired	2,333		8,233	
Total nonperforming loans	38,731		45,306	
Other real estate owned, net	9,191		6,077	
Other repossessed assets	320		817	
Assets held for sale	245		—	
Total nonperforming assets	$ 48,487		$ 52,200	
Nonperforming assets to total assets	1.39	%	1.98	%
Nonperforming loans to total loans held for investment	1.38	%	2.23	%
Total past due loans to total loans held for investment	2.33	%	3.61	%

We had $38.7 million and $45.3 million in nonperforming loans, including nonaccrual PCI loans, as of December 31, 2017 and December 31, 2016, respectively. Nonperforming loans decreased from December 31, 2016 to December 31, 2017, primarily due to improvement of credit quality within our commercial lending portfolio as well as payoffs and paydowns of several PCI loans during the year that outpaced the PCI loan balance of $1.5 million acquired from the Acquired Branches and Valley acquisitions during the year ended December 31, 2017. Acquired PCI loans for which we are accreting interest are not reported in the nonperforming loan classification. The decrease in nonperforming loans was partially offset by an increase in nonperforming farmland loans driven by growth in the underlying loan portfolio as well as recent pressure on commodity prices.

As a result of the above activity, the ratio of nonperforming loans to total loans held for investment decreased to 1.38% at December 31, 2017 compared to 2.23% at December 31, 2016. Though partially offset by the increase in our OREO balances, our ratio of nonperforming assets to total assets decreased to 1.39% at December 31, 2017 compared to 1.98% at December 31, 2016. We experienced a decrease in our total past due loans to total loans during the year ended December 31, 2017 to 2.33% from 3.61% at December 31, 2016. This decrease was primarily attributable to the improvement in the credit quality of our commercial loans described above. Subsequent to December 31, 2017, management identified certain credit weaknesses in a single asset based lending customer relationship that caused the relationship to be downgraded from substandard accruing status to substandard impaired nonaccrual status. Based on the unique circumstances of the relationship all related disclosures and asset quality ratios reflect the relationship downgrade effective December 31, 2017. As of the date of filing, management does not anticipate a loss on the relationship and there was no impact to earnings for the year ended December 31, 2017.

Our OREO as of December 31, 2017 totaled $9.2 million, an increase of $3.1 million from $6.1 million as of December 31, 2016. The increase was primarily due to the addition of one OREO property with a carrying balance of $5.7 million added during the first quarter of 2017 and an acquired Valley OREO property with a carrying balance of $1.2 million, offset by OREO sales during the year ended December 31, 2017.

The following table presents nonperforming and past due loans for the periods indicated:

	December 31,				
(Dollars in thousands)	2017	2016	2015	2014	2013
Nonaccrual loans	$32,149	$38,030	$10,094	$16,027	$12,303
Factored receivables greater than 90 days past due	1,454	2,153	1,931	651	89
Troubled debt restructurings accruing interest	5,128	5,123	1,330	—	—
Total nonperforming loans	$38,731	$45,306	$13,355	$16,678	$12,392
Total loans greater than 90 days past due accruing interest	$1,664	$3,621	$1,940	$700	$168

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor’s potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. At December 31, 2017, we had $24.5 million in loans of this type which are not included in any of the nonperforming loan categories. All of the loans identified as potential problem loans at December 31, 2017 were graded as “substandard”.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is a valuation allowance maintained to cover incurred losses that are estimated in accordance with US GAAP. It is our estimate of credit losses inherent in our loan portfolio at each balance sheet date. Our methodology for analyzing the allowance for loan losses consists of general and specific components. For the general component, we stratify the loan portfolio into homogeneous groups of loans that possess similar loss potential characteristics and apply a loss ratio to these groups of loans to estimate the credit losses in the loan portfolio. We use both historical loss ratios and qualitative loss factors assigned to major loan collateral types to establish general component loss allocations. Qualitative loss factors are based on management's judgment of company, market, industry or business specific data and external economic indicators, which are not yet reflected in the historical loss ratios, and that could impact the Company's specific loan portfolios. Management sets and adjusts qualitative loss factors by regularly reviewing changes in underlying loan composition and the seasonality of specific portfolios. Management also considers credit quality and trends relating to delinquency, non-performing and adversely rated loans within the Company's loan portfolio when evaluating qualitative loss factors. Additionally, management adjusts qualitative factors to account for the potential impact of external economic factors and other pertinent economic data specific to our primary market area and lending portfolios.

For the specific component, the allowance for loan losses includes loans where management has concerns about the borrower's ability to repay and on individually analyzed loans found to be impaired. Management evaluates current information and events regarding a borrower's ability to repay its obligations and considers a loan to be impaired when the ultimate collectability of amounts due, according to the contractual terms of the loan agreement, is in doubt. 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. If an impaired loan is collateral-dependent, the fair value of the collateral, less the estimated cost to sell, is used to determine the amount of impairment. If an impaired loan is not collateral-dependent, the impairment amount is determined using the negative difference, if any, between the estimated discounted cash flows and the loan amount due. For impaired loans, the amount of the impairment can be adjusted, based on current data, until such time as the actual basis is established by acquisition of the collateral or until the basis is collected. Impairment losses are reflected in the allowance for loan losses through a charge to the provision for credit losses. Subsequent recoveries are credited to the allowance for loan losses. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on impaired loans for which the

accrual of interest has been discontinued are applied first to principal.

Loan losses are charged against the ALLL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL. Allocations of the ALLL may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. The Company considers these loans to be homogeneous in nature due to the smaller dollar amount and the similar underwriting criteria.

PCI loans are not considered impaired on the acquisition date. For PCI loans, a decline in the present value of current expected cash flows compared to the previously estimated expected cash flows, due in any part to change in credit, is considered an impairment event and a provision for loan losses will be recorded during the period as necessary.

A loan that has been modified or renewed is considered a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) concessions are made for the borrower's benefit that would not otherwise be considered for a borrower or transaction with similar credit risk characteristics. TDRs are separately identified for impairment and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral up to the carrying amount of the loan. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the ALLL.

Purchased loans are recorded at fair value at the date of acquisition without carryover of the seller's ALLL. The fair value of purchased loans typically includes a purchase discount that incorporates expected credit exposure associated with the purchased loans and as a result, the Company's acquisition of loans has a minimal impact on the ending ALLL balance. Once an acquired loan undergoes new underwriting and meets the criteria for a new loan, such as in the case of a loan renewal, any remaining fair value adjustments are accreted into interest income and the loan establishes a new amortized cost basis that is fully subject to the Company's allowance for loan loss methodology.

Analysis of the Allowance for Loan and Lease Losses

The following table sets forth the ALLL by category of loan:

	December 31, 2017			December 31, 2016		
(Dollars in thousands)	Allocated Allowance	% of Loan Portfolio	ALLL to Loans	Allocated Allowance	% of Loan Portfolio	ALLL to Loans
Commercial real estate	$3,435	27 %	0.46 %	$1,813	22 %	0.41 %
Construction, land development, land	883	5 %	0.65 %	465	5 %	0.42 %
1-4 family residential properties	293	4 %	0.23 %	253	5 %	0.24 %
Farmland	310	6 %	0.17 %	170	7 %	0.12 %
Commercial	8,150	33 %	0.89 %	8,014	39 %	1.03 %
Factored receivables	4,597	13 %	1.23 %	4,088	12 %	1.72 %
Consumer	783	1 %	2.52 %	420	1 %	1.41 %
Mortgage Warehouse	297	11 %	0.10 %	182	9 %	0.10 %
Total Loans	$18,748	100 %	0.67 %	$15,405	100 %	0.76 %

	December 31, 2015			December 31, 2014			December 31, 2013		
(Dollars in thousands)	Allocated Allowance	% of Loan Portfolio	ALLL to Loans	Allocated Allowance	% of Loan Portfolio	ALLL to Loans	Allocated Allowance	% of Loan Portfolio	ALLL to Loans
Commercial real estate	$1,489	23 %	0.51 %	$533	25 %	0.21 %	$348	38 %	0.10 %
Construction, land development, land	367	3 %	0.84 %	333	4 %	0.78 %	110	4 %	0.29 %
1-4 family residential properties	274	6 %	0.35 %	215	8 %	0.27 %	100	10 %	0.11 %
Farmland	134	3 %	0.40 %	19	2 %	0.08 %	7	2 %	0.03 %
Commercial	5,276	38 %	1.07 %	4,003	37 %	1.10 %	1,145	29 %	0.45 %
Factored receivables	4,509	17 %	2.10 %	3,462	18 %	1.91 %	1,842	13 %	1.57 %
Consumer	216	1 %	1.66 %	140	1 %	1.17 %	49	2 %	0.35 %

Mortgage Warehouse	302	9	%	0.25 %	138	5	%	0.25 %	44	2	%	0.33 %
Total Loans	$12,567	100	%	0.97 %	$8,843	100	%	0.88 %	$3,645	100	%	0.41 %

From December 31, 2016 to December 31, 2017, the ALLL increased from $15.4 million or 0.76% of total loans to $18.7 million or 0.67% of total loans. The increase in ALLL was primarily driven by the $516.2 million increase in the loans held for investment portfolio during the year ended December 31, 2017, excluding the Acquired Branches and Valley acquired loans. The increase was partially offset by a $1.1 million decrease in net specific allowances recorded on impaired loans during the year ended December 31, 2017.

The following table presents the unpaid principal and recorded investment for loans at December 31, 2017. The difference between the unpaid principal balance and recorded investment is associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $18.7 million and (2) net deferred origination and factoring fees totaling $2.9 million.

(Dollars in thousands) December 31, 2017	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$745,893	$753,803	$(7,910)
Construction, land development, land	134,812	138,045	(3,233)
1-4 family residential properties	125,827	127,499	(1,672)
Farmland	180,141	184,006	(3,865)
Commercial	920,812	924,133	(3,321)
Factored receivables	374,410	376,046	(1,636)
Consumer	31,131	31,144	(13)
Mortgage warehouse	297,830	297,830	—
	$2,810,856	$2,832,506	$(21,650)

At December 31, 2017 and December 31, 2016, we had $32.5 million and $23.6 million, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits on our consolidated balance sheets.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for each of the five years in the period ended December 31, 2017 and the effects of those items on our ALLL:

	Years Ended December 31,				
(Dollars in thousands)	2017	2016	2015	2014	2013
Balance at beginning of period	$15,405	$12,567	$8,843	$3,645	$1,926
Loans charged-off:					
Commercial real estate	(259)	(5)	(152)	(18)	(156)
Construction, land development, land	(582)	—	—	(100)	—
1-4 family residential properties	(31)	(84)	(205)	(409)	(94)
Farmland	—	—	—	—	—
Commercial	(4,875)	(3,643)	(145)	(13)	(1,515)
Factored receivables	(1,667)	(856)	(540)	(419)	(226)
Consumer	(1,004)	(564)	(347)	(393)	(113)
Mortgage warehouse	—	—	—	—	—
Total loans charged-off	$(8,418)	$(5,152)	$(1,389)	$(1,352)	$(2,104)
Recoveries of loans charged-off:					
Commercial real estate	$59	$16	$53	$4	$129
Construction, land development, land	175	6	—	13	12
1-4 family residential properties	47	85	204	108	133
Farmland	—	—	—	—	—
Commercial	1,329	991	43	219	14
Factored receivables	118	120	79	68	64
Consumer	508	79	205	280	59
Mortgage warehouse	—	—	—	—	—
Total loans recoveries	$2,236	$1,297	$584	$692	$411
Net loans charged-off	$(6,182)	$(3,855)	$(805)	$(660)	$(1,693)
Provision for (reversal of) loan losses:					
Commercial real estate	$1,822	$313	$1,055	$199	$114
Construction, land development, land	825	92	34	310	58
1-4 family residential properties	24	(22)	60	416	(166)
Farmland	140	36	115	12	2
Commercial	5,785	5,390	1,375	2,652	2,474
Factored receivables	2,058	315	1,508	1,971	783
Consumer	859	689	218	204	103
Mortgage warehouse	115	(120)	164	94	44
Total provision for (reversal of) loan losses	$11,628	$6,693	$4,529	$5,858	$3,412
Allowance transferred to assets held for sale	(2,103)	—	—	—	—
Balance at end of period	$18,748	$15,405	$12,567	$8,843	$3,645
Average total loans held for investment	$2,235,481	$1,549,788	$1,106,489	$942,144	$376,797
Net charge-offs to average total loans held for investment	0.28%	0.25%	0.07%	0.07%	0.45%
Allowance to total loans held for investment	0.67%	0.76%	0.97%	0.88%	0.41%

Net loans charged off for the year ended December 31, 2017 were $6.2 million, compared to net loans charged off of $3.9 million for the year ended December 31, 2016 and $0.8 million for the year ended December 31, 2015. Net charge-offs as a percentage of average total loans held for investment were 0.28%, 0.25%, and 0.07% for the years

ended December 31, 2017, 2016 and 2015, respectively.

Assets Held for Sale; Including Loans Held for Sale

On January 19, 2018, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Healthcare Finance (“THF”) and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the carrying amount of the Disposal Group, including loans with a recorded balance of $68.7 million, net of an allowance for loan and lease losses of $2.1 million, was transferred to assets held for sale. Refer to Note 2 of the Notes to Consolidated Financial Statements contained in Item 8 of this report for more information.

At December 31, 2017 and December 31, 2016, we held no originated residential mortgage loans held for sale. The Company made the decision to exit the residential mortgage production business in the fourth quarter of 2015. We chose to exit this business as the infrastructure investments necessary to appropriately address the operational and compliance risk associated with the business outweighed the amount of profitability generated. At December 31, 2015, we held $1.3 million of originated residential mortgage loans held for sale.

Residential mortgage loan sales of $2.2 million occurred during the year ended December 31, 2016, with negligible gains recorded. Residential mortgage loan sales of $62.8 million occurred during the year ended December 31, 2015 and resulted in net gains on sale of $1.6 million.

During the years ended December 31, 2017 and 2016, other loans were held for sale, primarily shared national credits. These loans were transferred to the held for sale classification and sold during the respective years.

Securities

The following table sets forth the composition of our securities portfolio by type:

	December 31, 2017		December 31, 2016		December 31, 2015	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale securities:						
U.S. Government agency obligations	110,531	109,890	180,945	180,942	90,533	91,034
U.S. Treasury notes	1,940	1,934	—	—	—	—
Mortgage-backed securities, residential	33,537	33,663	24,710	24,990	28,006	28,340
Asset backed securities	11,883	11,845	13,031	12,902	17,957	17,526
State and municipal	74,684	74,391	27,339	26,637	1,509	1,526
Corporate bonds	15,271	15,320	27,287	27,390	24,542	24,559
SBA pooled securities	3,535	3,560	156	157	183	184
Mutual fund	5,000	5,006	2,000	2,011	—	—
Total available for sale securities	$256,381	$255,609	$275,468	$275,029	$162,730	$163,169
Held to maturity securities:						
CLO securities	$8,557	$7,527	$29,352	$30,821	$—	$—

We held securities classified as available for sale with a fair value of $255.6 million as of December 31, 2017, a decrease of $19.4 million from $275.0 million at December 31, 2016. The decrease is attributable to normal portfolio management activities, with the net reduction being attributed to normal sales, payment and amortization activity. For the year ended December 31, 2017, securities were sold resulting in proceeds of $32.4 million and a net gain on sale of $35 thousand. Our available for sale securities can be used for pledging to secure FHLB borrowings and public deposits, or can be sold to meet liquidity needs. The decrease was partially offset by $97.6 million of available for sale investment securities acquired in the Valley acquisition on December 9, 2017, of which $29.5 million were subsequently sold prior to the end of the year. The proceeds from these sales are included in the proceeds figure of

$32.4 million cited above.

Equity securities classified as available for sale at December 31, 2017 and 2016 represent investments in a publicly traded Community Reinvestment Act mutual fund and are subject to market pricing volatility.

We held securities classified as held to maturity with an amortized cost of $8.6 million as of December 31, 2017, a decrease of $20.8 million from $29.4 million at December 31, 2016 due to the call of certain securities during the period. The remaining $8.6 million of held to maturity securities represent a minority investment in the unrated subordinated notes of recently issued CLOs managed by Trinitas Capital Management. Our former subsidiary, Triumph Capital Advisors, provides certain middle and back office services to Trinitas Capital Management with respect to the CLOs, but does not serve as asset manager.

The following tables set forth the amortized cost and average yield of our securities, by type and contractual maturity as of December 31, 2017:

	Maturity as of December 31, 2017									
	1 Year or Less		1 to 5 Years		5 to 10 Years		Over 10 Years		Total	
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
U.S. Government agency obligations	$19,552	0.97 %	$90,979	1.63 %	$—	—	$—	—	$110,531	1.51 %
U.S. Treasury notes	—	—	1,940	2.01 %	—	—	—	—	1,940	2.01 %
Mortgage-backed securities, residential	—	—	411	3.56 %	5,512	1.77 %	27,614	2.27 %	33,537	2.21 %
Asset backed securities	—	—	4,096	2.21 %	—	—	7,787	2.49 %	11,883	2.39 %
State and municipal	1,575	1.70 %	19,714	1.41 %	32,427	1.46 %	20,968	1.36 %	74,684	1.43 %
Corporate bonds	9,450	1.82 %	5,546	2.43 %	—	—	275	5.13 %	15,271	2.10 %
SBA pooled securities	—	—	3	3.37 %	131	3.67 %	3,401	2.17 %	3,535	2.23 %
Mutual fund[(1)]	5,000	—	—	—	—	—	—	—	5,000	—
Total securities available for sale	$35,577	1.27 %	$122,689	1.66 %	$38,070	1.51 %	$60,045	2.00 %	$256,381	1.67 %
Securities held-to-maturity	$—	—	$—	—	$—	—	$8,557	11.88 %	$8,557	11.88 %

(1) These equity securities do not have a stated maturity.

Liabilities

Our total liabilities were $3.107 billion as of December 31, 2017, an increase of $755 million, from $2.352 billion at December 31, 2016. The net change was primarily due to a $605 million increase in customer deposits, a $1 million increase in customer repurchase agreements, a $135 million increase in Federal Home Loan Bank advances, a $6 million increase in junior subordinated debentures, and a $8 million increase in other liabilities.

As part of the Acquired Branches and Valley acquisitions on October 6, 2017 and December 9, 2017, respectively, the Company assumed customer deposits with a balance of $454.1 million and other liabilities with a balance of $3.1 million. Junior subordinated debentures with a fair value of $5.5 million, were assumed by the Company as a result of our acquisition of Valley.

Deposits

Deposits represent our primary source of funds. We intend to continue to focus on growth in transactional deposit accounts as part of our growth strategy, both in our existing branch networks and through targeted acquisitions.

Our total deposits were $2.621 billion as of December 31, 2017, compared to $2.016 billion as of December 31, 2016, an increase of $605 million, due primarily to the $454.1 million of deposits assumed in the Acquired Branches and Valley acquisitions. As of December 31, 2017, interest bearing demand deposits, noninterest bearing deposits, money market deposits and savings deposits accounted for 57% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered deposits made up 43% of total deposits. See Note 9 – Deposits in the accompanying notes to consolidated financial statements included elsewhere in this report for details of our deposit balances as of December 31, 2017 and December 31, 2016.

The following table summarizes our average deposit balances and weighted average yields for the years ended December 31, 2017, 2016, and 2015:

(Dollars in thousands)	Year Ended December 31, 2017			Year Ended December 31, 2016			Year Ended December 31, 2015		
	Average Balance	Average Yields	% of Total	Average Balance	Average Yields	% of Total	Average Balance	Average Yields	% of Total
Interest bearing demand	$331,023	0.16 %	16 %	$269,635	0.10 %	17 %	$227,251	0.06 %	19 %
Individual retirement accounts	100,731	1.21 %	5 %	78,979	1.17 %	5 %	57,216	1.21 %	5 %
Money market	209,229	0.24 %	10 %	156,637	0.21 %	10 %	116,654	0.23 %	10 %
Savings	175,821	0.06 %	8 %	116,928	0.05 %	8 %	72,964	0.05 %	6 %
Certificates of deposit	782,384	1.19 %	37 %	640,490	1.09 %	41 %	501,293	1.05 %	42 %
Brokered deposits	87,395	1.59 %	4 %	52,816	1.04 %	3 %	49,867	1.00 %	4 %
Total interest bearing deposits	1,686,583	0.78 %	80 %	1,315,485	0.70 %	84 %	1,025,245	0.67 %	86 %
Noninterest bearing demand	408,729	—	20 %	243,349	—	16 %	168,565	—	14 %
Total deposits	$2,095,312	0.62 %	100 %	$1,558,834	0.59 %	100 %	$1,193,810	0.58 %	100 %

The following table provides information on the maturity distribution of time deposits with individual balances of $100,000 to $250,000 and of time deposits with individual balances of $250,000 or more as of December 31, 2017:

(Dollars in thousands)	$100,000 to $250,000	Over $250,000	Total
Maturity			
3 months or less	$95,077	$46,444	$141,521
Over 3 through 6 months	75,980	23,658	99,638
Over 6 through 12 months	188,671	61,011	249,682
Over 12 months	84,670	27,084	111,754
	$444,398	$158,197	$602,595

Other Borrowings

Customer Repurchase Agreements

Customer repurchase agreements outstanding totaled $11.5 million as of December 31, 2017 and $10.5 million at December 31, 2016. Our customer repurchase agreements generally have overnight maturities. Variances in these balances are attributable to normal customer behavior and seasonal factors affecting their liquidity positions. The following table provides a summary of our customer repurchase agreements as of and for the years ended December 31, 2017, 2016, and 2015:

(Dollars in thousands)	December 31, 2017	December 31, 2016	December 31, 2015
Amount outstanding at end of the year	$ 11,488	$ 10,490	$ 9,317
Weighted average interest rate at end of the year	0.02 %	0.02 %	0.02 %
Average daily balance during the year	$ 12,906	$ 11,984	$ 13,158
Weighted average interest rate during the year	0.02 %	0.02 %	0.02 %
Maximum month-end balance during the year	$ 21,041	$ 15,329	$ 16,033

FHLB Advances

As part of our overall funding and liquidity management program, from time to time we borrow from the Federal Home Loan Bank. Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. Our FHLB borrowings totaled $365.0 million as of December 31, 2017 and $230.0 million as of December 31, 2016. Of the FHLB borrowings outstanding as of December 31, 2017, $335.0 million were short term borrowings maturing within one year and $30.0 million were long term borrowings maturing after five years. As of December 31, 2017 and December 31, 2016, we had $231.2 million and $267.1 million, respectively, in unused and available advances from the FHLB. The increase in our total borrowing capacity from December 31, 2016 to December 31, 2017 was primarily the result of the addition of the Acquired Branches and Valley portfolios during the year ended December 31, 2017. The following table provides a summary of our FHLB borrowings as of and for the years ended December 31, 2017, 2016, and 2015:

(Dollars in thousands)	December 31, 2017	December 31, 2016	December 31, 2015
Amount outstanding at end of the year	$ 365,000	$ 230,000	$ 130,000
Weighted average interest rate at end of the year	1.39 %	0.58 %	0.32 %
Average daily balance during the year	$ 300,451	$ 174,784	$ 34,244
Weighted average interest rate during the year	1.05 %	0.41 %	0.19 %
Maximum month-end balance during the year	$ 385,000	$ 291,000	$ 130,000

Subordinated Notes

In September 2016, we issued $50.0 million of Fixed-to-Floating Rate Subordinated Notes due 2026 (the "Notes"). The Notes, which initially bear interest at 6.50% per annum, payable semi-annually in arrears, to, but excluding, September 30, 2021, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.345%. We may, at our option, beginning on September 30, 2021 and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The Notes are included on the consolidated balance sheet as liabilities; however, for regulatory purposes, the carrying value of these obligations is eligible for inclusion in Tier 2 regulatory capital.

Issuance costs related to the Notes totaled $1.3 million, including an underwriting discount of 1.5%, or $0.8 million, and have been netted against the subordinated notes liability on the consolidated balance sheets. The underwriting discount and other debt issuance costs are being amortized using the effective interest method over the life of the Notes as an adjustment to interest expense.

There were no subordinated note issuances during the year ended December 31, 2017.

Junior Subordinated Debentures

The following provides a summary of our junior subordinated debentures as of December 31, 2017:

(Dollars in thousands)	Face Value	Carrying Value	Maturity Date	Variable Interest Rate	Interest Rate At December 31, 2017

National Bancshares Capital Trust II	$15,464	$12,861	September 2033	LIBOR + 3.00%	4.59%
National Bancshares Capital Trust III	17,526	12,389	July 2036	LIBOR + 1.64%	3.00%
ColoEast Capital Trust I	5,155	3,417	September 2035	LIBOR + 1.60%	3.29%
ColoEast Capital Trust II	6,700	4,485	March 2037	LIBOR + 1.79%	3.48%
Valley Bancorp Statutory Trust I	3,093	2,844	September 2032	LIBOR + 3.40%	5.07%
Valley Bancorp Statutory Trust II	3,093	2,627	July 2034	LIBOR + 2.75%	4.35%
	$51,031	$38,623			

These debentures are unsecured obligations and were issued to trusts that are unconsolidated subsidiaries. The trusts in turn issued trust preferred securities with identical payment terms to unrelated investors. The debentures may be called by the Company at par plus any accrued but unpaid interest; however, we have no current plans to redeem them prior to maturity. Interest on the debentures is calculated quarterly, based on a rate equal to three month LIBOR plus a weighted average spread of 2.24%. As part of the purchase accounting adjustments made with the National Bancshares, Inc. acquisition on October 15, 2013, the ColoEast acquisition on August 1, 2016, and the Valley acquisition on December 9, 2017, we adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition dates. The discount on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, these obligations are eligible for inclusion in regulatory capital, subject to certain limitations. All of the carrying value of $38.6 million was allowed in the calculation of Tier I capital as of December 31, 2017.

Capital Resources and Liquidity Management

Capital Resources

Our stockholders' equity totaled $391.7 million as of December 31, 2017, an increase of $102.4 million from $289.3 million as of December 31, 2016. Stockholders' equity increased during this period primarily due to $65.5 million of net proceeds from the August 1, 2017 common stock offering previously discussed, and net income for the period of $36.2 million. Offsetting this increase were dividends paid of $0.8 million on our preferred stock.

Liquidity Management

We define liquidity as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

We manage liquidity at the holding company level as well as that of our bank subsidiary. The management of liquidity at both levels is critical, because the holding company and our bank subsidiary have different funding needs and sources, and each are subject to regulatory guidelines and requirements which require minimum levels of liquidity. We believe that our liquidity ratios meet or exceed those guidelines and our present position is adequate to meet our current and future liquidity needs.

Our liquidity requirements are met primarily through cash flow from operations, receipt of pre-paid and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. Our liquidity position is supported by management of liquid assets and liabilities and access to other sources of funds. Liquid assets include cash, interest earning deposits in banks, federal funds sold, securities available for sale and maturing or prepaying balances in our investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of funds include the sale of loans, brokered deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities and the issuance of common securities. For additional information regarding our operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in our consolidated financial statements.

In addition to the liquidity provided by the sources described above, our subsidiary bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of December 31, 2017, TBK Bank had unsecured federal funds lines of credit with seven unaffiliated banks totaling $137.5 million, with no amounts advanced against those lines at that time.

Regulatory Capital Requirements

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

Quantitative measures established by regulations to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (as set forth in the table below) of total, Tier 1, and common equity Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2017, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

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

The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table as of December 31, 2017.

(Dollars in thousands)	Actual Amount	Ratio	Minimum for Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
As of December 31, 2017						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$436,036	13.2%	$264,026	8.0%	N/A	N/A
TBK Bank, SSB	$361,068	11.4%	$254,139	8.0%	$317,674	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$367,958	11.1%	$198,019	6.0%	N/A	N/A
TBK Bank, SSB	$341,910	10.8%	$190,603	6.0%	$254,137	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$320,265	9.7%	$148,514	4.5%	N/A	N/A
TBK Bank, SSB	$341,910	10.8%	$142,952	4.5%	$206,486	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$367,958	11.8%	$124,754	4.0%	N/A	N/A
TBK Bank, SSB	$341,910	11.1%	$123,088	4.0%	$153,860	5.0%

Beginning in January 2016, the implementation of the capital conservation buffer set forth by the Basel III regulatory capital framework was effective for the Company starting at 0.625% of risk weighted assets above the minimum risk based capital ratio requirements and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.25% and 0.625% at December 31, 2017 and 2016, respectively. 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. At December 31, 2017, the Company's and TBK Bank's risk based capital exceeded the required capital conservation buffer.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2017. The amount of the obligations presented in the table reflect principal amounts only and exclude the amount of interest we are obligated to pay. Also excluded from the table are a number of obligations to be settled in cash. These excluded items are reflected in our consolidated balance sheet and include deposits with no stated maturity, trade payables, and accrued interest payable.

	Payments Due by Period - December 31, 2017				
(Dollars in thousands)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years

Customer repurchase agreements	$11,488	$11,488	$—	$—	$—
FHLB advances	365,000	335,000	—	—	30,000
Junior subordinated debentures	51,031	—	—	—	51,031
Subordinated notes	50,000	—	—	—	50,000
Operating lease agreements	5,969	1,866	2,944	856	303
Time deposits with stated maturity dates	1,134,614	851,311	231,191	52,112	—
Total contractual obligations	$1,618,102	$1,199,665	$234,135	$52,968	$131,334

Off Balance Sheet Arrangements

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.

The following table details our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect actual future cash funding requirements.

(Dollars in thousands)	December 31, 2017	December 31, 2016
Commitments to make loans	$—	$ 14,925
Unused lines of credit	375,870	255,086
Standby letters of credit	10,167	7,253
Mortgage warehouse commitments	239,632	233,947
Total other commitments	$ 625,669	$ 511,211

Critical Accounting Policies and Estimates

Certain of our accounting estimates are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Management believes that determining the allowance for loan and lease losses is its most critical accounting estimate. Our accounting policies are discussed in detail in Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 of this report.

Allowance for Loan and Lease Loss. Management considers the policies related to the allowance for loan and lease losses as the most critical to the financial statement presentation. The total allowance for loan and lease losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (“ASC”) 310, Receivables, and ASC 450, Contingencies. The allowance for loan and lease losses is established through a provision for loan losses charged to current earnings. The amount maintained in the allowance reflects management’s estimate of incurred losses in the loan portfolio at the report date. The allowance for loan and lease losses is comprised of specific reserves assigned to certain impaired loans and general reserves. Factors contributing to the determination of specific reserves include the creditworthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan’s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For purposes of establishing the general reserve, we stratify the loan portfolio into homogeneous groups of loans that possess similar loss potential characteristics and apply a loss ratio to these groups of loans to estimate the credit losses in the loan portfolio. We use both historical loss ratios and qualitative loss factors assigned to major loan collateral types to establish general component loss allocations. Refer to “Allowance for Loan and Lease Losses” above and Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this report for further discussion of the risk factors considered by management in establishing the allowance for loan and lease loss.

Adoption of New Accounting Standards

See Note 1 – Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements included contained in Item 8 of this report for details of recently issued accounting pronouncements and their expected impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Asset/Liability Management and Interest Rate Risk

The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Board of Directors of our subsidiary bank has oversight of our asset and liability management function, which is managed by our Chief Financial Officer. Our Chief Financial Officer meets with our senior executive management team regularly to review, among other things, the sensitivity of our assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

As a financial institution, our 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 of our assets and liabilities, and the fair value of all interest earning assets and interest bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may elect to do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange risk. We do not own any trading assets.

We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in projected net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the fair value of assets less the fair value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of all future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

The following table summarizes simulated change in net interest income versus unchanged rates as of December 31, 2017 and December 31, 2016:

	December 31, 2017		December 31, 2016	
	Following 12 Months	Months 13-24	Following 12 Months	Months 13-24
+400 basis points	4.8 %	0.7 %	5.0 %	1.0 %
+300 basis points	3.9 %	0.9 %	3.6 %	0.8 %
+200 basis points	2.7 %	0.6 %	2.1 %	0.2 %
+100 basis points	1.7 %	0.6 %	0.8 %	(0.2 %)
Flat rates	0.0 %	0.0 %	0.0 %	0.0 %
-100 basis points	(2.2%)	(2.5 %)	(2.8%)	(3.6 %)

The following table presents the change in our economic value of equity as of December 31, 2017 and December 31, 2016, assuming immediate parallel shifts in interest rates:

	Economic Value of Equity at Risk (%)	
	December 31, 2017	December 31, 2016
+400 basis points	11.9 %	(2.0 %)
+300 basis points	10.5 %	(3.2 %)
+200 basis points	8.1 %	(4.3 %)

+100 basis points	4.9	%	(4.1	%)
Flat rates	0.0	%	0.0	%
-100 basis points	(9.6	%)	(12.2	%)

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

As part of our asset/liability management strategy, our management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. We also desire to acquire deposit transaction accounts, particularly noninterest or low interest bearing non-maturity deposit accounts, whose cost is less sensitive to changes in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Triumph Bancorp, Inc.

Dallas, Texas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Triumph Bancorp, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe Horwath LLP

We have served as the Company's auditor since 2012.

Dallas, Texas

February 13, 2018

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$59,114	$38,613
Interest bearing deposits with other banks	75,015	75,901
Total cash and cash equivalents	134,129	114,514
Securities - available for sale	255,609	275,029
Securities - held to maturity, fair value $7,527 and $30,821, respectively	8,557	29,352
Loans, net of allowance for loan and lease losses of $18,748 and $15,405, respectively	2,792,108	2,012,219
Assets held for sale	71,362	—
Federal Home Loan Bank stock, at cost	16,006	8,430
Premises and equipment, net	62,861	45,460
Other real estate owned, net	9,191	6,077
Goodwill	44,126	