

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: 001-36580

Green Bancorp, Inc.

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of incorporation or organization)

42-1631980

(I.R.S. Employer Identification No.)

4000 Greenbriar

Houston, Texas

(Address of principal executive offices)

77098

(Zip Code)

Registrant's telephone number, including area code: **(713) 275 – 8220**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Common Stock, par value \$0.01 per share	Name of Each Exchange on which Registered NASDAQ Stock Market, Inc., Global Select Market System
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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 Section 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☒

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 \$406.3 million.

As of March 12, 2018, there were 37,189,901 outstanding shares of the registrant's Common Stock, par value \$0.01 per share.

Documents Incorporated by Reference:

Portions of the Company's Proxy Statement relating to the 2018 Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2017, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

GREEN BANCORP, INC. AND SUBSIDIARIES
2017 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I	3
Item 1. Business	3
Item 1A. Risk Factors	26
Item 1B. Unresolved Staff Comments	46
Item 2. Properties	47
Item 3. Legal Proceedings	48
Item 4. Mine Safety Disclosure	49
PART II	49
Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchase of Equity Securities	49
Item 6. Selected Consolidated Financial Data	52
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	55
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	89
Item 8. Financial Statements and Supplementary Data	90
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	91
Item 9A. Controls and Procedures	91
Item 9B. Other Information	91
PART III	91
Item 10. Directors, Executive Officers and Corporate Governance	91
Item 11. Executive Compensation	92
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	92
Item 13. Certain Relationships and Related Transactions, and Director Independence	92
Item 14. Principal Accountant Fees and Services	92
PART IV	92
Item 15. Exhibits and Financial Statement Schedules	92
Signatures	154

PART I.

ITEM 1. BUSINESS

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

Our Company

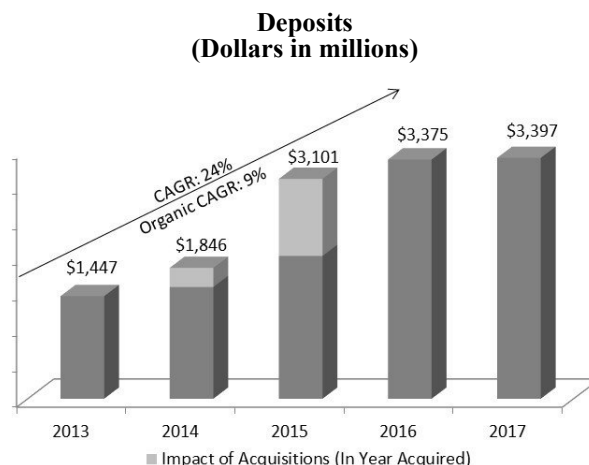
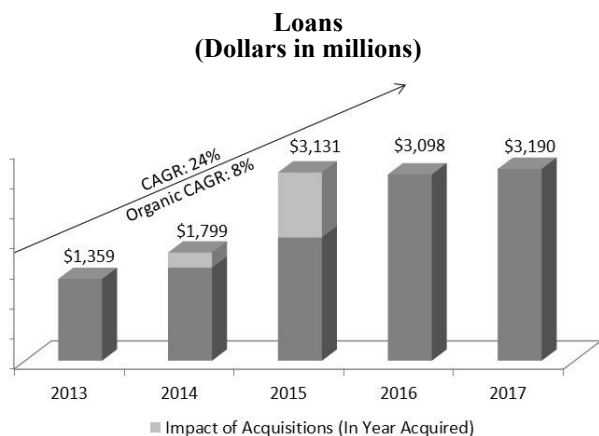
We are a Texas focused bank holding company headquartered in Houston, Texas. Our wholly owned subsidiary, Green Bank, N.A., a nationally chartered commercial bank, provides commercial and private banking services primarily to Texas based customers through twenty-two full service branches in the Houston and Dallas MSAs and other markets. The Houston and Dallas MSAs are our target markets, and we believe their growing economies and attractive demographics, together with our scalable platform, provide us with opportunities for long-term and sustainable growth. Our emphasis is on continuing to expand our existing business by executing on our proven business model as well as pursuing select strategic acquisitions and attracting additional talented portfolio bankers. As of December 31, 2017, we had consolidated total assets of \$4.3 billion, total loans held for investment of \$3.2 billion (of which \$2.7 billion were originated by us and \$514.0 million were acquired), total deposits of \$3.4 billion and total shareholders’ equity of \$463.8 million.

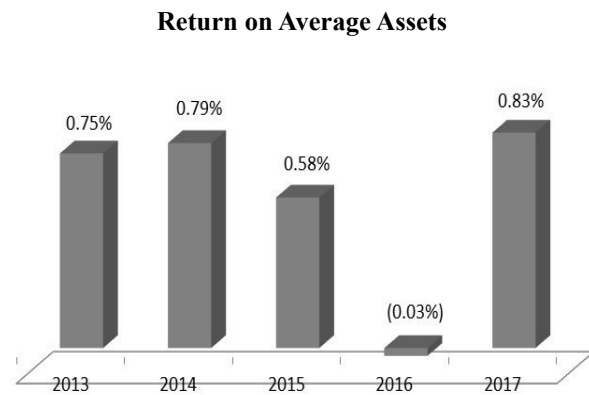
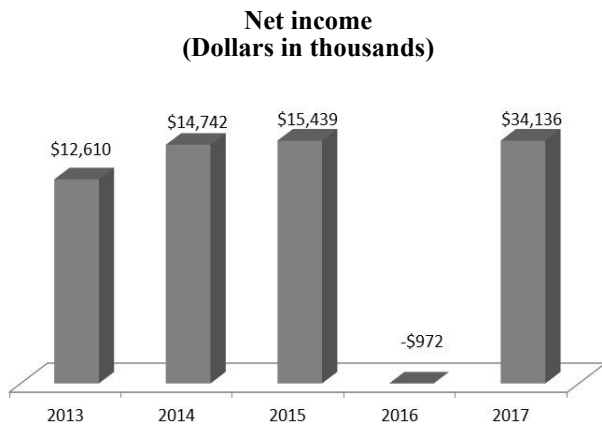
Our stock is traded on the NASDAQ under the symbol “GNBC”.

Our History and Growth

We are a Texas corporation that was incorporated on October 20, 2004. We began operations as a bank holding company on December 31, 2006 when we acquired Redstone Bank, a Houston community bank with two branches and \$219.3 million in total assets. We were formed by our Chairman and Chief Executive Officer, Manny Mehos, who previously founded, led and sold Coastal Bancorp, Inc. after overseeing its growth from one branch and less than \$11 million in assets in 1986 to 43 branches and \$2.7 billion in assets in 2004, with the objective of building a commercially focused bank in attractive Texas metropolitan markets.

During the period from December 31, 2013 through December 31, 2017, we experienced a 24% compounded annual growth rate in total loans and a 24% compounded annual growth rate in total deposits, while extending our branch footprint from twelve to twenty-two locations and expanding our team of portfolio bankers from 48 to 63. Our scale has allowed us to leverage our infrastructure to operate our business more efficiently as evidenced by the decrease in our efficiency ratio from 64.6% for the year ended December 31, 2013 to 52.7% for the year ended December 31, 2017, while our total assets grew from \$1.7 billion to \$4.3 billion as of December 31, 2013 and 2017, respectively.





Following our acquisition of Redstone Bank, we have supplemented our organic growth and increased our total deposits by successfully completing and integrating the following acquisitions:

- OneWest: one branch of OneWest Bank located in the Dallas MSA with \$188.4 million in total deposits, acquired in October 2010;
- Main Street: three branches of Main Street Bank located in the Houston MSA with \$167.7 million in total deposits and \$12.7 million in loans, acquired in October 2011;
- Opportunity: Opportunity Bancshares, Inc. and its subsidiary, Opportunity Bank, with one branch located in the Dallas MSA, \$44.1 million in total deposits and \$25.6 million in total loans, acquired in May 2012;
- SharePlus: SP Bancorp, Inc. and its subsidiary, SharePlus Bank (together “SharePlus”), with three branches located in the Dallas MSA and one in Louisville MSA, \$270.0 million in deposits and \$251.2 million in loans, acquired in October 2014; and
- Patriot: Patriot Bancshares, Inc. (“Patriot”) and its subsidiary, Patriot Bank, with six branches located in the Houston MSA, two branches located in the Dallas MSA, and one branch located in Fannin County, Texas, \$1.1 billion in deposits and \$1.1 billion in loans, acquired in October 2015.

These acquisitions have provided significant strategic benefits and opportunities, including additional quality deposits which have provided funding for our lending business, new business lines which have contributed to the expansion of our product offerings and additional branches which have extended our geographic footprint and provided opportunities for consolidation of our support areas.

We have no current plans, arrangements or understandings to make any acquisitions at this time. However, at any given time we may be evaluating other acquisition candidates, conducting due diligence and may have entered into one or more letters of intent.

Our Strategy

Our goal is to be a leading provider of personalized commercial and private banking services to Texas businesses, entrepreneurs and individuals while capitalizing on the vibrant and growing economies of our target markets. We have made the strategic decision to focus on the Houston and Dallas MSAs because we believe these markets offer a compelling combination of economic growth, favorable demographics and desirable prospective customers.

We intend to continue our strategy of growth by executing our portfolio banker driven organic growth strategy complemented by disciplined strategic acquisitions.

Portfolio Banker Growth Strategy. We employ a portfolio banking model that relies upon experienced bankers to originate quality loans, attract and retain low cost deposits and generate fee income. Within this model, our customers are generally assigned a dedicated portfolio banker who acts as the primary point of contact and relationship manager. We believe that this model allows us to build and maintain long-term relationships, leading to increased business opportunities and referrals, while improving our risk profile through ongoing and proactive credit monitoring and loan servicing. Our portfolio banking model has been the primary driver of our loan growth and has also helped us achieve what we believe to be a comparatively high level of average deposits per branch. Our portfolio banking model incorporates a two-tiered incentive structure designed to compensate our portfolio bankers at a level that is commensurate with their contribution to the successful execution of our business strategy.

Our target commercial customers include Texas based small and medium-sized businesses in the manufacturing, distribution, service and supply sectors, as well as real estate investors, mortgage originators and professional firms. We offer a wide variety of banking products and services, including loans, government guaranteed loans through the Small Business Administration and U.S. Department of Agriculture lending programs, deposit products, including demand, savings, money market and time accounts, treasury management services, an interest rate swap program and a full suite of online banking solutions. We also seek to attract traditional retail customers and to generate retail business from mass affluent individuals with the capacity to maintain significant deposit balances with us through a combination of diverse product offerings with attractive rates, convenient branch locations and personalized service.

As a significant portion of our historical growth has occurred in a low interest rate environment, a key aspect of our strategy has been the maintenance of an asset-sensitive balance sheet that we believe will produce increased net interest income if market interest rates rise. As of December 31, 2017, 81.4% of our total loans were comprised of floating-rate loans, which may be subject to changes in yield as the interest rate environment changes. Our loan portfolio has grown to \$3.2 billion as of December 31, 2017 from \$1.4 billion as of December 31, 2013, as a result of loans acquired and originated by us during that period.

Strategic Acquisitions. We intend to supplement our organic growth by executing a disciplined acquisition strategy focusing on targets with a quality loan and deposit customer base and attractive branch locations in the Texas Triangle, which is anchored by the metropolitan areas of Houston, Dallas-Forth Worth and San Antonio and includes the Austin, Bryan-College Station, Killeen-Temple-Fort Hood and Waco MSAs, that possess favorable market share, an attractive deposit mix, manageable levels of nonperforming assets and commercial real estate loan concentrations and transactions that we expect will produce attractive risk-adjusted returns for our shareholders. We plan to leverage our reputation as an experienced acquirer of banks, recognizing many banks in our target markets face scale and operational challenges, regulatory burdens, management succession issues and/or shareholder liquidity expectations.

Acquisitions

Patriot Bancshares, Inc. - On October 1, 2015, the Company completed the merger of Patriot with and into the Company and the merger of Patriot's wholly-owned subsidiary, Patriot Bank, with and into the Bank (collectively, the "Patriot acquisition"). Patriot, headquartered in Houston, Texas, operated six locations in Houston, two in Dallas and one in Fannin County, Texas. As of September 30, 2015, Patriot, on a consolidated basis, reported total assets of \$1.4 billion, total loans of \$1.1 billion, total deposits of \$1.1 billion and total shareholders' equity of \$125.2 million.

Under the terms of the merger agreement, we issued 10.4 million shares of the Company's common stock, with a total fair value of \$123.7 million based on the closing price on October 1, 2015 of \$11.85 per share, for all outstanding shares of Patriot common stock, including the converted Series D and Series F preferred stock. In addition, Patriot's \$27.3 million Series B and Series C preferred stock were redeemed in connection with the closing. Consistent with the Company's strategy, the primary reasons for the Patriot acquisition were to enhance market share in Houston and Dallas, and improve profitability through cost savings and revenue synergies.

In connection with the merger, we recognized \$55.2 million of goodwill, \$8.3 million of core deposit intangibles, and \$7.3 million in net deferred tax assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

Our Competitive Strengths

We believe the following competitive strengths will allow us to capitalize on our substantial market opportunity and achieve our business goals:

Well-positioned within attractive major metropolitan markets in Texas. We are one of the few Texas based banking franchises focused primarily on the major metropolitan markets in the state with a presence in both the Houston and Dallas MSAs. Substantially all of our branches are strategically located within these markets in areas that we consider to be among the most attractive in terms of serving existing and attracting new customers. We believe our model will allow us to continue to capitalize on the favorable demographic and commercial characteristics of our economically robust target markets. Within these markets, we target commercial customers with annual revenues between \$5 and \$150 million, and we believe that we offer customers of this size a greater level of attention than our larger competitors while providing access to a broad range of sophisticated banking products that cannot be matched by most community banks. There are numerous businesses located in the markets we serve meeting this profile and we believe that we are well-positioned to attract these target customers relative to our competitors as a result of our extensive local knowledge, broad service offerings and portfolio banking model.

Scalable portfolio banking and operational platforms with the capacity to generate and accommodate significant organic growth. Our management team has built a capable and knowledgeable staff and made significant investments in the technology and systems necessary to build a scalable corporate infrastructure with the capacity to support continued growth, while also improving operational efficiencies. We believe that our current team has the capacity to grow loans, deposits and fee income without significant additional overhead expense. Furthermore, we believe that our scalable credit, operational, technology and governance infrastructure will continue to allow us to efficiently and effectively manage the growth driven by our strategies. For example, our efficiency ratio has decreased from 64.6% for the year ended December 31, 2013 to 52.7% for the year ended December 31, 2017, while our total assets grew from \$1.7 billion to \$4.3 billion as of December 31, 2013 and 2017, respectively.

Disciplined and sophisticated credit governance process. Our approach to credit risk management balances well-defined centralized credit policies, disciplined underwriting criteria, a centralized credit approval process and ongoing risk monitoring and review processes with our portfolio banking model which demands that we respond promptly to our customers' needs. Our processes emphasize early-stage review of loans and regular credit evaluations, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our portfolio bankers. This balanced team approach has augmented our ability to identify potential problem loans early and has allowed us to maintain strong credit metrics while executing our growth strategy. In addition, we believe our nimble and responsive credit culture and underwriting process will help us to attract and retain experienced bankers who are eager to be more responsive to customers' credit requests.

Experienced acquirer and integrator of financial institutions. We have developed a proven platform to identify acquisition candidates, conduct comprehensive due diligence, model financial expectations, and effectively consummate the transaction and integrate the acquired institution into our scalable infrastructure and achieve synergies. Since completing a successful capital raise in 2010, we have completed five M&A transactions. In addition, members of our senior management team have successfully led over 30 bank merger and acquisition transactions since the mid-1980s, including public company transactions. There are approximately 434 banks headquartered in Texas, approximately 115 of which are headquartered in our target markets. Of these 115 banks, 34 reported total assets between \$500 million and \$4.0 billion as of December 31, 2017. These banks provide us with opportunities to selectively pursue strategic transactions that meet our stringent financial, cultural and risk criteria to support our continued growth. While we have no current plans, arrangements or understandings to make any acquisitions, at any given time we may be evaluating other acquisition candidates and may enter into one or more letters of intent. We cannot assure you if or when we will announce any such transaction.

Strong and experienced management team. We are managed by a team of banking executives with complementary experience and personal attributes who have a history of managing large teams, leading acquisition and divestiture projects and managing significant growth in diverse markets and economic climates. Our executive management team members are career bankers and each has over 30 years of banking experience, including significant experience within large, nationally recognized financial institutions. As a result, our executive management team has substantial expertise with numerous sophisticated banking products, extensive knowledge of the bank regulatory landscape, significant experience throughout numerous interest rate and credit cycles and a range of experience with banks of all sizes. We believe that this varied experience has resulted in a diverse and adaptive culture that enhances our ability to attract driven, entrepreneurial bankers as well as seasoned and capable credit professionals.

Segments

We manage our operations in one reportable segment. Financial information about our operations, including our revenues and net income for the years ended December 31, 2017, 2016 and 2015, and our total assets as of December 31, 2017 and 2016, are included in our consolidated financial statements and accompanying notes in Item 15 “Exhibits and Financial Statement Schedules.”

Our Banking Services

The following is a general discussion of our major types of business activities:

Lending Activities

Loan Underwriting and Approval. Historically, we have made sound, high quality loans while recognizing that lending money involves a degree of business risk. We have loan policies designed to assist us in managing this business risk. These policies provide a general framework for our loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated. Our board of directors delegates loan authority up to board-approved hold limits collectively to our Loan Committee, which is comprised of members of our executive management team and credit risk executives. Our board of directors also delegates more limited individual lending authority to our President and Corporate Chief Credit Officer, credit risk personnel, and, on a further limited basis, to selected lending managers in each of our target markets. Lending officers and relationship managers, including our portfolio bankers, do not have individual loan authority. When the total relationship exceeds an individual’s loan authority, a higher authority or Loan Committee approval is required. The objective of the Bank’s centralized credit approval process is to provide a disciplined, collaborative approach to larger credits while maintaining responsiveness to client needs.

Loan decisions are documented as to the borrower’s business, purpose of the loan, evaluation of the repayment source and the associated risks, evaluation of collateral, covenants and monitoring requirements, and the risk rating rationale. Our strategy for approving or disapproving loans is to follow our loan policies and consistent underwriting practices which include:

- maintaining close relationships among our customers and their designated portfolio banker to ensure ongoing credit monitoring and loan servicing;
- granting loans on a sound and collectible basis;
- ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- developing and maintaining targeted levels of diversification for our loan portfolio as a whole and for loans within each category; and
- ensuring that each loan is properly documented and that any insurance coverage requirements are satisfied.

Managing credit risk is a Company-wide process. Our strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all commercial and consumer credit exposures. Our processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our portfolio bankers. Our Corporate Chief Credit Officer provides Company-wide credit oversight. Internal loan review periodically reviews all credit risk portfolios to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed to identify problem assets and confirm our internal risk rating of loans. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses inherent in the loan portfolio.

Our loan policies generally include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of collateral securing the loan and the borrower’s income. Such loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate.

In addition, our loan policies provide guidelines for personal guarantees; environmental review; loans to employees, executive officers and directors; problem loan identification; maintenance of an adequate allowance for loan losses; and other matters relating to lending practices.

Lending Limits. Our lending activities are subject to a variety of lending limits imposed by federal law. In general, the Bank is subject to a legal lending limit on loans to a single borrower based on the Bank's capital level. The dollar amounts of the Bank's lending limit increases or decreases as the Bank's capital increases or decreases. The Bank is able to sell participations in its larger loans to other financial institutions, which allows it to manage the risk involved in these loans and to meet the lending needs of its customers requiring extensions of credit in excess of these limits.

The Bank's legal lending limit as of December 31, 2017 on loans to a single borrower was approximately \$66.6 million. However, we maintain an in-house, board-approved "hold" limit for loans to a single borrower. Currently, mortgage-warehouse loans are subject to a \$25.0 million hold limit and all other products and businesses are subject to a \$20.0 million hold limit. We have strict policies and procedures in place for the establishment of hold limits with respect to specific products and businesses and evaluating exceptions to the hold limits for individual relationships.

Our loan policies provide general guidelines for loan-to-value ratios that restrict the size of loans to a maximum percentage of the value of the collateral securing the loans, which percentage varies by the type of collateral. Our internal loan-to-value limitations follow limits established by applicable law.

Loan Types. We provide commercial loans, commercial real estate-backed loans, residential real estate-backed loans and personal loans to small to medium-sized businesses, commercial companies, professionals and individuals, primarily.

At December 31, 2017, we had total loans of \$3.2 billion, representing 75.0% of our total assets. Our loan portfolio consisted of the following as of December 31, 2017:

	Originated	Acquired	Total	Percentage of Total
	(Dollars in thousands)			
Commercial & industrial	\$ 1,223,027	\$ 63,469	\$ 1,286,496	40.3%
Owner occupied commercial real estate	327,906	87,324	415,230	13.0%
Commercial real estate	823,361	244,418	1,067,779	33.5%
Construction, land & land development	136,998	27,954	164,952	5.2%
Residential mortgage	149,021	89,559	238,580	7.5%
Consumer and other	16,178	1,270	17,448	0.5%
Total loans held for investment	<u>\$ 2,676,491</u>	<u>\$ 513,994</u>	<u>\$ 3,190,485</u>	<u>100.0%</u>
Total loans held for sale	<u>\$ 7,156</u>	<u>\$ —</u>	<u>\$ 7,156</u>	<u>100.0%</u>

Commercial and Industrial Loans. We make commercial and industrial loans, including commercial lines of credit, working capital loans, mortgage-warehouse lines, term loans, equipment financing, acquisition, expansion and development loans, borrowing base loans, government guaranteed loans, purchased receivables financing, letters of credit and other loan products, primarily in our target markets that are underwritten on the basis of the borrower's ability to service the debt from income. Our target commercial customers include Texas based small and medium-sized businesses in the manufacturing, distribution, service and supply sectors, as well as real estate investors, mortgage originators and professional firms.

We take as collateral a lien on general business assets including, among other things, accounts receivable, inventory and equipment and generally obtain a personal guaranty of the borrower or principal. Our commercial and industrial loans generally have variable interest rates and terms that typically range from one to five years depending on factors such as the type and size of the loan, the financial strength of the borrower/guarantor and the age, type and value of the collateral. Fixed rate commercial and industrial loan maturities are generally short-term, with three-to-five year maturities, or include periodic interest rate resets. Terms greater than five years may be appropriate in some circumstances, based upon the useful life of the underlying asset being financed or if some form of credit enhancement, such as a government guarantee is obtained. As of December 31, 2017, we had \$45.1 million of commercial and industrial loans due after five years, comprised of loans with government guarantees and a small number of syndicated loans and corporate borrowers. These loans had a weighted average maturity of approximately 7.58 years.

In general, commercial and industrial loans may involve increased credit risk and, therefore, typically yield a higher return. The increased risk in commercial and industrial loans derives from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful. Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events, catastrophic weather events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan. In addition, the collateral securing commercial and industrial loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate exposing us to increased credit risk. As a result of these additional complexities, variables and risks, commercial and industrial loans require extensive underwriting and servicing.

Mortgage Warehouse Loans. As part of our commercial and industrial loan portfolio, our mortgage warehouse finance loans consist of ownership interests purchased in single-family residential mortgages funded through our warehouse lending group. These loans are typically on our balance sheet for 10 to 25 days or less. We have agreements with mortgage lenders and purchase legal ownership interests in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans or loans eligible for sale to federal agencies or government sponsored entities. However, for accounting purposes, these loans are deemed to be loans to the originator and, as such, are classified as loans held for investment. At December 31, 2017, mortgage warehouse loans totaled approximately \$182.4 million, approximately 5.7% of our total funded loans.

Reserve-based Energy Loans. As part of our commercial and industrial loan portfolio, we have made reserve-based energy loans to small and medium-sized independent oil and gas producers who derive a majority of their revenues from the sale of oil and gas products and whose credit needs require a technical evaluation of oil and gas reserves. In the fourth quarter of 2015, management made the decision to discontinue new reserve based lending to oil and gas producers and reduce our exposure to this lending sector. The primary collateral for reserve-based loans are the borrower's interests in oil and gas leases and related facilities, the majority of which are proven developed producing properties. Collateral is evaluated on a case-by-case basis by a third-party petroleum engineer. As of December 31, 2017, we had \$20.1 million of reserve-based energy loans outstanding, approximately 0.6% of our total funded loans.

Owner Occupied and Non-Owner Occupied Commercial Real Estate Loans. We make commercial mortgage loans collateralized by real estate, which may be owner occupied or non-owner occupied real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. We require our commercial real estate loans to be secured by well-managed property with adequate margins and generally obtain a guarantee from responsible parties. Our commercial mortgage loans generally are collateralized by first liens on real estate, have variable or fixed interest rates and amortize over a 10-to-25 year period with balloon payments or rate adjustments due at the end of three to seven years.

Payments on loans secured by such properties are often dependent on the successful operation (in the case of owner occupied real estate) or management (in the case of non-owner occupied real estate) of the properties. Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. In underwriting commercial real estate loans, we seek to minimize these risks in a variety of ways, including giving careful consideration to the property's age, condition, operating history, future operating projections, current and projected market rental rates, vacancy rates, location and physical condition. The underwriting analysis also may include credit verification, reviews of appraisals, environmental hazards or reports, the borrower's liquidity and leverage, management experience of the owners or principals, economic condition and industry trends.

Construction, Land and Land Development Loans. We make loans to finance the construction of residential and non-residential properties. Construction loans generally are collateralized by first liens on real estate and have floating interest rates. We conduct periodic inspections, either directly or through an agent, prior to approval of periodic draws on these loans. Underwriting guidelines similar to those described above also are used in our construction lending activities. Our construction loans generally have terms that typically range from three to five years depending on factors such as the type and size of the development and the financial strength of the borrower/guarantor and generally utilize a one to three-year interest-only period during development/construction followed by a two- to five-year period requiring amortization or in some cases principal curtailments. We offer an owner-occupied commercial real estate loan product, which includes construction financing, with terms up to 25 years. As of December 31, 2017, we had approximately \$28.8 million of construction, land and development loans due after five years, with a weighted average maturity of 21.51 years.

Construction loans generally involve additional risks attributable to the fact that loan funds are advanced upon the security of a project under construction, and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan-to-value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, there is no assurance that we will be able to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and it may be necessary to hold the property for an indeterminate period of time subject to the regulatory limitations imposed by the National Bank Act and the Office of the Comptroller of the Currency (the “OCC”).

Residential Mortgage Loans. We refer residential real estate loans primarily collateralized by owner occupied properties located in our market areas to a third-party mortgage lender. Within this referral relationship, there are a variety of mortgage loan products which include conventional, FHA, VA, fixed and variable rate mortgages, with amortization periods up to 30 years. Typically, the mortgage vendor sells the closed mortgage loan in the secondary market. The Bank is also approved as an investor for ARM mortgage products being offered and may purchase mortgage loans to be held in the loan portfolio from these third-party mortgage lenders. Home equity loans are also being referred to the same mortgage relationship.

Consumer and Other Loans. We make a variety of loans to individuals for personal and household purposes, including secured and unsecured term loans and home improvement loans. Consumer loans are underwritten based on the individual borrower’s income, current debt level, past credit history and the value of any available collateral. The terms of consumer loans vary considerably based upon the loan type, nature of collateral and size of the loan. Consumer loans entail greater risk than do residential real estate loans because they may be unsecured or, if secured, the value of the collateral, such as an automobile or boat, may be more difficult to assess and more likely to decrease in value than real estate. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan balance. The remaining deficiency often will not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans.

As of December 31, 2017, the aggregate amount of loans to our 10 and 25 largest borrowers (including related entities) amounted to approximately \$255.0 million, or 8.0% of total loans, and \$522.2 million, or 16.4% of total loans, respectively. See “Risk Factors—Risk Related to Our Business—We have a significant amount of loans outstanding to a limited number of borrowers, which may increase our risk of loss.”

Managed Asset Reduction Strategy (“MARS”). During April 2016 we initiated the Managed Asset Reduction Strategy (“MARS”) to divest our portfolio of energy loans and certain other classified assets on an accelerated basis. We made the decision to implement MARS in order to remove uncertainty in the Company’s financial results due to the volatility in the energy cycle. An expanded team of workout professionals who reported to our Corporate Chief Credit Officer were assigned to focus solely on the resolution of the MARS portfolio. The MARS team took a multifaceted approach to reducing the portfolio through the use of proven management and disposition techniques, which included one or more of the following: (i) the restructure and substitution of collateral, (ii) a full refinancing by a third-party lender, (iii) a discounted pay-off by the borrower, (iv) a foreclosure and liquidation of the applicable collateral, (v) “one-off” note sales, and (vi) a portfolio sale. MARS was completed during the first quarter of 2017 after substantial reductions in energy loans and an overall reduction in nonperforming assets.

Deposit Products

Our services include the usual deposit functions of commercial banks, safe deposit facilities, commercial and personal banking services in addition to our loan offerings. Our principal source of funds is deposits. We offer a variety of deposit products and services consistent with the goal of attracting a wide variety of customers, including small to medium-sized businesses. The types of deposit accounts consist of demand, savings, money market and time accounts. We attract deposit accounts by offering competitive rates, telephone banking, online banking and other convenient services to our customers.

We actively pursue commercial deposit accounts that will benefit from the utilization of our treasury management services. This line of business provided \$561.9 million in commercial demand deposit accounts as of December 31, 2017.

We have developed a specialty in providing depository services to Texas-based municipal utility districts and other public entities. These deposits are generally insured time and money market deposits with some customers utilizing the Federal Home Loan Bank of Dallas (the “FHLB”) letters of credit to secure the uninsured portion of deposits greater than \$250,000. This line of business provided \$210.7 million in time and \$153.9 million in money market deposit funding with \$348.9 million in pledged letters of credit as of December 31, 2017.

We offer a money market account for financial institutions which generally pays a rate slightly above alternative rates available from the Board of Governors of the Federal Reserve System (the “Federal Reserve”) Banks or correspondent banks through traditional federal funds. This product is marketed by specialty bankers specifically focused on this line of business, and provided \$154.2 million in money market deposit funding as of December 31, 2017.

In addition, we provide enhanced depository services, including customized reporting, for trustees appointed by the U.S. Bankruptcy Court. These deposits are generally demand deposits with a portion of our securities portfolio pledged to the uninsured portion of single debtor accounts exceeding the Federal Deposit Insurance Corporation (the “FDIC”) insurance limits. This line of business provided \$72.0 million in demand deposit funding in 1,809 separate accounts with \$55.5 million in securities pledged as of December 31, 2017.

Other Products and Services

We offer banking products and services that are attractively priced and easily understood by the customer, with a focus on convenience and accessibility. We offer a full suite of online banking solutions including access to account balances, online transfers, online bill payment and electronic delivery of customer statements, as well as extended drive-through hours, ATMs, Bank at Work and banking by telephone, mail and personal appointment. We also offer debit cards, night depository, direct deposit, cashier’s checks and letters of credit, as well as treasury management services, wire transfer services and automated clearing house (“ACH”) services.

We offer Bank at Work programs to the employees of PepsiCo and Yum! Brands, through two full service branches, one in the Frito-Lay headquarters in Plano, Texas and one in the Yum! Brands headquarters in Louisville, Kentucky. In addition, five other corporate locations are supported through our limited service concierge branches and on-site ATMs. In addition to on-site services, we may offer, from time to time, discounted loan fees, employee relocation mortgage services, CD rate specials, Lunch and Learn financial education opportunities and other services to support the nationwide employee bases of companies participating in the Bank at Work programs.

We are currently focused on expanding noninterest income through increased income from our treasury management services and our derivative program. We offer a full array of commercial treasury management services designed to be competitive with banks of all sizes. Treasury Management Services include balance reporting (including current day and previous day activity), transfers between accounts, wire transfer initiation, ACH origination and stop payments. Cash management deposit products consist of lockbox, remote deposit capture, positive pay, reverse positive pay, account reconciliation services, zero balance accounts and sweep accounts including loan sweep.

Our interest rate swap program has been developed as an accommodation to our customers who desire a fixed rate on loans over a certain size threshold with a defined repayment schedule. In such cases, we enter into a derivative contract with our borrower using a standard International Swaps and Derivative Association agreement and confirmation, while simultaneously entering into a “mirror” derivative contract with a correspondent bank counterparty. The two derivatives are carried at market value with changes in value offsetting.

Our Market Areas

We believe that a key factor contributing to our ability to achieve our business objectives and to create shareholder value is the attractiveness of the Texas market, including the favorable demographic and economic characteristics of our target markets within Texas.

Our primary markets are the Houston and Dallas MSAs, which we consider to be among the most attractive markets in the United States. The table below summarizes certain key demographic information relating to our target markets and our presence within these markets:

	Number of Branches	Number of Portfolio Bankers	Total Loans	Total Deposits	2018 Total Population ⁽¹⁾	2018 - 2023 Projected Population Growth ⁽¹⁾	2018 - 2023 Projected Household Income Growth ⁽¹⁾
(Dollars in millions)							
Houston MSA	11	34	\$ 2,200.7	\$ 2,138.1	6,980,780	8.23%	7.67%
Dallas MSA	8	24	889.5	1,135.8	7,418,556	7.74	9.79
Other markets	3	5	100.3	123.3			
Texas					28,531,603	7.10	9.51
United States					326,533,070	3.50	8.86

⁽¹⁾According to S&P Global Market Intelligence.

Houston. Houston ranks fourth in the nation as a home to Fortune 500 company headquarters, including Phillips 66, Sysco, ConocoPhillips, Enterprise Products Partners, and Halliburton, along with the Texas Medical Center, which is the largest health complex in the world, and benefits from a vibrant and diverse economy. The Houston MSA is the fifth largest in the country and the city of Houston is the fourth most populous city in the United States, according to 2016 U.S. Census Bureau estimates. The U.S. Bureau of Economic Analysis estimates the Houston MSA Gross Domestic Product (GDP) at \$503.3 billion in 2015, making it the fourth largest U.S. metro economy.

Dallas. Dallas ranks third in the nation as a home to Fortune 500 company headquarters, including Exxon Mobil Corp., AT&T, Energy Transfer Equity, American Airlines Group, Tenet Healthcare and Southwest Airlines. The Toyota Motor Company opened its North America headquarters in Plano in July 2017, which will employ approximately 4,000 workers. The Dallas MSA is the seventh largest in the country and the city of Dallas is the ninth most populous city in the United States, according to 2016 U.S. Census Bureau estimates. The Dallas MSA was the largest annual percentage increase in employment among the metropolitan divisions during the 12 months ended December 31, 2017, according to the U.S. Bureau of Labor Statistics.

Our Portfolio Banking Model

We employ a portfolio banking model that relies upon experienced bankers to originate quality loans, attract and retain low cost deposits and generate fee income. Within this model, customers are assigned a dedicated portfolio banker who acts as the primary point of contact and relationship manager, eliminating the need to utilize a less personal call center to interact with our customers.

We have implemented a two-tiered incentive structure designed to compensate our portfolio bankers at a level that is commensurate with their contribution to the successful execution of our business strategy. Pursuant to our Portfolio Banker Compensation Program, each eligible portfolio banker's base salary is determined by reference to a salary matrix and net interest margin target. The salary matrix is scaled based on the size of the banker's "portfolio," which includes the amount of loans and weighted deposits attributable to such banker. Deposits are weighted by category according to cost with noninterest-bearing deposits receiving maximum credit. Base salaries are subject to adjustment based on performance appraisals as well as our portfolio bankers' management of credit risk within their portfolio.

Under our Portfolio Banker Incentive Program, portfolio bankers receive an incentive award based on the achievement of loan and deposit growth targets and asset quality and performance goals. Generally, the incentive award represents an uncapped share in the growth in loans and weighted deposits generated by eligible portfolio bankers during the applicable period, according to an established formula. Eligible portfolio bankers also receive a percentage of the attributable net loan origination and certain other fees received by us. Incentive awards are subject to adjustment based on performance appraisals as well as our portfolio bankers' management of credit risk as growth objectives are pursued.

Investments

The primary objectives of our investment policy are to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements.

As of December 31, 2017, the book value of our investment portfolio totaled \$728.8 million, with an average yield of 2.65% and an estimated duration of approximately 4.1 years.

Our Bank board of directors and the Asset Liability Committee ("ALCO") are responsible for the regular review of our investment activities and the review and approval of our investment policy. Day to day transactions affecting our investment securities portfolio are managed by our senior executives in accordance with the guidelines set forth in our investment policy.

Our investment policy outlines investment type limitations, security mix parameters, authorization guidelines and risk management guidelines. The policy authorizes us to invest in a variety of investment securities, subject to various limitations. Our current investment portfolio consists of obligations of U.S. government agencies or sponsored entities, including mortgage-backed securities and collateralized mortgage obligations, and smaller balances in CRA Qualified investment funds, municipal obligations and corporate debt securities.

Information Technology Systems

We have made and continue to make significant investments in our information technology systems for our banking and lending operations and treasury management activities. We believe this is a necessary investment in order to enhance our capabilities to offer new products and overall customer experience, and to provide scale for future growth and acquisitions. We outsource our core data and item processing services to a nationally recognized bank software vendor, and use the vendor's primary system which has the capability of serving our primary data processing needs well into the future.

The majority of our other systems including our electronic funds transfer, transaction processing and our online banking services are hosted by third-party service providers. The scalability of this infrastructure will support our growth strategy. In addition, the tested capability of these vendors to automatically switch over to standby systems should allow us to recover our systems and provide business continuity quickly in case of a disaster.

Competition

The banking business is highly competitive, and our profitability will depend principally upon our ability to compete with other banks and non-bank financial institutions located in our market areas in Texas for lending opportunities, deposit funds, bankers and acquisition candidates. Our banking competitors in our target markets include national, regional and community banks.

We are subject to vigorous competition in all aspects of our business from banks, savings banks, savings and loan associations, finance companies, credit unions and other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, asset-based non-bank lenders, insurance companies and certain other non-financial entities, including retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing than we can.

Many of the banks and other financial institutions with which we compete have greater financial strength, marketing capability and name recognition than us and operate on a statewide, regional or nationwide basis. These institutions are also likely to have legal loan limits substantially in excess of those that we maintain. Such institutions can perform certain functions for their customers, including trust, securities brokerage and international banking services, which we presently do not offer directly. Although we may offer these services through correspondent banks, the inability to provide such services directly may be a competitive disadvantage and this may affect our ability to generate business, attract experienced bankers and capitalize on acquisition opportunities.

We also face competition for acquisition opportunities in connection with the implementation of our acquisition strategy. Because there are a limited number of acquisition opportunities in our target markets, we face competition from other banks and financial institutions, many of which possess greater financial, human, technical and other resources than we do. Our ability to compete in acquiring target institutions will depend on our available financial resources to fund the acquisitions, including the amount of cash and cash equivalents we have and the liquidity and market price of our common stock. In addition, increased competition may also drive up the acquisition consideration that we will be required to pay in order to successfully capitalize on attractive acquisition opportunities.

In addition, recent developments in technology and mass marketing have permitted larger companies to market loans and other products and services more aggressively to our small business customers. Such advantages may enable our competitors to realize greater economies of scale and operating efficiencies than we can. Further, some of the non-bank competitors are not subject to the same extensive regulations that govern the Company and the Bank. Various legislative acts in recent years have led to increased competition among financial institutions and competition from both financial and non-financial institutions is expected to continue. See “Risk Factors—We face strong competition from financial services companies and other companies that offer banking services, which could harm our business.”

We have been able to compete effectively with other financial institutions by providing a high level of personalized banking service to professionals and owner-operated businesses and by emphasizing quick and flexible responses to customer demands; establishing long-term customer relationships and building customer loyalty; and by offering products and services designed to address the specific needs of our customers. We rely heavily on the continued business generation of our portfolio bankers and the efforts of our officers and directors for the solicitation and referral of potential customers and we expect this to continue for the foreseeable future.

Our Employees

As of December 31, 2017, we had 368 full time employees and no part-time employees. None of our employees are represented by a union. Management believes that our relationship with employees is good.

Available Information

The Company files reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the SEC’s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements and other information about issuers, like the Company, who file electronically with the SEC. The address of that site is <http://www.sec.gov>.

Documents filed by the Company with the SEC are available from the Company without charge (except for exhibits to the documents). You may obtain documents filed by the Company with the SEC by requesting them in writing or by telephone from the Company at the following address:

Green Bancorp, Inc.
4000 Greenbriar Street
Houston, Texas 77098
Attention: Terry S. Earley
Chief Financial Officer
Telephone: (713) 275-8220

Documents filed by the Company with the SEC are also available on the Company’s website, <http://investors.greenbank.com>. Information furnished by the Company and information on, or accessible through, the SEC’s or the Company’s website is not part of this Annual Report on Form 10-K.

Regulation and Supervision

The U.S. banking industry is highly regulated under federal and state law. These laws and regulations affect the operations of the Company and its subsidiaries.

Statutes, regulations and policies limit the activities in which we may engage and the manner in which we conduct our permitted activities. Further, the regulatory system imposes reporting and information collection obligations. We incur significant costs relating to compliance with these laws and regulations. Banking statutes, regulations and policies are continually under review by federal and state legislatures and regulatory agencies, and a change in them, including changes in how they are interpreted or implemented, could have a material adverse effect on our business.

The material statutory and regulatory requirements that are applicable to us are summarized below. The description below is not intended to summarize all laws and regulations applicable to us, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described herein.

Bank and Bank Holding Company Regulation

The Bank is currently a national bank. As a national bank organized under the National Bank Act, the Bank is subject to ongoing and comprehensive supervision, regulation, examination and enforcement by the OCC.

Any entity that directly or indirectly controls a bank must be approved by the Federal Reserve under the BHC Act to become a bank holding company (a “BHC”). BHCs are subject to regulation, inspection, examination, supervision and enforcement by the Federal Reserve under the BHC Act. The Federal Reserve’s jurisdiction also extends to any company that is directly or indirectly controlled by a BHC.

The Company, which controls the Bank, became a BHC in 2006. As a BHC, the Company is subject to ongoing and comprehensive supervision, regulation, examination and enforcement by the Federal Reserve. The Company is also subject to supervision, regulation, examination and enforcement by the Texas Department of Banking.

FDIC Deposit Insurance

The FDIC is an independent federal agency that insures the deposits of federally insured depository institutions up to applicable limits. The FDIC also has certain regulatory, examination and enforcement powers with respect to FDIC-insured institutions. The deposits of the Bank are insured by the FDIC up to applicable limits. As a general matter, the maximum deposit insurance amount is \$250,000 per depositor.

Broad Supervision, Examination and Enforcement Powers

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banking organizations. To that end, the banking regulators have broad regulatory, examination and enforcement authority. The regulators regularly examine the operations of banking organizations. In addition, banking organizations are subject to periodic reporting requirements.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization’s operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

- enjoin “unsafe or unsound” practices;
- require affirmative actions to correct any violation or practice;
- issue administrative orders that can be judicially enforced;
- direct increases in capital;
- direct the sale of subsidiaries or other assets;
- limit dividends and distributions;

- restrict growth;
- assess civil monetary penalties;
- remove officers and directors; and
- terminate deposit insurance.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject the Company, and subsidiaries of the Company or their officers, directors and institution-affiliated parties to the remedies described above and other sanctions.

The Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act is having a broad impact on the financial services industry, and imposes significant regulatory and compliance requirements, including the designation of certain financial companies as systemically important financial companies, the changing roles of credit rating agencies, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the OCC and the FDIC.

The following items provide a brief description of certain provisions of the Dodd-Frank Act that are most relevant to the Company and the Bank.

- *Source of strength.* The Dodd-Frank Act requires all companies, including BHCs, that directly or indirectly control an insured depository institution to serve as a source of strength for the institution. Under this requirement, the Company in the future could be required to provide financial assistance to the Bank should it experience financial distress.
- *Limitation on federal preemption.* The Dodd-Frank Act significantly reduces the ability of national banks to rely on federal preemption of state consumer financial laws. Although the OCC, as the primary regulator of national banks, will have the ability to make preemption determinations where certain conditions are met, the broad rollback of federal preemption has the potential to create a patchwork of federal and state compliance obligations. This could, in turn, result in significant new regulatory requirements applicable to the Bank, with potentially significant changes in our operations and increases in our compliance costs. It could also result in uncertainty concerning compliance, with attendant regulatory and litigation risks.
- *Mortgage loan origination and risk retention.* The Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banking organizations, in an effort to require steps to verify a borrower's ability to repay. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells or mortgage and other asset-backed securities that the securitizer issues. On January 10, 2013, federal regulators released the "qualified mortgage" rule. The qualified mortgage rule is intended to clarify the application of the Dodd-Frank Act requirement that mortgage lenders have a reasonable belief that borrowers can afford their mortgages, or the lender may not be able to foreclose on the mortgage.

On August 28, 2013, the OCC, the Federal Reserve, the FDIC, the SEC, the Federal Housing Finance Agency and the Department of Housing and Urban Development issued a proposed rule in connection with the risk retention requirement mandated by Section 941 of the Dodd-Frank Act. The final rules implementing the risk retention requirements of Section 941 of the Dodd-Frank Act became effective on February 23, 2015. The risk retention requirement generally requires a securitizer to retain no less than 5% of the credit risk in assets it sells into a securitization and prohibits a securitizer from directly or indirectly hedging or otherwise transferring the credit risk that the securitizer is required to retain, subject to limited exemptions. One significant exemption is for securities entirely collateralized by “qualified residential mortgages” (“QRMs”), which are loans deemed to have a lower risk of default. The rule defines QRMs to have the same meaning as the term “qualified mortgage,” as defined by the Consumer Financial Protection Bureau (“CFPB”). In addition, the rule provides for reduced risk retention requirements for qualifying commercial loan, commercial real estate loan and auto loan securitizations.

- *Imposition of restrictions on certain activities.* The Dodd-Frank Act imposes a new regulatory structure on the over-the-counter derivatives market, including requirements for clearing, exchange trading, capital, margin, reporting and record keeping. In addition, certain swaps and other derivatives activities are required to be “pushed out” of insured depository institutions and conducted in separately capitalized non-bank affiliates. The Dodd-Frank Act also requires certain persons to register as a “major swap participant,” “swap dealer,” “major security-based swap participant” or a “security-based swap dealer.” The U.S. Commodity Futures Trading Commission has substantially completed adopting regulations to implement much of the new derivatives regulatory structure of the Dodd-Frank Act. The SEC and other U.S. regulators are still in the process of adopting regulations to implement the new derivatives regulatory structure of the Dodd-Frank Act. With regard to security-based swaps, it is anticipated that this further rulemaking will further clarify, among other things, reporting and recordkeeping obligations, margin and capital requirements, the scope of registration requirements and the types of swaps that are required to be centrally cleared and exchange-traded. Rules will also be issued to enhance the oversight of clearing and trading entities. As these remaining rules are implemented, new restrictions or limitations may affect our ability to manage certain risks in our business.
- *Expanded FDIC resolution authority.* While insured depository institutions have long been subject to the FDIC’s resolution process, the Dodd-Frank Act creates a new mechanism for the FDIC to conduct the orderly liquidation of certain “covered financial companies,” including bank and thrift holding companies and systemically significant non-bank financial companies. Upon certain findings being made, the FDIC may be appointed receiver for a covered financial company, and would conduct an orderly liquidation of the entity. The FDIC liquidation process is modeled on the existing FDIA and generally gives the FDIC more discretion than in the traditional bankruptcy context. The FDIC has issued final rules implementing the orderly liquidation authority.
- *Consumer Financial Protection Bureau.* The Dodd-Frank Act created a new, independent CFPB. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers. For banking organizations with assets of \$10 billion or more, the CFPB has exclusive rule making and examination, and primary enforcement authority under federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB. Compliance with any such new regulations would increase our cost of operations.
- *Deposit insurance.* The Dodd-Frank Act made permanent the general \$250,000 deposit insurance limit for insured deposits. Amendments to the FDIA also revised the assessment base against which an insured depository institution’s deposit insurance premiums paid to the DIF of the FDIC will be calculated. Under the amendments, the assessment base is no longer the institution’s deposit base, but rather its average consolidated total assets less its average tangible equity. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Several of these provisions may impact the FDIC deposit insurance premiums paid by the Bank.

- *Transactions with affiliates and insiders.* The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and clarification regarding the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.
- *Enhanced lending limits.* The Dodd-Frank Act strengthens the existing limits on a depository institution’s credit exposure to one borrower. On June 25, 2013, the OCC published a final rule amending its existing lending limits to incorporate changes made by the Dodd-Frank Act. The Dodd-Frank Act and the final rule amend the OCC’s lending limit regulation to include credit exposures arising from derivative transactions and repurchase agreements, reverse repurchase agreements, securities lending transactions and securities borrowing transactions. The final rule exempts certain types of transactions, and outlines the methods that banks can choose from to measure credit exposures of derivative transactions and securities financing transactions. In most cases, a bank may choose which method it will use; the OCC, however, may specify that a bank use a particular method for safety and soundness reasons.
- *Corporate governance.* The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including the Company. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers and (4) provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company’s proxy materials. For so long as we are an emerging growth company, we may take advantage of the provisions of the JOBS Act allowing us to not seek a non-binding advisory vote on executive compensation or golden parachute arrangements.

The requirements of the Dodd-Frank Act are in the process of being implemented over time and most will be subject to regulations implemented over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require certain changes to our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

In February 2017, the U.S. President issued an executive order that (i) stated his administration's core principles and policies for regulating the U.S. financial system and (ii) directed specified regulatory agencies to review and identify laws and regulations that inhibit federal regulation of the U.S. financial system in a manner consistent with the principles stated in the executive order. Changes in laws or regulations as a result of this review could result in the amendment of or delayed implementation of certain requirements of the Dodd-Frank Act and the regulations promulgated thereunder.

Failure to comply with the new requirements may negatively impact our results of operations and financial condition.

The Volcker Rule

The Dodd-Frank Act amends the BHC Act to require the federal financial regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain hedge funds and private equity funds. Since neither the Company nor the Bank engages in the types of trading or investing covered by the Volcker Rule, the Volcker Rule does not currently have any effect on the operations of the Company or the Bank.

Notice and Approval Requirements Related to Control

Banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution. These laws include the BHC Act, the Change in Bank Control Act and the Savings and Loan Holding Company Act. Among other things, these laws require regulatory filings by a shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution. The determination whether an investor “controls” a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, a party is deemed to control a depository institution or other company if the party owns or controls 25% or more of any class of voting stock. Subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting stock. Ownership by affiliated parties, or parties acting in concert, is typically aggregated for these purposes. If a party’s ownership of the Company were to exceed certain thresholds, the investor could be deemed to “control” the Company for regulatory purposes. This could subject the investor to regulatory filings or other regulatory consequences.

In addition, except under limited circumstances, BHCs are prohibited from acquiring, without prior approval:

- control of any other bank or BHC or all or substantially all the assets thereof; or
- more than 5% of the voting shares of a bank or BHC which is not already a subsidiary.

Permissible Activities and Investments

Banking laws generally restrict the ability of the Company from engaging in, or acquiring 5% or more of the voting shares of a company engaged in, activities other than those determined by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the “GLB Act”) expanded the scope of permissible activities for a BHC that qualifies as a financial holding company. Under the regulations implementing the GLB Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to a financial activity. Those activities include, among other activities, certain insurance and securities activities. Qualifications for becoming a financial holding company include, among other things, meeting certain specified capital standards and achieving certain management ratings in examinations. Under the Dodd-Frank Act, BHCs and their subsidiaries must be well-capitalized and well-managed in order for the BHC and its nonbank affiliates to engage in the expanded financial activities permissible only for a financial holding company.

In addition, as a general matter, the establishment or acquisition by the Company of a depository institution or, in certain cases, a non-bank entity, requires prior regulatory approval.

Regulatory Capital Requirements and Capital Adequacy

The federal bank regulators view capital levels as important indicators of an institution’s financial soundness. As a general matter, national banks and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. The final supervisory determination on an institution’s capital adequacy is based on the regulator’s assessment of numerous factors.

As a BHC and a national bank, the Company and the Bank are subject to regulatory capital requirements.

The Federal Reserve has established risk-based and leverage capital guidelines for BHCs, including the Company. The OCC has established substantially similar risk-based and leverage capital guidelines applicable to national banks, including the Bank. The risk-based capital guidelines in effect as of December 31, 2014, commonly referred to as “Basel I,” were based upon the 1988 capital accord of the International Basel Committee on Banking Supervision (“Basel Committee”), a committee of central banks and bank supervisors, as implemented by the U.S. federal banking agencies. The federal banking agencies subsequently adopted separate risk-based capital guidelines for so-called “core banks” based upon the Revised Framework for the International Convergence of Capital Measurement and Capital Standards (“Basel II”) issued by the Basel Committee in November 2005. The revised comprehensive capital framework referred to as “Basel III” became effective January 1, 2015. Prior to January 1, 2015 the Basel I Capital Rules applied to the Company and the Bank.

Basel I. Under Basel I, the minimum ratio of total capital to risk-weighted assets (which are primarily the credit risk equivalents of balance sheet assets and certain off-balance sheet items such as standby letters of credit) was 8%. At least half of total capital must have been composed of tier 1 capital, which includes common shareholders' equity (including retained earnings), qualifying non-cumulative perpetual preferred stock (and, for BHCs only, a limited amount of qualifying cumulative perpetual preferred stock and a limited amount of trust preferred securities), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill, other disallowed intangibles and disallowed deferred tax assets, among other items. The Federal Reserve also has adopted a minimum leverage ratio requiring tier 1 capital of at least 4.0% of average quarterly total consolidated assets (as defined for regulatory purposes), net of goodwill and certain other intangible assets for all but the most highly rated BHCs.

The federal banking agencies have also established risk-based and leverage capital guidelines that FDIC-insured depository institutions are required to meet. These regulations are generally similar to those established by the Federal Reserve for bank holding companies.

Basel II. Under the final U.S. Basel II rules issued by the federal banking agencies, there are a small number of "core" banking organizations that are required to use the advanced approaches under Basel II for calculating risk-based capital related to credit risk and operational risk, instead of the methodology reflected in the regulations effective prior to adoption of Basel II. The rules also require core banking organizations to have rigorous processes for assessing overall capital adequacy in relation to their total risk profiles, and to publicly disclose certain information about their risk profiles and capital adequacy. The Company and the Bank are not among the core banking organizations required to use Basel II advanced approaches.

Basel III. On December 16, 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, known as Basel III. The Basel III calibration and phase-in arrangements were previously endorsed by the Seoul G20 Leaders Summit in November 2010, and are subject to individual adoption by member nations, including the United States. Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to satisfy three risk-based capital ratios:

- i. A common equity tier 1 ratio of at least 7.0%, inclusive of 4.5% minimum common equity tier 1 ratio, net of regulatory deductions, and the new 2.5% "capital conservation buffer" of common equity to risk-weighted assets;
- ii. A tier 1 capital ratio of at least 8.5%, inclusive of the 2.5% capital conservation buffer; and
- iii. A total capital ratio of at least 10.5%, inclusive of the 2.5% capital conservation buffer.

US Implementation of Basel III. In July 2013, the federal banking agencies published final rules (the "Basel III Capital Rules") that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The rules implemented the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, under the previous U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from the Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. The Basel III Capital Rules also implemented the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015, subject to a phase-in period for certain provisions. While some provisions are tailored to larger institutions, the Basel III Capital Rules generally apply to all banking organizations, including the Company and the Bank.

Among other things, the Basel III Capital Rules: (i) include a new capital measure entitled "Common Equity Tier 1" ("CET1"); (ii) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under the previous capital standards, the effects of accumulated other comprehensive income items included in capital were excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approach banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and the Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's available-for-sale securities portfolio. The Basel III Capital Rules also preclude certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies, subject to phase-out.

The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a four-year period (beginning at 40% on January 1, 2015 and increasing by an additional 20% per year thereafter). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and is being phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules also provide a permanent exemption from the proposed phase out of existing trust preferred securities and cumulative perpetual preferred stock from regulatory capital for banking organizations with less than \$15 billion in total assets, while also implementing stricter eligibility requirements for regulatory capital instruments that should serve to disallow the inclusion of all non-exempt issuances of trust preferred securities and cumulative perpetual preferred stock from tier 1 capital. The Basel III Capital Rules also provide additional constraints on the inclusion of minority interests, mortgage servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions in tier 1 capital, as well as providing stricter risk weighting rules to these assets.

The Basel III Capital Rules provide for the following minimum capital to risk-weighted assets ratios:

- i. 4.5% based upon CET1;
- ii. 6.0% based upon tier 1 capital; and
- iii. 8.0% based upon total regulatory capital.

A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules. The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers, with distributions and discretionary bonus payments being completely prohibited if no capital conservation buffer exists, or in the event of the following: (i) the banking organization's capital conservation buffer was below 2.5% at the beginning of a quarter and (ii) its cumulative net income for the most recent quarterly period plus the preceding four calendar quarters is less than its cumulative capital distributions (as well as associated tax effects not already reflected in net income) during the same measurement period.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company to maintain (1) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0% upon full implementation), (2) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (3) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (4) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The Basel III Capital Rules also provide stricter rules related to the risk weighting of past due and certain commercial real estate loans, as well as on some equity investment exposures, and replaces the existing credit rating approach for determining the risk weighting of securitization exposures with an alternative approach.

Finally, the Basel III Capital Rules amend the thresholds under the “prompt corrective action” framework enforced with respect to the Bank by the OCC to reflect both (i) the generally heightened requirements for regulatory capital ratios as well as (ii) the introduction of the CET1 capital measure, as discussed below under “Prompt Corrective Action.”

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In addition, the Basel III Capital Rules provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increase the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The federal banking agencies’ risk-based and leverage capital ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The enactment of the Basel III Capital Rules increased the required capital levels that the Company and the Bank must maintain. The Basel III Capital Rules became effective as applied to the Company and the Bank on January 1, 2015, with a phase in period from January 1, 2015 through January 1, 2019.

Liquidity Coverage Ratio. The Basel III Capital Rules adopted in July 2013 did not address the proposed liquidity coverage ratio (“LCR”) called for by the Basel Committee’s Basel III framework. On October 24, 2013, the Federal Reserve issued a proposed rule implementing a LCR requirement in the United States for larger banking organizations. Neither the Company nor the Bank would be subject to the LCR requirement as proposed.

Prompt Corrective Action

Under the FDIA, the federal bank regulatory agencies must take “prompt corrective action” against undercapitalized U.S. depository institutions. U.S. depository institutions are assigned one of five capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized,” and are subjected to different regulation corresponding to the capital category within which the institution falls.

- A bank is “well capitalized” if it has a total risk-based capital ratio of 10.0% or higher; a CET1 capital ratio of 6.5% or higher (not applicable prior to January 1, 2015); a Tier 1 risk-based capital ratio of 8.0% or higher (6.0% prior to January 1, 2015); a leverage ratio of 5.0% or higher; and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure.
- A bank is “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or higher; a CET1 capital ratio of 4.5% or higher (not applicable prior to January 1, 2015); a Tier 1 risk-based capital ratio of 6.0% or higher (4.0% prior to January 1, 2015); a leverage ratio of 4.0% or higher; and does not meet the criteria for a “well capitalized” bank.

- A bank is “under capitalized” if it has a total risk-based capital ratio of less than 8.0%; a CET1 capital ratio less than 4.5% (not applicable prior to January 1, 2015); a Tier 1 risk-based capital ratio of less than 6.0% (4.0% prior to January 1, 2015) or a leverage ratio of less than 4.0%.
- A bank is “significantly under capitalized” if it has a total risk-based capital ratio of less than 6.0%; a CET1 capital ratio less than 3.0% (not applicable prior to January 1, 2015); a Tier 1 risk-based capital ratio of less than 4.0% (3.0% prior to January 1, 2015) or a leverage ratio of less than 3.0%.
- A bank is “critically under capitalized” if it has tangible equity equal to or less than 2.0% of average quarterly tangible assets.

At December 31, 2017, the Bank was classified as “well-capitalized” for purposes of the FDIC’s prompt corrective action regulations in effect as of such date.

Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, including: termination of deposit insurance by the FDIC, restrictions on certain business activities and appointment of the FDIC as conservator or receiver. Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. A banking institution that is undercapitalized is required to submit a capital restoration plan. The capital restoration plan 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 up to a certain specified amount.

As noted above, the Basel III Capital Rules amend the thresholds under the “prompt corrective action” framework enforced with respect to the Bank by the OCC to reflect both (i) the generally heightened requirements for regulatory capital ratios as well as (ii) the introduction of the CET1 capital measure.

Regulatory Limits on Dividends and Distributions

Federal law currently imposes limitations upon certain capital distributions by national banks, such as certain cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger and other distributions charged against capital. The Federal Reserve and OCC regulate all capital distributions by the Bank directly or indirectly to the Company, including dividend payments.

For example, under applicable regulations, the Bank must file an application for OCC approval of a capital distribution if the total capital distributions for the applicable calendar year exceed the sum of the Bank’s net income for that year to date plus the Bank’s retained net income for the preceding two years. Additionally, the Bank may not pay dividends to the Company if, after paying those dividends, it would fail to meet the required minimum levels under risk-based capital guidelines and the minimum leverage and tangible capital ratio requirements, or in the event the OCC notified the Bank that it was in need of more than normal supervision. Under the FDIA, an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become “undercapitalized.” Payment of dividends by the Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice.

In addition, the Bank may become subject to supervisory limits on its ability to declare or pay a dividend or reduce its capital unless certain conditions are satisfied.

Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banking organizations are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank.

Limits on Transactions with Affiliates and Insiders

Insured depository institutions are subject to restrictions on their ability to conduct transactions with affiliates and other related parties. Section 23A of the Federal Reserve Act imposes quantitative limits, qualitative requirements and collateral requirements on certain transactions by an insured depository institution with, or for the benefit of, its affiliates. Transactions covered by Section 23A include loans, extensions of credit, investment in securities issued by an affiliate and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act requires that most types of transactions by an insured depository institution with, or for the benefit of, an affiliate be on terms at least as favorable to the insured depository institution as if the transaction were conducted with an unaffiliated third-party.

As noted above, the Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and a clarification regarding the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The ability of the Federal Reserve to grant exemptions from these restrictions is also narrowed by the Dodd-Frank Act, including by requiring coordination with other bank regulators.

The Federal Reserve’s Regulation O and OCC regulations impose restrictions and procedural requirements in connection with the extension of credit by an insured depository institution to directors, executive officers, principal shareholders and their related interests.

Brokered Deposits

The FDIA restricts the use of brokered deposits by certain depository institutions. Under the applicable regulations, (i) a “well capitalized insured depository institution” may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an “adequately capitalized insured depository institution” may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC and (iii) an “undercapitalized insured depository institution” may not accept, renew or roll over any brokered deposit. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution.

Concentrated Commercial Real Estate Lending Guidance

The federal banking agencies, including the OCC, have 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. Owner occupied commercial real estate loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

Examination Fees

The OCC currently charges fees to recover the costs of examining national banks, processing applications and other filings, and covering direct and indirect expenses in regulating national banks. The Dodd-Frank Act provides various agencies with the authority to assess additional supervision fees.

Deposit Insurance Assessments

FDIC-insured depository institutions are required to pay deposit insurance assessments to the FDIC. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Deposit insurance assessments fund the DIF. As noted above, the Dodd-Frank Act changed the way an insured depository institution’s deposit insurance premiums are calculated. These changes may impact assessment rates, which could impact the profitability of our operations.

Depositor Preference

The FDIA provides that, in the event of the “liquidation or other resolution” of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If we invest in or acquire an insured depository institution that fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including us, with respect to any extensions of credit they have made to such insured depository institution.

Anti-Money Laundering and OFAC

Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with non-U.S. financial institutions and non-U.S. customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution’s compliance with such obligations in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The regulatory authorities have imposed “cease and desist” orders and civil money penalty sanctions against institutions found to be violating these obligations.

The U.S. Department of the Treasury’s (“U.S. Treasury Department”) Office of Foreign Assets Control (“OFAC”) is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If the Company or the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Company or the Bank must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

Consumer Laws and Regulations

Banking organizations are subject to numerous laws and regulations intended to protect consumers. These laws include, among others:

- Truth in Lending Act;
- Truth in Savings Act;
- Electronic Funds Transfer Act;
- Expedited Funds Availability Act;
- Equal Credit Opportunity Act;
- Fair and Accurate Credit Transactions Act;
- Fair Housing Act;
- Fair Credit Reporting Act;
- Fair Debt Collection Act;
- GLB Act;
- Home Mortgage Disclosure Act;
- Right to Financial Privacy Act;
- Real Estate Settlement Procedures Act;
- laws regarding unfair and deceptive acts and practices; and
- usury laws.

Many states and local jurisdictions have consumer protection laws analogous, and in addition to, those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability. The creation of the CFPB by the Dodd-Frank Act has led to enhanced enforcement of consumer financial protection laws.

The Community Reinvestment Act ("CRA")

The CRA is intended to encourage banks to help meet the credit needs of their service areas, including low and moderate-income neighborhoods, consistent with safe and sound operations. The bank regulators examine and assign each bank a public CRA rating. The CRA then requires bank regulators to take into account the federally insured bank's record in meeting the needs of its service area when considering an application by a bank to establish or relocate a branch or to conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a BHC's controlled banks when considering an application by the BHC to acquire a banking organization or to merge with another BHC. When the Company or the Bank applies for regulatory approval to engage in certain transactions, the regulators will consider the CRA record of the target institution and our depository institution subsidiaries. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The regulatory agency's assessment of the institution's record is made available to the public. Following its most recent CRA examination in July 2016, the Bank received an overall rating of "Satisfactory."

Changes in Laws, Regulations or Policies

Federal, state and local legislators and regulators regularly introduce measures or take actions that would modify the regulatory requirements applicable to banks, their holding companies and other financial institutions. Changes in laws, regulations or regulatory policies could adversely affect the operating environment for the Company in substantial and unpredictable ways, increase our cost of doing business, impose new restrictions on the way in which we conduct our operations or add significant operational constraints that might impair our profitability. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on our business, financial condition or results of operations.

Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits.

Federal Reserve monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of such policies on the business and earnings of the Company and its subsidiaries cannot be predicted.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. The following is a description of the material risks and uncertainties that we believe affect our business and an investment in our common stock. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of the following risks actually occur, our business, financial condition, results of operations and growth prospects could be materially and adversely affected. In that case, you could experience a partial or complete loss of your investment.

Risks Related to Our Business

We conduct our operations almost exclusively in Texas which imposes risks and may magnify the consequences of any regional or local economic downturn affecting Texas, including any downturn in the energy, technology or real estate sectors.

We conduct our operations almost exclusively in Texas and, as of December 31, 2017, the substantial majority of the loans in our loan portfolio were made to borrowers who live and/or conduct business in Texas. Likewise, as of such date, the substantial majority of our secured loans were secured by collateral located in Texas. Accordingly, we are exposed to risks associated with a lack of geographic diversification. The economic conditions in Texas significantly affect our business, financial condition, results of operations and future prospects, and any adverse economic developments, among other things, could negatively affect the volume of loan originations, increase the level of non-performing assets, increases the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. The decline in oil prices in 2015 and 2016 negatively impacted economic conditions in Texas, which has impacted our results of operations. Although oil prices stabilized during 2017, the impact of the 2015 and 2016 declines may continue to have significant spillover effects on the Texas economy, including adverse effects on commercial and residential real estate values and the general level of economic activity. Any regional or local economic downturn that affects Texas, our existing or prospective borrowers, or property values in our market areas may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically focused.

In addition, the economies in our target markets are highly dependent on the energy sector as well as the technology and real estate sectors. In particular, a further decline in the prices of crude oil or natural gas could adversely affect many of our customers. Any downturn or adverse development in the energy, technology or real estate sectors could have a material adverse impact on our business, financial condition and results of operations.

We may be adversely affected by the decline in oil prices.

Overall decreases in market oil prices in the past few years has compressed margins for many U.S. and Texas-based oil producers, particularly those that utilize higher-cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. While the impact to our primary markets in Houston and Dallas has diminished with diversification in the business communities and increase in oil prices in 2017, energy production and related industries continue to represent a large part of the economies in some of our primary markets. As of December 31, 2017, the price per barrel of crude oil was approximately \$60 compared to approximately \$54 as of December 31, 2016 and approximately \$37 as of December 31, 2015. A prolonged period of low oil prices could also have a negative impact on the U.S. economy and, in particular, the economies of energy-dominant states such as Texas. Accordingly, a prolonged period of low oil prices could have a material adverse effect on our business, financial condition and results of operations. As of December 31, 2017, our energy-reserve exposure was 0.6% and our energy-related service industry exposure was 1.1% of our total funded loans. As of December 31, 2016, our energy-reserve exposure, which included loans held for sale, was 1.2% and our energy-related service industry exposure was 2.6% of our total funded loans.

We may not be able to implement aspects of our growth strategy, which may affect our ability to maintain our historical earnings trends.

Our strategy focuses on organic growth, supplemented by acquisitions. We may not be able to execute on aspects of our growth strategy to sustain our historical rate of growth or may not be able to grow at all, whether as a result of regulatory restrictions, the identification of acquisition candidates, the ability to obtain financing on commercially reasonable terms or otherwise. More specifically, we may not be able to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable acquisition candidates. Various factors, such as economic conditions and competition, may impede or prohibit the growth of our operations, the opening of new branches and the consummation of acquisitions. Further, we may be unable to attract and retain experienced portfolio bankers, which could adversely affect our growth. The success of our strategy also depends on our ability to effectively manage growth, which is dependent upon a number of factors, including our ability to adapt our credit, operational, technology and governance infrastructure to accommodate expanded operations. If we fail to implement one or more aspects of our strategy, we may be unable to maintain our historical earnings trends, which could have an adverse effect on our business.

Uncertain market conditions and economic trends could adversely affect our business, financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including generally uncertain conditions nationally and locally in our industry and markets. Financial institutions continue to be affected by volatility in the real estate market in some parts of the country and uncertain regulatory and interest rate conditions. We retain direct exposure to the residential and commercial real estate markets in Texas and are affected by these events.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our loan portfolio is made more complex by uncertain market and economic conditions. Another national economic recession or deterioration of conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following consequences:

- increases in loan delinquencies;
- increases in non-performing assets and foreclosures;
- decreases in demand for our products and services, which could adversely affect our liquidity position; and
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power and repayment ability.

Declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse effect on our borrowers or their customers, which could adversely affect our business, financial condition and results of operations.

Our strategy of pursuing acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We intend to continue pursuing a strategy that includes acquisitions. An acquisition strategy involves significant risks, including the following:

- finding suitable candidates for acquisition;
- maintaining asset quality;
- retaining customers and key personnel, including bankers;
- obtaining necessary regulatory approvals;
- conducting adequate due diligence and managing known and unknown risks and uncertainties;
- integrating acquired businesses; and
- maintaining adequate regulatory capital.

The market for acquisition targets is highly competitive, which may adversely affect our ability to find acquisition candidates that fit our strategy and standards. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized. Acquisitions will be subject to regulatory approvals, and we may be unable to obtain such approvals. Acquisitions of financial institutions also involve operational risks and uncertainties, and acquired companies may have unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers and other issues that could negatively affect our business. We may not be able to complete future acquisitions or, if completed, we may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities that we acquire and to realize our attempts to eliminate redundancies. The integration process may also require significant time and attention from our management that would otherwise be directed toward servicing existing business and developing new business. Acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisition of a financial service company, and the carrying amount of any goodwill that we acquire may be subject to impairment in future periods. Failure to successfully integrate the entities we acquire into our existing operations may increase our operating costs significantly and adversely affect our business, financial condition and results of operations.

Our ability to retain our portfolio bankers and recruit additional successful portfolio bankers is critical to the success of our business strategy, and any failure to do so may adversely affect our business, financial condition and results of operations.

Our ability to retain and grow our loans, deposits and fee income depends upon the business generation capabilities, reputation and relationship management skills of our portfolio bankers. If we were to lose the services of any of our portfolio bankers, including any successful bankers employed by acquired businesses, to a new or existing competitor or otherwise, we may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead of our services. Our growth strategy also relies on our ability to attract and retain profitable portfolio bankers and on the ability of our existing portfolio bankers to achieve what we believe to be their full capacity in terms of customer relationships and profitability. We may face difficulties in recruiting and retaining portfolio bankers of our desired caliber, including as a result of competition from other financial institutions. In particular, many of our competitors are significantly larger with greater financial resources, and may be able to offer more attractive compensation packages and broader career opportunities. Additionally, we may incur significant expenses and expend significant time and resources on training, integration and business development before we are able to determine whether a new portfolio banker will be profitable or effective. If we are unable to attract and retain successful portfolio bankers, or if our portfolio bankers fail to meet our expectations in terms of customer relationships and profitability, we may be unable to execute our business strategy and our business, financial condition and results of operations may be negatively affected.

The small to medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We focus our business development and marketing strategy primarily on small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the Texas markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be negatively affected.

A large portion of our loan portfolio is comprised of commercial and industrial loans secured by receivables, inventory, equipment or other commercial collateral, the deterioration in value of which could increase the potential for future losses.

As of December 31, 2017, \$1.3 billion, or 40.3% of our total loans, was comprised of commercial and industrial loans to businesses collateralized by general business assets including, among other things, accounts receivable, inventory and equipment and generally backed by a personal guaranty of the borrower or principal. These commercial and industrial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a single loan basis. Additionally, the repayment of commercial and industrial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes moveable property such as equipment and inventory, which may decline in value more rapidly than we anticipate, exposing us to increased credit risk. Significant adverse changes in the economy or local market conditions in which our commercial lending customers operate could cause rapid declines in loan collectability and the values associated with general business assets, resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations.

Our commercial real estate and real estate construction loan portfolios expose us to credit risks.

As of December 31, 2017, \$1.5 billion, or 46.5% of our total loans, was comprised of commercial real estate loans (including owner occupied commercial real estate loans) and \$165.0 million, or 5.2% of our total loans, was comprised of real estate construction loans. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate. Additionally, non-owner occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Unexpected deterioration in the credit quality of our non-owner occupied commercial real estate loan portfolio could require us to increase our allowance for loan losses, which would reduce our profitability and may have a material adverse effect on our business, financial condition and results of operations.

Construction loans involve risks attributable to the fact that loan funds are secured by a project under construction, and the project is of uncertain value prior to its completion. It can be difficult to accurately evaluate the total funds required to complete a project, and construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If we are forced to foreclose on a project prior to completion, we may be unable to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time, any of which could adversely affect our business, financial condition and results of operations.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2017, \$1.9 billion, or 59.2% of our total loans, was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, and could result in losses that would adversely affect credit quality, financial condition and results of operation. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have a material adverse impact on our business, results of operations and growth prospects. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses, which could adversely affect our business, financial condition and results of operations.

Our allowance for loan losses 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.

We establish our allowance for loan losses and maintain it at a level considered adequate by management to absorb probable loan losses based on our analysis of our portfolio and market environment. The allowance for loan losses represents our estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to us. Our allowance for loan losses consists of a general component based upon probable but unidentified losses inherent in the portfolio and a specific component based on individual loans that are considered impaired. The general component is based on our historical loss experience and various qualitative factors. The specific component of the allowance for loan losses is calculated based on a review of individual loans considered impaired. The analysis of impaired losses may be based on the present value of expected future cash flows discounted at the effective loan rate or an observable market price or the fair value of the underlying collateral on collateral dependent loans. In determining the collectability of certain loans, management also considers the fair value of any underlying collateral. The amount ultimately realized may differ from the carrying value of these assets because of economic, operating or other conditions beyond our control, and any such differences may be material. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Allowance for loan losses.”

As of December 31, 2017, our allowance for loan losses was 0.98% of our total loans. Loans acquired are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no corresponding allowance for loan losses is recorded for these loans at acquisition. 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 the allowance for loan losses, either due to management's decision to do so or requirements by our banking regulators. In addition, bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to non-accrual loans or to real estate acquired through foreclosure.

We have a significant amount of loans outstanding to a limited number of borrowers, which may increase our risk of loss.

We have extended significant amounts of credit to a limited number of borrowers, and at December 31, 2017, the aggregate amount of loans to our 10 and 25 largest borrowers (including related entities) amounted to approximately \$255.0 million, or 8.0% of total loans and \$522.2 million, or 16.4% of total loans, respectively. At such date, none of these loans were classified as nonperforming or purchase credit impaired loans. A high amount of credit extended to a limited number of borrowers increases the risk in our loan portfolio. In the event that one or more of these borrowers is not able to make payments of interest and principal in respect of such loans, the potential loss to us is more likely to have a material adverse impact on our business, financial condition and results of operations.

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, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is 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 such as money market funds, 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, 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 Dallas Fed and the FHLB. 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 financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in our target markets or by one or more adverse regulatory actions against us.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, 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.

We may need to raise additional capital in the future, including to satisfy regulatory requirements or supervisory expectations imposed on us, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, could be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. We may need, or be required by our regulators, to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and supervisory expectations, some of which are subject to change and are beyond our control, and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our liquidity, business, financial condition and results of operations could be materially and adversely affected.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and other interest-earning assets, and the interest we pay on interest-bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume, loan portfolio and our overall results. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

Our accounting estimates and risk management processes rely on analytical and forecasting models.

The processes we use to estimate our probable credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation.

If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

If we fail to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

Ensuring that we have adequate disclosure controls and procedures, including internal controls over financial reporting, in place so that we can produce accurate financial statements on a timely basis is costly and time-consuming and needs to be re-evaluated frequently. Although we are currently required to provide an annual management assessment of the effectiveness of our internal controls over financial reporting under Section 404(a) of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and the Bank is required to have an auditor attestation as to the Bank’s internal control over financial reporting in accordance with applicable bank regulatory standards, we are in the process of documenting, reviewing and, if appropriate, improving our internal controls and procedures in anticipation of being subject to the requirements of Section 404(b) of the Sarbanes-Oxley Act which will require, when we cease to be an emerging growth company under the JOBS Act, a report by our independent auditors assessing the effectiveness of our internal controls over financial reporting. Our independent registered public accounting firm may not conclude that our internal controls over financial reporting are effective. Going forward, our independent registered public accounting firm may not be satisfied with our internal controls over financial reporting or the level at which our controls are documented, designed, operated or reviewed, or it may interpret the relevant requirements differently from us. In addition, during the course of the evaluation, documentation and testing of our internal controls over financial reporting, we may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the SEC for compliance with the requirements of Section 404(b) of the Sarbanes-Oxley Act. Any such deficiencies may also subject us to adverse regulatory consequences in connection with our required submission of audited financial statements and an auditor attestation as to our internal control over financial reporting to certain of our regulators. If we fail to achieve and maintain the adequacy of our internal controls over financial reporting, as these standards are modified, supplemented or amended from time to time, we may be unable to report our financial information on a timely basis, we may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act, and we may suffer adverse regulatory consequences or violations of listing standards. There could also be a negative reaction in the financial markets due to a loss of investor confidence in the reliability of our financial statements.

We face strong competition from financial services companies and other companies that offer banking services, which could impact our business.

We conduct our operations primarily in Texas. Many of our competitors offer the same, or a wider variety of, banking services within our market areas. These competitors include banks with nationwide operations, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings banks, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and certain other non-financial entities, such as retail stores which may maintain their own credit programs and certain governmental organizations which may offer more favorable financing or deposit terms than we can. In addition, a number of out-of-state financial intermediaries have opened production offices, or otherwise solicit deposits, in our market areas. Increased competition in our markets may result in reduced loans and deposits, as well as reduced net interest margin, fee income and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios, and our business, financial condition and results of operations may be adversely affected.

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

- the ability to develop, maintain and build long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

We also face competition for acquisition opportunities in connection with the implementation of our acquisition strategy. Because there are a limited number of acquisition opportunities in our target markets, we face competition from other banks and financial institutions, many of which possess greater financial, human, technical and other resources than we do. Our ability to compete in acquiring target institutions will depend on our available financial resources to fund the acquisitions, including the amount of cash and cash equivalents we have and the liquidity and market price of our common stock. In addition, increased competition may also drive up the acquisition consideration that we will be required to pay in order to successfully capitalize on attractive acquisition opportunities.

In addition, rapid technological changes and consumer preferences may result in increased competition for our other services. A number of well-funded, technology-focused companies are innovating the payment, distributed ledger, and cryptocurrency networks and are attempting to disintermediate portions of the traditional banking model. A shift in the mix of payment forms away from our products and services could have a material adverse effect on our financial position and results of operations.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

While we attempt to invest a significant percentage of our assets in loans (our loan to deposit ratio was 93.9% as of December 31, 2017), we invest a percentage of our total assets (16.9% as of December 31, 2017) in investment securities with the primary objectives of providing a source of liquidity, providing an appropriate return on funds invested, managing interest rate risk, meeting pledging requirements and meeting regulatory capital requirements. As of December 31, 2017, the book value of our securities portfolio was \$728.8 million, including \$705.0 million issued by the U.S. government and its agencies or sponsored enterprises. 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. For example, fixed-rate securities are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.

Loss of our executive officers or other key employees could impair our relationship with our customers and adversely affect our business.

Our success is dependent upon the continued service and skills of our executive management team. Our goals, strategies and marketing efforts are closely tied to the banking philosophy and strengths of our executive management. The loss of services of any of these key personnel could have a negative impact on our business because of their skills, years of industry experience and the difficulty of promptly finding qualified replacement personnel. While we have employment agreements with our executive officers, we cannot guarantee that these executive officers or key employees will continue to be employed with us in the future.

If the goodwill that we have recorded or may record in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeds the fair value of net assets we acquire in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired.

Our goodwill impairment test involves a two-step process. Under the first step, the estimation of fair value of the reporting unit is compared with its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2017, our goodwill totaled \$85.3 million. Although we have not recorded any impairment charges since we initially recorded the goodwill, our future evaluations of our existing goodwill, or goodwill we may acquire in the future, could result in findings of impairment and related write-downs, which may have a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by recent and future changes in U.S. tax and other laws and regulations.

The enactment of the Tax Cuts and Jobs Act on December 22, 2017 made significant changes to the Internal Revenue Code, many of which are highly complex and may require interpretations and implementing regulations. Income tax expense for 2017 includes \$5.8 million in tax expense for the deferred tax asset revaluation resulting from the Tax Cuts and Jobs Act. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Income Taxes”. The Tax Cuts and Jobs Act includes a number of provisions that will have an impact on the banking industry, borrowers. These changes include: (i) a limitation on the deductibility of business interest expense, and (ii) a limitation on the deductibility of property taxes and state and local income taxes. Furthermore, we may incur additional meaningful expenses (including professional fees) as the Tax Cuts and Jobs Act is implemented, and the expected impact of certain aspects of the statute remains unclear and subject to change.

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

The computer systems and network infrastructure we use, including the systems and infrastructure of our third-party service providers, could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment, and the information stored therein, against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from cybersecurity breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes breakdowns or disruptions in our general ledger, deposit, loan and other systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, including enforcement action that could restrict our operations, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on us. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. While we maintain specific “cyber” insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. In addition, cyber threat scenarios are inherently difficult to predict and can take many forms, some of which may not be covered under our cyber insurance coverage. Although we, with the help of third-party service providers, have and intend to continue to implement security technology and operational procedures to prevent such damage, these security measures may not entirely mitigate these risks. In addition, advances in computer capabilities could result in a compromise or breach of the systems we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our business, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We may experience operational challenges as we implement these new technology enhancements or products, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, which may negatively affect our results of operations, financial condition and cash flows. Further, as technology advances, the ability to initiate transactions and access data has become more widely distributed among mobile devices, personal computers, automated teller machines, remote deposit capture sites and similar access points. These technological advances increase cybersecurity risk. While we maintain programs intended to prevent or limit the effects of cybersecurity risk, an unauthorized transactions or unauthorized access to customer information could occur. The financial, reputational and regulatory impact of unauthorized transactions or unauthorized access to customer information could be significant.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to provide, which would put us at a competitive disadvantage. Accordingly, we may lose customers seeking new technology-driven products and services to the extent we are unable to provide such products and services.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend on a number of relationships with third-party service providers. Specifically, we receive certain third-party services including, but not limited to, core systems processing, essential web hosting and other Internet systems, our online banking services, deposit processing and other processing services. While we have selected these third-party vendors carefully, we do not control their actions. Any complications caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to provide services. Furthermore, our vendors could also be sources of operational and information security risk, including from breakdowns or failures of their own systems or capacity constraints. If these third-party service providers experience difficulties, or terminate their services, and we are unable to replace them with other service providers on a timely basis, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace third-party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

Our business may be adversely affected by security breaches at third-parties.

Our customers interact with their own and other third party systems, which pose operational risks to us. We may be adversely affected by data breaches at retailers and other third parties who maintain data relating to our customers that involve the theft of customer data, including the theft of customers' debit card, wire transfer and other identifying and/or access information used to make purchases or payments at such retailers and to other third parties. Despite third-party security risks that are beyond our control, we offers our customers protection against fraud and attendant losses for unauthorized use of debit cards in order to stay competitive in the marketplace. Offering such protection to customers exposes us to significant expenses and potential losses related to reimbursing our customers for fraud losses, reissuing the compromised cards and increased monitoring for suspicious activity. In the event of a data breach at one or more retailers of considerable magnitude, our business, financial condition and results of operations may be adversely affected.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls to mitigate operational risks, including data processing system failures and errors and customer or employee fraud, as well as insurance coverage designed to protect us from material losses associated with these risks, including losses resulting from any associated business interruption. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans we will originate, as well as the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms we would not have extended. Whether a misrepresentation is made by the applicant or another third-party, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the resulting monetary losses we may suffer.

New lines of business or new products and services may subject us to additional risks.

From time to time, we may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, 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 a material adverse effect on our business, financial condition and results of operations.

Legal and regulatory proceedings could adversely affect our business, financial condition, and results of operation, or cause us to adjust our strategy.

We, like all financial institutions, have been and may in the future become involved in legal and regulatory proceedings and are the subject of regulatory investigations and examinations. We consider most of these proceedings to be in the normal course of business or typical for the industry. However, it is inherently difficult to assess the outcome of these matters or any requirements or limitations that may be imposed on us as a result thereof. Any material legal or regulatory proceeding, or the results of any regulatory investigation or examination, could impose substantial cost and cause management to divert its attention from our business and operations. Any adverse determination in a legal or regulatory proceeding could have a material adverse effect on our business, financial condition and results of operations.

We could experience claims and litigation pertaining to fiduciary responsibility.

From time to time, customers make claims and take legal action pertaining to our performance of its fiduciary responsibilities. Whether customer claims and legal action related to our performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability, adversely affect the market perception of us and our products and services and/or impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to environmental liabilities in connection with the foreclosure on real estate assets securing our loan portfolio.

Hazardous or toxic substances or other environmental hazards may be located on the properties that secure our loans. If we acquire such properties as a result of foreclosure or otherwise, we could become subject to various environmental liabilities. For example, we could be held liable for the cost of cleaning up or otherwise addressing contamination at or from these properties. We could also be held liable to a governmental entity or third-party for property damage, personal injury or other claims relating to any environmental contamination at or from these properties. In addition, we own and operate certain properties that may be subject to similar environmental liability risks. Although we have policies and procedures that are designed to mitigate certain environmental risks, we may not detect all environmental hazards associated with these properties. If we ever became subject to significant environmental liabilities, our business, financial condition and results of operations could be adversely affected.

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

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

Risks Related to Our Industry and Regulation

We operate in a highly regulated environment and the laws, regulations and supervisory expectations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.

We are subject to extensive regulation, supervision and legal requirements that govern almost all aspects of our operations. Intended to protect customers, depositors, the Deposit Insurance Fund (the "DIF"), and the overall financial stability of the United States, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividend or distributions that the Bank can pay to us, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles would require. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. We are subject to confidential regulatory examinations, in which applicable banking regulators make findings regarding our financial condition, safety and soundness, operations and compliance, identify any required corrective actions, and assign supervisory ratings.

There can be no assurance that we will be able to meet supervisory expectations and achieve and maintain satisfactory supervisory ratings, particularly in light of the current economic environment in the markets in which we operate and its impact on our recent results of operations. Our failure to comply with banking laws and regulations and meet supervisory expectations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to further restrictions on our business activities, formal or informal enforcement action, fines and other penalties, any of which could adversely affect our results of operations, capital base, ability to conduct acquisitions, the price of our securities and the terms upon which we are able to raise capital. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations.

On July 21, 2010, the Dodd-Frank Act was signed into law, and the process of implementation is ongoing. The Dodd-Frank Act imposes significant regulatory and compliance changes on many industries, including ours. There remains significant uncertainty surrounding the manner in which the provisions of the Dodd-Frank Act will ultimately be implemented by the various regulatory agencies, and the full extent of the impact of the requirements on our operations is unclear. The legal and regulatory changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, require the development of new compliance infrastructure, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. Failure to comply with the new requirements or with any future changes in laws or regulations may negatively impact our business, financial condition and results of operations.

Our risk management framework may not be effective in identifying, managing or mitigating risks and/or losses to us.

We have implemented a risk management framework to identify and manage our risk exposure. This framework consists of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, operational, financial, interest rate, legal and regulatory, compliance, strategic, reputation, fiduciary and general economic risks. Our framework also includes financial or other modeling methodologies, which involves management assumptions and judgment. This risk management framework may not be effective under all circumstances and may not adequately identify, manage or mitigate all or any risk or loss to us. If this framework is not effective, we may be subject to potentially adverse regulatory consequences and could suffer unexpected losses and its financial condition or results of operations could be materially adversely affected.

Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect us.

Federal banking agencies, including the OCC and Federal Reserve, periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that the Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions 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 the Company’s and/or the Bank’s capital, to restrict our growth, to assess civil monetary penalties against the Company, the Bank or their respective officers or directors, to 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 the Bank’s deposit insurance. If we become subject to such regulatory actions, our business, financial condition, results of operations, cash flows and reputation may be negatively impacted.

Many of our new activities and expansion plans require regulatory approvals, and failure to obtain them may restrict our growth.

We intend to complement and expand our business by pursuing strategic acquisitions of financial institutions and, potentially, other complementary businesses. Generally, we must receive federal regulatory approval before we can acquire an FDIC-insured depository institution or related business. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, our future prospects and the impact of the proposal on U.S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management, and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution’s record of compliance under the Community Reinvestment Act (the “CRA”)) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. We may also be required to sell branches as a condition to receiving regulatory approval, which condition may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to continue *de novo* branching as a part of our organic growth strategy. *De novo* branching and any acquisitions carry with them numerous risks, including the inability to obtain all required regulatory approvals. The failure to obtain these regulatory approvals for potential future strategic acquisitions and *de novo* branches may impact our business plans and restrict our growth.

Financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 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, established by the U.S. Treasury Department to administer the Bank Secrecy Act, 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 (“U.S. Justice Department”), Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by OFAC.

In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti-money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and *de novo* branching.

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

With certain limited exceptions, federal regulations prohibit a person or 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 our management or policies without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any such 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.

We are subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties.

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 CFPB, the U.S. Justice Department and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution’s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion activity. Private parties may also have the ability to challenge an institution’s performance under fair lending laws in private class action litigation.

The FDIC’s restoration plan and the related increased assessment rate could adversely affect our earnings.

As a result of economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the deposit insurance assessment rates and thus raised deposit premiums for insured depository institutions. If these increases are insufficient for the DIF to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional financial institution failures that affect the DIF, we may be required to pay FDIC premiums higher than current levels. Our FDIC insurance related costs were \$2.6 million and \$3.5 million for the years ended December 31, 2017 and 2016, respectively, compared with \$1.6 million for the year ended December 31, 2015. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect our business, financial condition and results of operations.

We may become subject to more stringent capital requirements.

The Dodd-Frank Act requires the federal banking agencies to establish stricter risk-based capital requirements and leverage limits to apply to banks and bank and savings and loan holding companies. In July 2013, the federal banking agencies published the final Basel III Capital Rules (as defined below) that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets. The Basel III Capital Rules will apply to banking organizations, including the Company and the Bank.

As a result of the enactment of the Basel III Capital Rules, the Company and the Bank became subject to increased required capital levels. The Basel III Capital Rules became effective as applied to the Company and the Bank on January 1, 2015, with a phase-in period that generally extends from January 1, 2015 through January 1, 2019. See “Regulation and Supervision—Regulatory Capital Requirements and Capital Adequacy—US Implementation of Basel III.”

The Federal Reserve may require us to commit capital resources to support the Bank.

The Federal Reserve, which examines the Company, requires a bank holding company to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. 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 such a subsidiary bank. Under these requirements, in the future, we could be required to provide financial assistance to the Bank if it experiences financial distress.

Such a capital injection may be required at a time when our resources are limited and we may be required to borrow the funds to make the required capital injection. 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 holding company’s general unsecured creditors, including the holders of any note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company’s business, financial condition and results of operations.

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

Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, broker-dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated if our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or cover the derivative exposure due. Any such losses could have a material adverse effect on our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the regulations and policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the U.S. money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of both the discount rate and the federal funds rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Although we cannot determine the effects of such policies on us at this time, such policies could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to our Common Stock

The market price of our common stock may fluctuate significantly.

The market price of our common stock could fluctuate significantly due to a number of factors, including, but not limited to:

- our quarterly or annual earnings, or those of other companies in our industry;
- actual or anticipated fluctuations in our operating results;

- changes in accounting standards, policies, guidance, interpretations or principles;
- the public reaction to our press releases, our other public announcements and our filings with the SEC;
- announcements by us or our competitors of significant acquisitions, dispositions, innovations or new programs and services;
- changes in financial estimates and recommendations by securities analysts following our stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- general economic conditions and overall market fluctuations;
- the trading volume of our common stock;
- changes in business, legal or regulatory conditions, or other developments affecting participants in our industry, and publicity regarding our business or any of our significant customers or competitors;
- changes in governmental monetary policies, including the policies of the Federal Reserve;
- future sales of our common stock by us, directors, executives and significant shareholders; and
- changes in economic conditions in and political conditions affecting our target markets, including fluctuations in the price of crude oil and natural gas.

In particular, the realization of any of the risks described in this “Risk Factors” section could have a material adverse effect on the market price of our common stock and cause the value of your investment to decline. In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock over the short, medium or long term, regardless of our actual performance. If the market price of our common stock reaches an elevated level, it may materially and rapidly decline. In the past, following periods of volatility in the market price of a company’s securities, shareholders have often instituted securities class action litigation. If we were to be involved in a class action lawsuit, it could divert the attention of senior management and have a material adverse effect on our business, financial condition and results of operations.

We are dependent upon Green Bank for cash flow, and Green Bank’s ability to make cash distributions is restricted.

Our primary tangible asset is Green Bank. As such, we depend upon Green Bank for cash distributions (through dividends on Green Bank’s stock) that we use to pay our operating expenses and satisfy our obligations (including our senior indebtedness, subordinated debentures issued in connection with trust preferred securities and subordinated notes). There are numerous laws and banking regulations that limit Green Bank’s ability to pay dividends to us. If Green Bank is unable to pay dividends to us, we will not be able to satisfy our obligations. Federal and state statutes and regulations restrict Green Bank’s ability to make cash distributions to us. These statutes and regulations require, among other things, that Green Bank maintain certain levels of capital in order to pay a dividend. Further, state and federal banking authorities have the ability to restrict the payment of dividends by supervisory action.

If securities or industry analysts change their recommendations regarding our stock or if our operating results do not meet their expectations, our stock price could decline.

The trading market for our common stock could be influenced by the research and reports that industry or securities analysts may publish about us or our business. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, either absolutely or relative to our competitors, our stock price could decline significantly.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of shares of our common stock.

Future sales or the availability for sale of substantial amounts of our common stock in the public market could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities. Our Restated Certificate of Formation (with Amendments) (“certificate of formation”) authorizes us to issue 90,000,000 shares of common stock, 37,102,822 of which was outstanding as of December 31, 2017.

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments and pursuant to compensation and incentive plans. If any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial. We may also grant registration rights covering those shares of our common stock or other securities in connection with any such acquisitions and investments.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued in connection with an acquisition or under a compensation or incentive plan), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock and could impair our ability to raise capital through future sales of our securities.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Our certificate of formation authorizes us to issue up to 10,000,000 shares of one or more series of preferred stock. Our board of directors has the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our common stock at a premium over the market price, and materially adversely affect the market price and the voting and other rights of the holders of our common stock.

We have adopted a Stock Repurchase Program which could have an impact upon our capital adequacy and tangible book value.

On April 30, 2015, the Company announced a stock repurchase program under which it authorized the Company to repurchase, in the aggregate, up to \$15.0 million of the Company's outstanding common stock. The amount and timing of any share repurchases will depend upon a variety of factors, including the trading price of our common stock, liquidity, securities laws restrictions, other regulatory restrictions, potential alternative uses of capital, and market and economic conditions. From February 2, 2016 through February 29, 2016, we made several repurchases under the program. The repurchased shares reduced our stockholder's equity and, depending upon the circumstances, could have a negative effect upon our overall capital adequacy. Further, such repurchases could result in a reduction in the tangible book value per share of our common stock depending upon the price paid for the repurchased shares.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we have taken advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. These exemptions allow us to, among other things, present only two years of audited financial statements and discuss only our results of operations for two years in related Management's Discussions and Analysis; to not provide an auditor attestation of our internal control over financial reporting; to choose not to comply with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and our audited financial statements; to provide reduced disclosure regarding our executive compensation arrangements pursuant to the rules applicable to smaller reporting companies, which means we do not have to include a compensation discussion and analysis and certain other disclosure regarding our executive compensation; and to not seek a non-binding advisory vote on executive compensation or golden parachute arrangements. In addition, even if we comply with the greater obligations of public companies that are not emerging growth companies, we may avail ourselves of these reduced requirements applicable to emerging growth companies from time to time in the future, so long as we are an emerging growth company. We will remain an emerging growth company for up to five years, though we may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of such five years, we are deemed to be a large accelerated filer under the rules of the SEC (which depends on, among other things, having a market value of common stock held by non-affiliates in excess of \$700 million). Investors and securities analysts may find it more difficult to evaluate our common stock because we may rely on one or more of these exemptions, and, as a result, investor confidence and the market price of our common stock may be materially and adversely affected.

An investment in our common stock is not an insured deposit and is not guaranteed by the FDIC, so you could lose some or all of your investment.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described herein. As a result, if you acquire our common stock, you could lose some or all of your investment.

We are currently not paying dividends on our common stock, so you may not receive funds without selling your common stock.

We are currently not paying any dividends on our common stock. Our ability to pay dividends on our common stock is dependent on the Bank's ability to pay dividends to the Company, which is limited by applicable laws and banking regulations, and may in the future be restricted by the terms of any debt or preferred securities we may incur or issue. Payments of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends. See "Dividend Policy."

Our corporate organizational documents and the provisions of Texas law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition of the Company that you may favor.

Certain provisions of our certificate of formation and bylaws have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control of the Company. These provisions include:

- staggered terms for directors;
- a provision that directors cannot be removed except for cause;
- a provision that any special meeting of our shareholders may be called only by a majority of the board of directors, the Chairman or a holder or group of holders of at least a majority of our shares entitled to vote at the meeting;
- a provision that requires the vote of two-thirds of the shares outstanding for major corporate actions, such as an amendment to the Company's certificate of formation or bylaws or the approval of a merger; and
- a provision establishing certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered only at an annual or special meeting of shareholders.

Our certificate of formation provides for non-cumulative voting for directors and authorizes the board of directors to issue shares of its preferred stock without shareholder approval and upon such terms as the board of directors may determine. The issuance of our preferred stock, while providing desirable flexibility in connection with possible acquisitions, financings and other corporate purposes, could have the effect of making it more difficult for a third-party to acquire, or of discouraging a third-party from acquiring, a controlling interest in us. In addition, certain provisions of Texas law, including a provision which restricts certain business combinations between a Texas corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control of the Company. Our certificate of formation prohibits shareholder action by less than unanimous written consent. See "Description of Capital Stock."

Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the Bank Holding Company Act of 1956 (the "BHC Act"), the Change in Bank Control Act and the Savings and Loan Holding Company Act. These laws could delay or prevent an acquisition. See "Regulation and Supervision—Notice and Approval Requirements Related to Control."

Shareholders may be deemed to be acting in concert or otherwise in control of us, which could impose notice, approval and ongoing regulatory requirements and result in adverse regulatory consequences for such holders.

We are a bank holding company regulated by the Federal Reserve. Banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or a company that controls an FDIC-insured depository institution, such as a bank holding company.

These laws include the BHC Act, the Change in Bank Control Act and the Savings and Loan Holding Company Act. The determination whether an investor “controls” a depository institution or holding company is based on all of the facts and circumstances surrounding the investment.

As a general matter, a party is deemed to control a depository institution or other company if the party (i) owns or controls 25% or more of any class of voting stock of the bank or other company, (ii) controls the election of a majority of the directors of the bank or other company or (iii) has the power to exercise a controlling influence over the management or policies of the bank or other company. In addition, subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting stock. Ownership by affiliated parties, or parties acting in concert, is typically aggregated for these purposes. “Acting in concert” generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty.

Any shareholder that is deemed to “control” us for regulatory purposes would become subject to notice, approval and ongoing regulatory requirements and may be subject to adverse regulatory consequences. Potential investors are advised to consult with their legal counsel regarding the applicable regulations and requirements.

We have several large non-controlling shareholders, and such shareholders may independently vote their shares in a manner that you may not consider to be consistent with your best interest or the best interest of our shareholders as a whole.

Investment funds affiliated with Friedman Fleischer & Lowe, LLC, Harvest Partners, LP and Pine Brook Road Partners, LLC each beneficially own approximately 13.5% of our outstanding common stock as of December 31, 2017. Each of these shareholders is currently subject to passivity commitments made to the Federal Reserve in connection with their investment in us in which they agreed not to, without the prior approval of the Federal Reserve, among other things, exercise or attempt to exercise a controlling influence over our management or policies, have or seek to have more than one representative serve on our board of directors or permit any representative to serve as the chairman of our board of directors or any committee thereof. However, subject to those commitments, each of these shareholders will continue to have the ability to independently vote a meaningful percentage of our outstanding common stock on all matters put to a vote of our shareholders, including the election of our board of directors and certain other significant corporate transactions, such as a merger or acquisition transaction. On any such matter, the interests of any one of these shareholders may not coincide with the interests of the other holders of our common stock and any such difference in interests may result in that shareholder voting its shares in a manner inconsistent with the interest of other shareholders.

In addition, we have entered into a director nomination agreement with each of these shareholders that provides for the rights of such shareholders to nominate individuals for election to our board of directors. Furthermore, it is possible that one or more of these shareholders may choose to sell or otherwise dispose of all or a significant portion of the remaining shares they hold, which could adversely affect the market price of our common stock and the value of your investment in us may decrease.

The holders of our subordinated debentures and subordinated notes have rights that are senior to those of our shareholders.

As of December 31, 2017, we had subordinated debentures with outstanding principal of \$22.2 million and fair value of \$14.0 million that were assumed by us in connection with an acquisition. The subsidiary trusts purchased the subordinated debentures using the proceeds from the sale of trust preferred securities to third party investors. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by us to the extent not paid or made by each trust, provided the trust has funds available for such obligations.

During the fourth quarter 2016, we issued \$35.0 million of 8.50% Fixed-to-Floating Rate Subordinated Notes that mature on December 15, 2026 through a private placement to certain institutional accredited investors. The notes, which qualify as Tier 2 capital under the Federal Reserve's capital guidelines in effect at December 31, 2017, had a book value of \$33.7 million, net of issuance costs. The subordinated debentures and subordinated notes are senior to our shares of common stock. As a result, we must make interest payments on the subordinated debentures (and the related trust preferred securities) and subordinated notes before any dividends can be paid on our common stock; and, in the event of our bankruptcy, dissolution or liquidation, the holders of the debentures and notes must be satisfied before any distributions can be made to the holders of the common stock. Additionally, we have the right to defer periodic distributions on the subordinated debentures (and the related trust preferred securities) for up to five years, during which time we would be prohibited from paying dividends on our common stock. Our ability to pay the future distributions depends upon the earnings of the Bank and dividends from the Bank to us, which may be inadequate to service the obligations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Subordinated Debentures and Subordinated Notes."

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive office is located at 4000 Greenbriar, Houston, Texas 77098. We have twenty-two full service branches in the Houston and Dallas MSAs and other markets. The following table sets forth a list of our branches and certain other properties which we own or lease as of December 31, 2017:

Houston MSA		
Location	Own or Lease	Sq. Ft.
• Greenbriar Branch 4000 Greenbriar Houston, Texas 77098	Own	19,310
• Houstonian Branch 109 North Post Oak Lane, Suite 100 Houston, Texas 77024	Lease	5,736
• Tanglewood Branch 5018 San Felipe, Suite D Houston, Texas 77056	Lease	3,550
• San Felipe Branch 7500 San Felipe, Suite 125 Houston, Texas 77063	Lease	8,890
• Memorial Branch 5900 Memorial Dr., Suite 100 Houston, Texas 77007	Lease	3,000
• Katy Freeway Branch 9545 Katy Fwy, Suite 100 Houston, Texas 77024	Lease	4,055
• Woodlands Branch 1455 Research Forest Drive The Woodlands, Texas 77380	Own	7,492
• Kingwood Branch 1102 Kingwood Drive Kingwood, Texas 77339	Own	3,400
• Friendswood Branch 102 West Parkwood Friendswood, TX 77546	Lease	3,180
• Bay Area Branch 2424 Bay Area Blvd. Houston, Texas 77058	Lease	3,000
• Cleveland Branch 908 E. Houston Street Cleveland, Texas 77327	Own	7,854
Dallas MSA		
Location	Own or Lease	Sq. Ft.
• Dallas Uptown Branch 2408 Cedar Springs Road Dallas, Texas 75201	Lease	2,703
• Midtown Branch 5580 LBJ Freeway, Suite 100 Dallas, Texas 75240	Lease	7,322
• Addison Branch 16771 Dallas Parkway Addison, Texas 75001	Own	4,100
• Dallas Preston Center Branch 4029 Northwest Parkway Dallas, Texas 75225	Lease	2,274
• Richardson Branch 1301 E. Campbell Road Richardson, Texas 75081	Own	10,548

• Plano Branch 5224 W. Plano Parkway Plano, Texas 75093	Own	20,134
• Mesquite Branch 1438 Oates Drive Mesquite, Texas 75150	Lease	8,157
• Plano Legacy Branch 7701 Legacy Drive Plano, Texas 75024	Lease	1,950

Other Full Service Branches

Location	Own or Lease	Sq. Ft.
• Austin Harland Plaza Branch 1717 W. 6 th Street Austin, TX 78703	Lease	4,490
• Louisville Branch 1900 Colonel Sanders Lane Louisville, Kentucky 40213	Lease	660
• Honey Grove Branch 201 W. Main Street Honey Grove, Texas 75446	Own	1,728

Other

Location	Own or Lease	Sq. Ft.
• Memorial Motor Bank 8611 Memorial Drive Houston, Texas 77024	Lease	1,390
• Pepsi Cola Concierge 5600 Headquarters Drive Plano, Texas 75024	Lease	556
• Pizza Hut Concierge 7100 Corporate Drive Plano, Texas 75024	Lease	230
• Brookhollow Support Services Office 2900 North Loop West Houston, Texas 77092	Lease	21,265
• San Felipe Finance and IT Offices 7500 San Felipe Houston, Texas 77063	Lease	8,890
• Fort Worth Loan Production Office 801 Cherry Street, Box 39 Fort Worth, Texas 76102	Lease	2,983

Our operational support functions are centralized in our Brookhollow office in Northwest Houston, which houses management and staff totaling approximately 106 people. In addition, finance and certain technology support functions are performed out of our San Felipe office and certain credit support functions are performed out of our Richardson and Plano offices.

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank are from time to time subject to claims and litigation arising in the ordinary course of business. At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES****Common Stock Market Prices**

From August 8, 2014 through December 31, 2017, the Company's common stock was listed for trading on the NASDAQ Global Select Market under the symbol "GNBC." Quotations of the sales volume and the closing sales prices of the common stock of the Company are listed daily in the NASDAQ Global Select Market's listings. As of March 12, 2018, there were 37,189,901 shares outstanding and 173 holders of record for the Company's common stock. The number of beneficial owners is unknown to the Company at this time.

The following table sets forth, for the periods indicated, the high and low intraday sales prices for the Company's common stock as reported by the NASDAQ Global Select Market:

	High	Low
Quarter ending March 31, 2018 (through March 12, 2018)	\$ 24.25	\$ 20.20
Quarter ended December 31, 2017	24.40	20.08
Quarter ended September 30, 2017	24.10	19.10
Quarter ended June 30, 2017	20.10	15.90
Quarter ended March 31, 2017	\$ 18.27	\$ 13.15
Quarter Ended December 31, 2016	15.55	9.30
Quarter Ended September 30, 2016	11.00	8.06
Quarter Ended June 30, 2016	9.43	6.79
Quarter Ended March 31, 2016	\$ 10.72	\$ 6.61

Dividends

During the years ended December 31, 2017 and 2016, we did not declare or pay any dividends on our common stock. The Company plans to evaluate the potential for declaring and/or paying dividends on our common stock in 2018 or at a later time. However, no decision has been made as to whether dividends will be declared or paid. There can be no assurances that we will declare or pay any dividends in 2018 or at any time thereafter and, even if we declare or pay dividends in 2018, there can be no assurances that we will continue to do so in the future. Payments of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends.

As a bank holding company, our ability to pay dividends is affected by the policies and enforcement powers of the Federal Reserve. In addition, because we are a holding company, we are dependent upon the payment of dividends by the Bank to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. See "Regulation and Supervision—Regulatory Limits on Dividends and Distributions." In addition, in the future we may enter into borrowing or other contractual arrangements that restrict our ability to pay dividends.

In addition, the Federal Reserve Board has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, level of current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the Federal Reserve Board prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to our capital structure, including interest on the subordinated debentures and subordinated notes underlying our trust preferred securities. If required payments on our outstanding subordinated debentures held by our unconsolidated

subsidiary trusts or subordinated notes are not made or suspended, we will be prohibited from paying dividends on our common stock.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2017, the Company had outstanding stock options and restricted stock units granted under three stock award plans, which are described in Note 14 Employee Benefits to the consolidated financial statements commencing at page 95 of this Annual Report on Form 10-K. The following table provides information as of December 31, 2017 regarding the Company's equity compensation plan under which the Company's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	838,543	12.93	522,795 ⁽¹⁾
Equity compensation plans not approved by security holders	1,668,131	8.49	—
	<u>2,506,674</u>	<u>9.97</u>	<u>522,795</u>

⁽¹⁾ All of these awards are available under the Company's 2014 Omnibus Equity Incentive Plan. The Company's other equity award plans have been frozen to further issuance.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

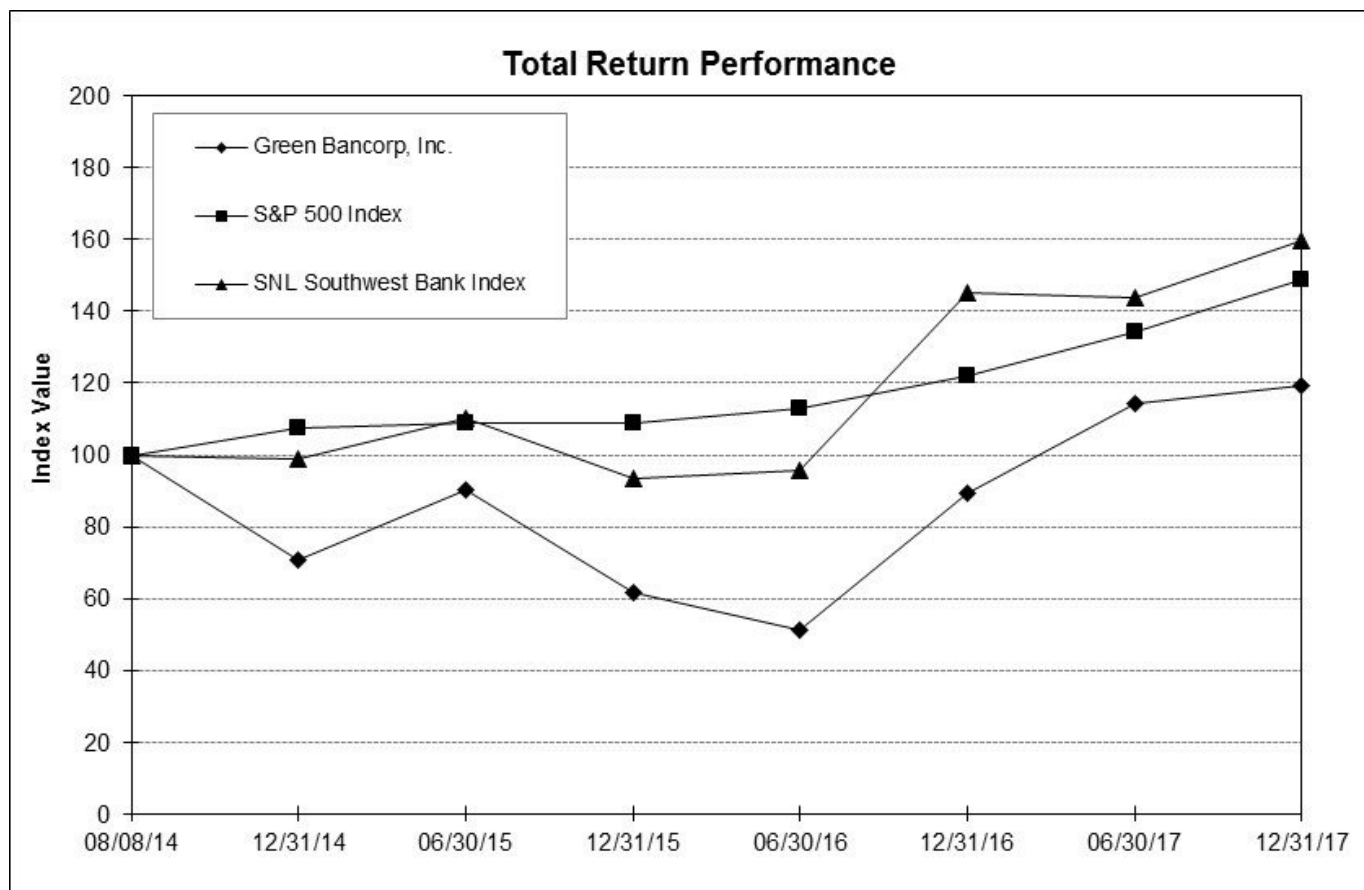
The following table details the Company's repurchases of shares of its common stock during the years ended December 31, 2016 and 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs ⁽¹⁾
January 1 - January 31, 2016	—	\$ —	—	\$15,000,000
February 1 - February 29, 2016	178,000	7.04	178,000	13,746,730
March 1 - March 31, 2016	—	—	—	13,746,730
April 1 - December 31, 2016	—	—	—	13,746,730
January 1 - December 31, 2017	—	—	—	13,746,730
Total	<u>178,000</u>	<u>\$ 7.04</u>	<u>178,000</u>	

⁽¹⁾ On April 30, 2015, the Company announced a stock repurchase program under which it authorized the repurchase, in the aggregate, up to \$15.0 million of the Company's outstanding common stock. Under the stock repurchase agreement authorized, the Company could repurchase shares in open-market purchases or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. As of December 31, 2017, the Company had repurchased an aggregate of \$1.3 million of the Company's outstanding common stock under this program at an average price of \$7.04 per share. From April 1, 2016 through December 31, 2017, the Company made no repurchases under the program.

Performance Graph

The following Performance Graph and table compares the cumulative total shareholder return on the Company's common stock for the period beginning at the close of trading on August 8, 2014 (the end of the first day of trading of the Company's common stock on the NASDAQ Global Select Market) to December 31, 2017, with the cumulative total return of the S&P 500 Total Return Index and SNL Southwest Bank for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes \$100 invested on August 7, 2014, in the Company's common stock, the S&P 500 Total Return Index and SNL Southwest Bank. The historical stock price performance for the Company's common stock shown on the graph below is not necessarily indicative of future stock performance.



* \$100 invested on August 8, 2014, in stock or index, including reinvestment of dividends. Fiscal year ended December 31.

	8/8/2014	12/31/2014	6/30/2015	12/31/2015	6/30/2016	12/31/2016	6/30/2017	12/31/2017
Green Bancorp, Inc.	\$ 100.00	\$ 70.62	\$ 90.09	\$ 61.47	\$ 51.14	\$ 89.15	\$ 114.08	\$ 119.06
S&P 500 Index	100.00	107.48	108.80	108.96	113.14	122.00	134.33	148.63
SNL Southwest Bank	100.00	98.75	110.13	93.62	95.63	145.10	144.00	159.48

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data for the years ended December 31, 2017, 2016 and 2015 and the selected consolidated financial data as of December 31, 2017 and 2016 presented below have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data as of and for the years ended December 31, 2014 and 2013 and the selected balance sheet data as of December 31, 2015, 2014 and 2013 presented below have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K.

You should read the selected consolidated financial data set forth below in conjunction with the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	As of December 31,				
	2017	2016	2015 ⁽¹⁾	2014 ⁽¹⁾	2013
(Thousands of dollars, except per share amounts)					
Selected Period End Balance Sheet Data:					
Cash and cash equivalents	\$ 140,681	\$ 389,007	\$ 124,906	\$ 68,923	\$ 34,757
Investment securities	718,814	310,124	318,151	238,278	255,515
Goodwill	85,291	85,291	85,291	30,129	15,672
Core deposit intangibles, net of accumulated amortization	8,503	9,975	11,562	4,148	984
Loans held for investment	3,190,485	3,098,220	3,130,669	1,799,155	1,359,415
Allowance for loan losses	(31,220)	(26,364)	(32,947)	(15,605)	(16,361)
Total assets	4,261,916	4,024,822	3,786,157	2,196,135	1,703,127
Deposits	3,397,143	3,374,700	3,100,748	1,845,713	1,447,372
Other borrowed funds	325,000	150,000	223,265	47,586	46,858
Total shareholders’ equity	463,795	430,482	429,402	288,405	199,218

As of and for the Years ended December 31,					
	2017	2016	2015 ⁽¹⁾	2014 ⁽¹⁾	2013
(Thousands of dollars, except per share amounts)					
Selected Income Statement Data:					
Net interest income	\$ 141,047	\$ 133,628	\$ 97,608	\$ 70,177	\$ 57,042
Provision for loan losses	14,360	64,700	17,864	2,693	2,373
Net interest income after provision for loan losses	126,687	68,928	79,744	67,484	54,669
Noninterest income	18,512	14,196	12,187	8,056	4,812
Noninterest expense	84,099	84,498	66,178	52,433	39,965
Net income (loss)	34,136	(972)	15,439	14,742	12,610
Per Share Data (Common Stock):					
Earnings (loss) per common share, basic	\$ 0.92	\$ (0.03)	\$ 0.54	\$ 0.65	\$ 0.61
Earnings (loss) per common share, diluted	0.92	(0.03)	0.53	0.64	0.60
Book value per common share	12.50	11.64	11.67	11.02	9.59
Tangible book value per common share ⁽²⁾	9.97	9.06	9.04	9.71	8.79
Weighted average common shares outstanding, basic	37,043,230	36,676,929	28,838,638	22,625,127	20,748,299
Weighted average common shares outstanding, diluted	37,296,930	36,676,929	29,095,638	22,915,268	20,880,187
Selected Performance Metrics:					
Return on average assets ⁽³⁾	0.83%	(0.03)%	0.58%	0.79%	0.75%
Return on average equity ⁽³⁾	7.57	(0.22)	4.68	6.33	6.53
Return on average tangible common equity ⁽⁴⁾	9.84	0.02	5.67	7.00	7.24
Net interest margin ⁽⁵⁾	3.60	3.65	3.84	3.88	3.47
Efficiency ratio ⁽⁶⁾	52.71	57.16	60.27	67.02	64.61
Loans to deposits ratio	93.92	91.81	100.96	97.48	93.92
Non-interest expense to average assets ⁽³⁾	2.04	2.19	2.49	2.80	2.37
Selected Credit Quality Ratios:					
Nonperforming assets to total assets	1.68%	2.64 %	1.51%	0.55%	1.38%
Nonperforming loans to total loans	2.22	3.05	1.44	0.40	1.23
Total classified assets to total capital	28.61	39.09	37.59	11.65	11.87
Allowance for loan losses to total loans	0.98	0.85	1.05	0.87	1.20
Net charge-offs to average loans outstanding	0.31	2.28	0.02	0.23	0.01
Green Bancorp Capital Ratios:					
Average shareholders' equity to average total assets	11.0%	11.2 %	12.4%	12.4%	11.4%
Tier 1 capital to average assets ⁽³⁾	9.5	9.1	9.2	12.1	10.3
Common equity tier 1 capital	10.5	9.7	9.6	—	—
Tier 1 capital to risk-weighted assets	10.9	10.1	9.6	13.1	11.4
Total capital to risk-weighted assets	12.7	11.8	10.5	14.0	12.5
Tangible common equity to tangible assets ⁽⁷⁾	8.9	8.5	9.0	11.8	10.8
Green Bank Capital Ratios:					
Tier 1 capital to average assets ⁽³⁾	10.1%	9.0 %	9.4%	11.6%	10.0%
Common equity tier 1 capital	11.6	10.0	9.7	—	—
Tier 1 capital to risk-weighted assets	11.6	10.0	9.7	12.7	11.1
Total capital to risk-weighted assets	12.4	10.8	10.7	13.5	12.2

⁽¹⁾ During 2015 and 2014, we completed a total of two acquisitions. These acquisitions increased total assets, gross loans and deposits on their respective acquisition date as detailed below.

(dollars in millions)	Acquisition Date	Total Assets	Total Loans	Deposits
SharePlus	October 17, 2014	308.0	251.2	270.0
Patriot	October 1, 2015	1,365.9	1,081.1	1,086.5

- (2) We calculate tangible book value per common share as total shareholders' equity less goodwill and core deposit intangibles, net of accumulated amortization at the end of the relevant period, divided by the outstanding number of shares of our common stock at the end of the relevant period. Tangible book value per common share is a non-GAAP financial measure, and, as we calculate tangible book value per common share, the most directly comparable GAAP financial measure is book value per common share. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."
- (3) We calculate our average assets and average equity for a period by dividing the sum of our total assets or total shareholders' equity, as the case may be, as of the close of business on each day in the relevant period, by the number of days in the period. We have calculated our return on average assets and return on average equity for a period by dividing net income for that period (annualized) by our average assets and average equity, as the case may be, for that period.
- (4) We calculate our return on average tangible common equity as net income plus amortization of core deposit intangibles, net of taxes divided by average shareholders' equity less average goodwill and average core deposit intangibles, net of accumulated amortization. Return on average tangible common equity is a non-GAAP financial measure, and as we calculate the return on average tangible common equity, the most directly comparable financial measure calculated in accordance with GAAP is return on average equity. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."
- (5) Net interest margin represents net interest income divided by average interest-earning assets.
- (6) Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income, excluding bargain purchase gain from acquisitions. Efficiency ratio, as we calculate it, is a non-GAAP financial measure. The GAAP-based efficiency ratio is noninterest expenses divided by net interest income plus noninterest income. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."
- (7) We calculate tangible common equity as total shareholders' equity less goodwill and core deposit intangibles, net of accumulated amortization, and we calculate tangible assets as total assets less goodwill and core deposit intangibles, net of accumulated amortization. Tangible common equity to tangible assets is a non-GAAP financial measure, and, as we calculate tangible common equity to tangible assets, the most directly comparable GAAP financial measure is total shareholders' equity to total assets. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

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

Special Cautionary Notice Regarding Forward-Looking Statements

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

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

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

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

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 report and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company’s Annual Report on Form 10-K.

Except where the context otherwise requires or where otherwise indicated, in this report the terms “Company,” “we,” “us,” “our,” “our company” and “our business” refer to Green Bancorp, Inc. and our subsidiaries, including our banking subsidiary Green Bank, N.A., a national banking association, and the term “Bank” refers to Green Bank, N.A. In this report we refer to the Houston–Sugar Land–Baytown and Dallas–Fort Worth–Arlington metropolitan statistical areas as the Houston and Dallas MSAs, respectively.

Overview

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

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

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and shareholders’ equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas, in the Houston and Dallas MSAs and Austin, Louisville and Honey Grove, as well as developments affecting the energy, technology and real estate sectors within these markets.

Factors affecting the volume and cost of our deposits include changes in market interest rates and economic conditions in our target markets, as well as the ongoing execution of our balance sheet management strategy. For example, we experienced significant year over year deposit growth of 0.7% in 2017, 8.8% in 2016 and 68.0% in 2015 resulting from acquisitions and organic growth, and average rates on deposits were 0.73% in 2017, 0.62% in 2016 and 0.47% in 2015, in part reflecting increased marketing and customer retention initiatives during these periods.

Net income for the year ended December 31, 2017 was \$34.1 million, compared with the net loss of \$1.0 million and the net income of \$15.4 million for the years ended December 31, 2016 and 2015, respectively. The increase in net income in 2017, was primarily due to a \$50.3 million decrease in provision for loan losses due to the increased provision recorded in 2016 primarily related to energy loans, offset by a \$27.4 million increase in provision from income taxes which includes \$5.8 million in expense for the deferred tax asset revaluation resulting from the 2017 Tax Cut and Jobs Act. The change in net income during 2016, was principally due to the \$46.7 million increase in provision for loan losses primarily related to energy loans. The average loan balance decreased approximately \$72.6 million compared to 2016, primarily due to new loan production during the year was offset by the resolution of \$42.5 million in energy loans in addition to the resolution of other nonperforming loans and reductions in commercial real estate loans.

Our efficiency ratio, which represents noninterest expense divided by the sum of net interest income and noninterest income, excluding bargain purchase gain from acquisitions, was 52.7% in 2017, 57.2% in 2016 and 60.3% in 2015. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources. We also monitor the efficiency ratio in comparison with changes in our total assets and loans, and we believe that maintaining or reducing the efficiency ratio during periods of growth demonstrates the scalability of our operating platform. We expect to continue to benefit from our scalable platform in future periods as we believe we have already incurred a significant portion of the additional overhead expense necessary to support growth as we continue to execute our business strategy. The year over year decreases are reflective of increases in income which more than offset increases in noninterest expense.

Total assets were \$4.3 billion as of December 31, 2017 compared with \$4.0 billion as of December 31, 2016, an increase of \$237.1 million or 5.9%. Total deposits were \$3.4 billion as of December 31, 2017 compared with \$3.4 billion as of December 31, 2016, an increase of \$22.4 million or 0.7%. Total loans held for investment were \$3.2 billion at December 31, 2017, an increase of \$92.3 million or 3.0% compared with \$3.1 billion as of December 31, 2016. At December 31, 2017 and December 31, 2016, we had \$57.3 million and \$76.8 million, respectively, in non-accrual loans and our allowance for loan losses was \$31.2 million and \$26.4 million, respectively. Shareholders' equity was \$463.8 million and \$430.5 million at December 31, 2017 and December 31, 2016, respectively.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

At period-end after acquisition, the fair-valued acquired loans from each acquisition are reassessed to determine whether an addition to the allowance for credit losses is appropriate due to further credit quality deterioration. For further discussion of the methodology used in the determination of the allowance for credit losses for acquired loans, see "Financial Condition – Allowance for Loan Losses" section below.

For further discussion of our acquisition and loan accounting, see Note 1 to the consolidated financial statements.

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

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

Goodwill—Goodwill has an indefinite useful life and is subject to an annual impairment test and more frequently if a triggering event occurs indicating that it is more likely than not that the fair value of the Company, which is our only reporting unit, is below the carrying value of its equity. During 2017, the Company changed the annual impairment assessment date from December 31 to October 31. There was no impact to the process or results. We completed our annual impairment analysis of goodwill as of October 31, 2017, and based on this analysis, we do not believe any of our goodwill is impaired as of such date because the fair value of our equity substantially exceeded our carrying value. The goodwill impairment test involves a two-step process. Under the first step, the estimation of fair value of the reporting unit is compared with its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the implied fair value of goodwill is less than its carrying value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. As part of our impairment analysis, we use a variety of methodologies in determining the fair value of the reporting unit, including cash flow analyses that are consistent with the assumptions management believes hypothetical marketplace participants would use.

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

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

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

Acquisitions

On October 1, 2015, the Company completed the merger of Patriot with and into the Company and the merger of Patriot's wholly-owned subsidiary, Patriot Bank with and into the Bank. Patriot, headquartered in Houston, TX, operated six locations in Houston, two in Dallas and one in Fannin County, Texas. As of September 30, 2015, Patriot, on a consolidated basis, reported total assets of \$1.4 billion, total loans of \$1.1 billion, total deposits of \$1.1 billion and total shareholders' equity of \$125.2 million. Under the terms of the merger agreement, we issued 10.4 million shares of the Company's common stock for all outstanding shares of Patriot common stock, including the converted Series D and Series F preferred stock. In addition, Patriot's \$27.3 million Series B and Series C preferred stock were redeemed in connection with the closing. Consistent with the Company's strategy, the primary reasons for the Patriot acquisition were to enhance market share in Houston and Dallas, and improve profitability through cost savings and revenue synergies.

In connection with the merger, we recognized \$55.2 million of goodwill, \$8.3 million of core deposit intangibles, and \$7.3 million in net deferred tax assets.

See "Item 1. Business—Recent Acquisitions" for further information.

Results of Operations

Year ended December 31, 2017 compared with year ended December 31, 2016. Net income for the year ended December 31, 2017 was \$34.1 million, compared with the net loss of \$1.0 million for the same period in 2016. Net income per diluted common share was \$0.92 for the year ended December 31, 2017, compared with net loss per diluted common share of \$(0.03) for the same period in 2016. The increase in net income was primarily due to a \$50.3 million decrease in provision for loan losses due to the increased provision recorded in 2016 primarily related to energy loans, offset by a \$27.4 million increase in provision from income taxes which includes \$5.8 million in expense for the deferred tax asset revaluation resulting from the 2017 Tax Cut and Jobs Act. Returns on average assets and average common equity, each on an annualized basis, for the year ended December 31, 2017 were 0.83% and 7.57% and for year ended December 31, 2016, were (0.03)% and (0.22)%, respectively. Green Bancorp's efficiency ratio was 52.7% for the year ended December 31, 2017 compared to 57.2% for 2016. The efficiency ratio is calculated as noninterest expense divided by the sum of net interest income and noninterest income. The decrease from 2016 to 2017 is primarily due to increases in net interest income and noninterest income which more than offset the increases noninterest expense.

Net Interest Income

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

Year ended December 31, 2017 compared with year ended December 31, 2016. Net interest income before provision for loan losses for the year ended December 31, 2017, was \$141.0 million, an increase of \$7.4 million, or 5.6%, compared with \$133.6 million during the same period in 2016. The increase in net interest income was comprised of a \$16.7 million, or 10.7%, increase in interest income, offset by a \$9.3 million, or 42.4%, increase in interest expense. The net interest margin for the year ended December 31, 2017 decreased to 3.60%, compared with 3.65% for the same period in 2016 primarily due to a 16 basis point increase in the cost of interest bearing deposits and expense related to the subordinated notes issued in December 2016. Average noninterest-bearing deposits for the year ended December 31, 2017 were \$690.8 million, an increase of \$79.4 million compared with the same period in 2016. Average shareholders' equity for the year ended December 31, 2017 was \$451.1 million, an increase of \$17.2 million with the same period in 2016, primarily due to the \$34.1 million of net income for the year ended December 31, 2017.

Interest income was \$172.3 million in 2017, an increase of \$16.7 million from 2016. Interest income on loans was \$154.3 million for 2017, an increase of \$4.8 million or 3.2% compared with 2016 due to a 27 basis point increase in rate on an average balance that decreased by \$72.6 million. Interest income on securities was \$15.3 million during 2017, an increase of \$11.1 million from 2016 due to a \$383.3 million, or 133.9%, increase in the average balance and a 81 basis point increase in rate.

Interest expense was \$31.2 million for 2017, an increase of \$9.3 million over 2016. Interest expense related to subordinated debentures increased by \$3.0 million due to the issuance in December 2016. Average interest-bearing transaction and savings deposits increased \$169.3 million for 2017 compared to 2016 and the average rate on interest-bearing transaction and savings deposits increased from 0.48% to 0.68% for the same time period, resulting in a \$3.5 million increase in related interest expense. Average certificates and other time deposits decreased \$72.7 million for 2017 compared to 2016 and the average rate increased from 1.01% to 1.17% for the same time period resulting in an increase in related interest expense of \$1.4 million. During 2017, average noninterest-bearing deposits increased \$79.4 million from \$611.4 million during 2016 to \$690.8 million during 2017. Total cost of funds, including noninterest-bearing deposits, increased 22 basis points to 0.86% for the year ended December 31, 2017 from 0.64% for the year ended December 31, 2016. The increases in cost of deposits for the year ended December 31, 2017 were primarily due to market interest rate increase and customer retention initiatives.

Net interest margin, defined as net interest income divided by average interest-earning assets, for 2017 was 3.60%, a decrease of 5 basis points compared with 3.65% for 2016.

Year ended December 31, 2016 compared with year ended December 31, 2015. Net interest income before provision for loan losses for the year ended December 31, 2016, was \$133.6 million an increase of \$36.0 million, or 36.9%, compared with \$97.6 million during the same period in 2015. The increase was primarily due to a 46.1% increase in average loan volume largely driven by the Patriot acquisition. The net interest margin for the year ended December 31, 2016 decreased to 3.65%, compared with 3.84% for the same period in 2015 primarily due to a 14 basis point increase in the cost of interest bearing deposits. Average noninterest-bearing deposits for the year ended December 31, 2016 were \$611.4 million, an increase of \$97.9 million compared with the same period in 2015. Average shareholders' equity for the year ended December 31, 2016 was \$433.9 million, an increase of \$103.9 million compared with the same period in 2015, primarily due to the Patriot acquisition that was completed during the fourth quarter of 2015.

Interest income was \$155.5 million in 2016, an increase of \$47.0 million from 2015. Interest income on loans was \$149.4 million for 2016, an increase of \$45.2 million or 43.4% compared with 2015 due to the increase in average loans outstanding, partially offset by the 9 basis point decrease in the average yield on the loan portfolio. Interest income on securities was \$4.2 million during 2016, an increase of \$605 thousand from 2015 due to an \$11.5 million increase in the average securities portfolio and a 16 basis point increase in the average yield on the securities portfolio.

Interest expense was \$21.9 million for 2016, an increase of \$11.0 million over 2015. Average interest-bearing transaction and savings deposits increased \$345.3 million for 2016 compared to 2015 and the average rate on interest-bearing transaction and savings deposits increased from 0.36% to 0.48% for the same time period, resulting in a \$2.6 million increase in related interest expense. Average certificates and other time deposits increased \$577.6 million for 2016 compared to 2015 and the average rate increased from 0.89% to 1.01% for the same time period resulting in an increase in related interest expense of \$6.8 million. During 2016, average noninterest-bearing deposits increased \$97.9 million from \$513.5 million during 2015 to \$611.4 million during 2016. Total cost of funds increased 17 basis points to 0.64% for the year ended December 31, 2016 from 0.47% for the year ended December 31, 2015. The increases in cost of deposits for the year ended December 31, 2016 were primarily due to customer retention initiatives and marketing efforts focused on organic growth.

Net interest margin, defined as net interest income divided by average interest-earning assets, for 2016 was 3.65%, a decrease of 19 basis points compared with 3.84% for 2015.

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

For the Years ended December 31,									
2017			2016			2015			
Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Interest Paid	Average Yield/Rate	
(Dollars in thousands)									
Assets									
Interest-Earning Assets:									
Loans	\$ 3,065,360	\$ 154,266	5.03%	\$ 3,137,994	\$ 149,422	4.76%	\$ 2,148,268	\$ 104,205	4.85%
Securities	669,588	15,294	2.28	286,299	4,209	1.47	274,780	3,604	1.31
Other investments	22,823	847	3.71	21,052	761	3.61	14,740	453	3.07
Interest earning deposits in financial institutions and federal funds sold	160,810	1,843	1.15	211,950	1,152	0.54	104,630	292	0.28
Total interest-earning assets	3,918,581	172,250	4.40%	3,657,295	155,544	4.25%	2,542,418	108,554	4.27%
Allowance for loan losses	(31,471)			(39,417)			(18,462)		
Noninterest-earning assets	225,674			242,930			138,963		
Total assets	<u>\$ 4,112,784</u>			<u>\$ 3,860,808</u>			<u>\$ 2,662,919</u>		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing transaction and savings deposits	\$ 1,370,503	\$ 9,298	0.68%	\$ 1,201,198	\$ 5,749	0.48%	\$ 855,869	\$ 3,103	0.36%
Certificates and other time deposits	1,317,180	15,452	1.17	1,389,834	14,022	1.01	812,255	7,237	0.89
Securities sold under agreements to repurchase	4,770	7	0.15	3,605	4	0.11	9,649	15	0.16
Other borrowed funds	211,407	2,230	1.05	186,453	959	0.51	128,135	364	0.28
Subordinated debentures and subordinated notes	47,533	4,216	8.87	15,623	1,182	7.57	3,272	227	6.94
Total interest-bearing liabilities	2,951,393	31,203	1.06%	2,796,713	21,916	0.78%	1,809,180	10,946	0.61%
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	690,786			611,388			513,453		
Other liabilities	19,458			18,784			10,279		
Total liabilities	3,661,637			3,426,885			2,332,912		
Shareholders' equity	451,147			433,923			330,007		
Total liabilities and shareholders' equity	<u>\$ 4,112,784</u>			<u>\$ 3,860,808</u>			<u>\$ 2,662,919</u>		
Net interest rate spread			3.34%			3.47%			3.66%
Net interest income and margin ⁽¹⁾	<u>\$ 141,047</u>		3.60%	<u>\$ 133,628</u>		3.65%	<u>\$ 97,608</u>		3.84%

⁽¹⁾ The net interest margin is equal to net interest income divided by average interest-earning assets.

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

	Years ended December 31,					
	2017 vs. 2016			2016 vs. 2015		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(Dollars in thousands)						
Interest-Earning assets:						
Loans, including fees	\$ (3,459)	\$ 8,303	\$ 4,844	\$ 48,008	\$ (2,791)	\$ 45,217
Securities	5,635	5,450	11,085	151	454	605
Other investments	64	22	86	194	114	308
Interest-earning deposits in financial institutions and fed funds sold	(278)	969	691	304	556	860
Total increase (decrease) in interest income	1,962	14,744	16,706	48,657	(1,667)	46,990
Interest-bearing liabilities:						
Interest-bearing transaction and savings deposits	\$ 810	\$ 2,739	\$ 3,549	\$ 1,252	\$ 1,394	\$ 2,646
Certificates and other time deposits	(733)	2,163	1,430	5,146	1,639	6,785
Securities sold under agreements to repurchase	1	2	3	(9)	(2)	(11)
Other borrowings	128	1,143	1,271	166	429	595
Subordinated debentures and subordinated notes	2,414	620	3,034	857	98	955
Total increase (decrease) in interest expense	2,620	6,667	9,287	7,412	3,558	10,970
Increase (decrease) in net interest income	\$ (658)	\$ 8,077	\$ 7,419	\$ 41,245	\$ (5,225)	\$ 36,020

Provision for loan losses

Our provision for loan losses are charged to income in order to bring our total allowance for loan losses to a level deemed appropriate by management based on the factors discussed under “—Critical Accounting Policies—Allowance for loan losses.” The allowance for loan losses at December 31, 2017 was \$31.2 million, representing 0.98% of total loans as of such date.

Year ended December 31, 2017 compared with year ended December 31, 2016. The provision for loan losses for the year ended December 31, 2017 was \$14.4 million compared with \$64.7 million for the year ended December 31, 2016. The provision recorded during the year ended December 31, 2017 included \$10.5 million on the energy portfolio a decrease from \$50.7 million during the year ended December 31, 2016. Net charge-offs for the years ended December 31, 2017 and 2016 were \$9.5 million and \$71.3 million, respectively. This decrease included a \$62.1 million decrease in gross charge-offs from \$72.6 million for the year ended December 31, 2016 to \$10.5 million for the year ended December 31, 2017 and a decrease in recoveries from \$1.3 million for the year ended December 31, 2016 to \$1.0 million for the year ended December 31, 2017. The decrease in net charge-offs in 2017 is primarily due to the \$68.0 million of net charge-offs related to the energy portfolio recorded in the year ended December 31, 2016 in comparison to \$7.8 million for the current year.

Year ended December 31, 2016 compared with year ended December 31, 2015. The provision for loan losses for the year ended December 31, 2016 was \$64.7 million compared with \$17.9 million for the year ended December 31, 2015. The provision recorded during the year ended December 31, 2016 included \$50.7 million related to energy loans. Net charge-offs for the years ended December 31, 2016 and 2015 were \$71.3 million and \$522 thousand, respectively. This increase included a \$69.7 million increase in gross charge-offs from \$2.9 million for the year ended December 31, 2015 to \$72.6 million for the year ended December 31, 2016 and a decrease in recoveries from \$2.3 million for the year ended December 31, 2015 to \$1.3 million for the year ended December 31, 2016. The increase in charge-offs in 2016 is primarily due to charge-offs of \$68.0 million related to the energy portfolio.

Noninterest Income

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

Noninterest income for the year ended December 31, 2017 was \$18.5 million, an increase of \$4.3 million, or 30.4%, compared with \$14.2 million for the twelve months ended December 31, 2016. This increase was primarily due to a \$3.0 million increase in customer service fees, a \$2.4 million increase in gain on sale of guaranteed portion of loans and a \$541 thousand increase in loan fees, offset by a \$904 thousand increase in net loss on loans held for sale and a \$708 thousand decrease in derivative income.

Noninterest income for the year ended December 31, 2016 was \$14.2 million, an increase of \$2.0 million, or 16.5%, compared with \$12.2 million for the same period in 2015. This increase was primarily due to a \$2.2 million increase in customer service fees driven by growth in business accounts and the related treasury management fees and a \$1.2 million increase in swap income, offset by a \$1.8 million decrease in gain on sale of held for sale loans due to the \$1.4 million loss on energy loans classified as held for sale.

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

	For the Years ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Customer service fees	\$ 9,103	\$ 6,129	\$ 3,925
Loan fees	3,515	2,974	2,369
Gain on sale of available-for-sale securities, net	(38)	—	772
Gain (loss) on sale of held-for-sale loans, net	(2,308)	(1,404)	405
Gain on sale of guaranteed portion of loans	5,755	3,343	3,484
Other	2,485	3,154	1,232
Total noninterest income	<u>\$ 18,512</u>	<u>\$ 14,196</u>	<u>\$ 12,187</u>

Noninterest Expense

Noninterest expense for the year ended December 31, 2017, was \$84.1 million, a decrease of \$399 thousand, or 0.5%, compared with \$84.5 million for the twelve months ended December 31, 2016. The decrease is primarily due to decreases of \$2.5 million in expense for real estate acquired by foreclosure, \$2.0 million in loan related expenses and a \$1.6 million favorable change in the reserve for unfunded commitments and smaller decreases in other expense categories, offset by a \$5.4 million increase in salaries and employee benefits. The increase in salaries and employee benefits includes \$3.1 million in stock-based compensation expense for the accelerated vesting of certain performance options recorded in the fourth quarter.

Noninterest expense for the year ended December 31, 2016, was \$84.5 million, an increase of \$18.3 million, or 27.7%, compared with \$66.2 million for the same period in 2015. The increase was primarily due to increases related to ongoing acquired Patriot operations and expenses related to the MARS initiatives, including expenses related to disposition of real estate acquired by foreclosure and loan related expenses including legal fees and other administrative costs totaling approximately \$5.5 million. These items and other changes in the various components of noninterest expense are discussed in more detail below.

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

	For the Years ended December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Salaries and employee benefits ⁽¹⁾	\$ 52,542	\$ 47,169	\$ 38,110
Non-staff expenses:			
Occupancy	8,194	8,319	7,097
Professional and regulatory fees	8,868	8,958	8,923
Data processing	3,808	3,859	3,098
Software license and maintenance	2,027	2,155	1,844
Marketing	775	1,114	791
Loan related	1,804	3,795	1,185
Real estate acquired by foreclosure, net	704	3,168	1,086
Other	5,377	5,961	4,044
Total noninterest expense	<u>\$ 84,099</u>	<u>\$ 84,498</u>	<u>\$ 66,178</u>

⁽¹⁾ Total salaries and employee benefits include stock based compensation expense of \$4.9 million, \$1.6 million and \$707 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

Salaries and Employee Benefits. Salaries and benefits were \$52.5 million for the year ended December 31, 2017, an increase of \$5.4 million compared to 2016. The increase was primarily due to a \$3.1 million in stock-based compensation expense for the accelerated vesting of certain performance options recorded in the fourth quarter of 2017, a \$1.1 million increase in bonus and incentives and a \$580 thousand increase in salaries. Salaries and benefits were \$47.2 million for the year ended December 31, 2016, an increase of \$9.1 million compared to 2015. The increase was primarily due to a \$6.1 million increase in salaries due to the Patriot acquisition, increased staffing levels and increased compensation due to our portfolio banker compensation program and general merit increases; a \$1.0 million increase in employee benefits and taxes due to increased staffing levels; a \$879 thousand increase resulting from the stock-based compensation expense associated with our equity plans; and a \$566 thousand increase in bonus and incentives. Total salaries and benefits for the year ended December 31, 2017 included \$4.9 million in stock based compensation expense compared with \$1.6 million and \$707 thousand recorded for each of the years ended December 31, 2016 and 2015, respectively.

Occupancy. Occupancy expenses were \$8.2 million, \$8.3 million and \$7.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. The increase of \$1.2 million or 17.2% for 2016 compared to 2015 was primarily due to a full year of Patriot lease and depreciation expense due to the Patriot acquisition.

Professional and regulatory fees. Professional and regulatory fees expenses were \$8.9 million, \$9.0 million and \$8.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Data processing. Data processing expenses were \$3.8 million, \$3.9 million and \$3.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. The increase of \$761 thousand or 24.6% for 2016 compared to 2015 was primarily due to increased processing costs due to the accounts added from the Patriot acquisition.

Software license and maintenance. Software license and maintenance expenses were \$2.0 million, \$2.2 million and \$1.8 million for the years ended December 31, 2017, 2016 and 2015, respectively. The increase of \$311 thousand or 16.9% for 2016 compared to 2015 was primarily due to ongoing investments in information technology systems to enhance our banking capabilities.

Loan related. Loan related expenses include legal fees, appraisals and other costs associated with the management of the loan portfolio including consulting services with contracted workout specialists. Loan related expenses were \$1.8 million, \$3.8 million and \$1.2 million the years ended December 31, 2017, 2016 and 2015, respectively. The decrease of \$2.0 million or 52.5% for 2017 compared to 2016 was primarily due to a \$1.0 million decrease in legal fees and a \$715 thousand decrease in consulting fees due to prior year having higher expenses related to the MARS initiative. The increase of \$2.6 million or 220.3% for 2016 compared to 2015 was due to expenses related to the MARS initiative, including \$1.7 million in legal and other fees and \$984 thousand in consulting fees.

Real estate acquired by foreclosure. Real estate acquired by foreclosure expenses were \$704 thousand for the year ended December 31, 2017 compared to \$3.1 million for the year ended December 31, 2016. The decrease in real estate acquired by foreclosure expenses was primarily due to decreases in write-downs and losses recorded in 2017 compared to 2016. Real estate acquired by foreclosure expenses were \$3.1 million for the year ended December 31, 2016 compared to \$1.1 million for the year ended December 31, 2015. The increase in real estate acquired by foreclosure expenses was primarily due to write-downs and losses associated with real estate acquired by foreclosure that was obtained through the Patriot acquisition.

Other. Other noninterest expenses, which consist of subscription, membership and dues; employee expenses including travel, meals, entertainment and education; postage and delivery; amortization of intangibles; supplies, printing and reproduction; insurance; account related losses; correspondent bank fees; customer program expenses; and other operating expenses such as settlement of claims. Other noninterest expenses were \$5.4 million, \$5.9 million and \$4.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. The decrease of \$584 thousand or 9.8% for 2017 compared to 2016 was primarily due to a decrease of \$1.6 million favorable change in unfunded commitments offset by a \$460 thousand increase in third party banking services and various other expenses related to the operations of the bank. The increase of \$1.9 million or 47.4% for 2016 compared to 2015 was primarily due to a \$739 thousand increase in core deposits intangible amortization and an increase of \$682 thousand in provision for unfunded commitments.

Efficiency Ratio. The efficiency ratio is a supplemental financial measure utilized in our internal evaluation of our performance. Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources. Our efficiency ratio was 52.7% for the year ended December 31, 2017, compared with 57.2% for the year ended December 31, 2016. The decrease was primarily due to increased net interest income and noninterest income in addition to a decrease in noninterest expense. Our efficiency ratio was 57.2% for the year ended December 31, 2016, compared with 60.3% for the year ended December 31, 2015. The decrease was primarily due to increased net interest income and noninterest income, which more than offset the increase in noninterest expense, all primarily due to a full year of income and expenses related to the Patriot acquisition.

Income Taxes

Income tax expense increased \$27.4 million for the year ended December 31, 2017, compared with the income tax benefit of \$402 thousand for the same period in 2016. The increase was primarily attributable to higher pre-tax net earnings for the year ended December 31, 2017 compared to the year ended December 31, 2016 and \$5.8 million in tax expense for the deferred tax asset revaluation resulting from the 2017 Tax Cuts and Jobs Act. The effective income tax rate for the years ended December 31, 2017 and 2016 was 44% and 29%, respectively, as compared to the U.S. statutory rate of 35%.

Upon enactment of the Tax Cuts and Jobs Act on December 22, 2017, the Company was required to recalculate its deferred tax assets and liabilities to account for the future impact of the lower corporate tax rate of 21%. The federal statutory corporate income tax rate of 21% will be applicable to the Company effective January 1, 2018.

Income tax expense decreased \$10.7 million, or 103.9% due to the income tax benefit of \$402 thousand for the year ended December 31, 2016, compared with the income tax expense of \$10.3 million for the same period in 2015. The decrease was primarily attributable to lower pre-tax net earnings for the year ended December 31, 2016 compared to the year ended December 31, 2015. The effective income tax rate for the years ended December 31, 2016 and 2015 was 29% and 40%, respectively, as compared to the U.S. statutory rate of 35%.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K have been prepared in accordance with GAAP. These financial statements require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

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

Financial Condition

Loan Portfolio

At December 31, 2017, total loans held for investment were \$3.2 billion, an increase of \$92.3 million, or 3.0%, compared with \$3.1 billion at December 31, 2016. New loan production during the year was offset by the resolution of \$42.5 million in energy loans in addition to the resolution of other nonperforming loans and reductions in commercial real estate loans. Loans held for sale at December 31, 2017 were \$7.2 million, a decrease of \$16.8 million compared with \$24.0 million at December 31, 2016.

At December 31, 2016, total loans held for investment were \$3.1 billion, a decrease of \$32.4 million, or 1.0%, compared with \$3.1 billion at December 31, 2015, primarily due to the resolution of loans through the MARS initiatives which offset new loan production. Loans held for sale at December 31, 2016 were \$24.0 million, an increase of \$23.6 million compared with \$384 thousand at December 31, 2015. The loans held for sale at December 31, 2016 are energy loans that were transferred during the third quarter of 2016.

At December 31, 2017, total loans, excluding loans held for sale, were 93.9% of deposits and 74.9% of total assets. At December 31, 2016, total loans, excluding loans held for sale, were 91.8% of deposits and 77.0% of total assets.

Lending activities originate from the efforts of our portfolio bankers, with an emphasis on lending to small to medium-sized businesses, commercial companies, professionals and individuals located in the Houston and Dallas MSAs and Austin, Louisville and Honey Grove.

We provide commercial lines of credit, working capital loans, commercial real estate-backed loans (including loans secured by owner occupied commercial properties), mortgage-warehouse lines, term loans, equipment financing, acquisition, expansion and development loans, borrowing base loans, real estate construction loans, homebuilder loans, government guaranteed loans, purchased receivables financing, letters of credit and other loan products to national and regional companies, real estate developers, mortgage lenders, manufacturing and industrial companies and other businesses.

The types of loans we make to consumers include residential real estate loans, home equity loans, installment loans, unsecured and secured personal lines of credit, overdraft protection and letters of credit.

See “Item 1. Business—Our Banking Services—Lending Activities—Loan Types” for further information about the types of loans we offer.

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

	For the Years ended December 31,									
	2017		2016		2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Commercial & industrial	\$1,286,496	40.3%	\$1,053,925	34.0%	\$1,206,452	38.5%	\$ 788,410	43.8%	\$ 681,290	50.1%
Real estate:										
Owner occupied commercial real estate	415,230	13.0	394,210	12.7	353,889	11.3	163,592	9.1	156,961	11.6
Commercial real estate	1,067,779	33.5	1,143,751	36.9	904,115	28.9	339,006	18.8	267,011	19.6
Construction, land & land development	164,952	5.2	249,704	8.1	358,813	11.5	240,666	13.4	140,067	10.3
Residential mortgage	238,580	7.5	245,191	7.9	293,483	9.4	257,066	14.3	106,362	7.8
Consumer and other	17,448	0.5	11,439	0.4	13,917	0.4	10,415	0.6	7,724	0.6
Total loans held for investment	<u>\$3,190,485</u>	<u>100.0%</u>	<u>\$3,098,220</u>	<u>100.0%</u>	<u>\$3,130,669</u>	<u>100.0%</u>	<u>\$1,799,155</u>	<u>100.0%</u>	<u>\$1,359,415</u>	<u>100.0%</u>
Total loans held for sale	<u>\$ 7,156</u>	<u>100.0%</u>	<u>\$ 23,989</u>	<u>100.0%</u>	<u>\$ 384</u>	<u>100.0%</u>	<u>\$ 573</u>	<u>100.0%</u>	<u>\$ —</u>	<u>—</u>

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

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Commercial and industrial	\$ 427,958	\$ 813,421	\$ 45,117	\$ 1,286,496
Real estate:				
Owner occupied commercial real estate	31,254	156,620	227,356	415,230
Commercial real estate	223,695	615,560	228,524	1,067,779
Construction, land and land development	59,503	76,619	28,830	164,952
Residential mortgage	17,667	50,632	170,281	238,580
Consumer and other	5,900	2,916	8,632	17,448
Total loans	<u>\$ 765,977</u>	<u>\$ 1,715,768</u>	<u>\$ 708,740</u>	<u>\$ 3,190,485</u>
Loans with a fixed interest rate	\$ 118,482	\$ 376,552	\$ 99,340	\$ 594,374
Loans with a floating interest rate	647,495	1,339,216	609,400	2,596,111
Total loans	<u>\$ 765,977</u>	<u>\$ 1,715,768</u>	<u>\$ 708,740</u>	<u>\$ 3,190,485</u>

The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with predetermined interest rates and floating rates in each maturity range as of December 31, 2016 are summarized in the following table:

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Commercial and industrial	\$ 431,155	\$ 555,549	\$ 67,221	\$ 1,053,925
Real estate:				
Owner occupied commercial real estate	44,241	157,740	192,229	394,210
Commercial real estate	108,845	788,040	246,866	1,143,751
Construction, land and land development	85,730	123,449	40,525	249,704
Residential mortgage	26,003	56,448	162,740	245,191
Consumer and other	5,021	5,527	891	11,439
Total loans	<u>\$ 700,995</u>	<u>\$ 1,686,753</u>	<u>\$ 710,472</u>	<u>\$ 3,098,220</u>
Loans with a fixed interest rate	\$ 68,341	\$ 438,612	\$ 123,714	\$ 630,667
Loans with a floating interest rate	632,654	1,248,141	586,758	2,467,553
Total loans	<u>\$ 700,995</u>	<u>\$ 1,686,753</u>	<u>\$ 710,472</u>	<u>\$ 3,098,220</u>

Our loan portfolio consists of various types of loans, most of which are made to borrowers located in the Houston and Dallas MSAs. Although the portfolio is diversified and generally secured by various types of collateral, the majority of our loan portfolio consists of commercial and industrial and commercial real estate loans and a substantial portion of our borrowers' ability to honor their obligations is dependent on local economic conditions in Texas, including conditions affecting the energy industry.

Nonperforming Loans

Nonperforming loans include loans on nonaccrual status, accruing loans 90 or more days past due and restructured loans. Nonperforming loans do not include purchased loans that were identified upon acquisition as having experienced credit deterioration since origination (“purchased credit impaired loans” or “PCI loans”). We had \$70.8 million in nonperforming loans at December 31, 2017, compared with \$94.5 million at December 31, 2016. The ratio of nonperforming loan to total loans was 2.22% at December 31, 2017 compared with 3.05% at December 31, 2016. The decreases were primarily due to the resolution of energy loans and other nonperforming loans during 2017.

We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our portfolio bankers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

As part of the ongoing monitoring of our loan portfolio, management grades each loan from 1 to 10 based on the level of risk associated with such loan. Our criticized and classified loan grades are in accordance with applicable regulatory definitions.

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

In accordance with applicable regulation, we require appraisals or evaluations to independently value real estate and, as an important element, to consider when underwriting loans secured in part or in whole by real estate. The value of real estate taken as collateral provides additional support for the borrower’s credit capacity.

With respect to potential problem loans, all monitored and under-performing loans are reviewed and 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 allowance for loan losses based upon the likelihood of full repayment of principal and interest in accordance with the contractual terms or the net realizable value of the pledged collateral.

We had \$70.8 million in nonperforming loans at December 31, 2017, compared with \$94.5 million and \$45.0 million at December 31, 2016 and 2015, respectively. The nonperforming loans at December 31, 2017 consisted of 39 separate credit relationships. If interest on nonaccrual loans had been accrued under the original loan terms, approximately \$5.4 million, \$4.7 million, and \$806 thousand would have been recorded as income for the years ended December 31, 2017, 2016 and 2015, respectively.

Nonperforming loans totaled \$70.8 million or 2.22% of period end total loans at December 31, 2017, down from \$94.5 million or 3.05% of total loans at December 31, 2016. Nonperforming loans at December 31, 2017 included \$36.7 million in energy-related loans. Accruing loans classified as troubled debt restructures, which are included in the nonperforming loans totals, were \$13.1 million at December 31, 2017, compared with \$16.5 million at December 31, 2016. The allowance for loan losses was 0.98% of total loans at December 31, 2017, compared with 0.85% of total loans at December 31, 2016. The increase in the percentage when compared to December 31, 2016 was largely due to a \$3.9 million increase in specific reserves.

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

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Nonaccrual loans	\$ 47,892	\$ 66,673	\$ 37,541	\$ 2,127	\$ 1,496
Accruing loans 90 or more days past due	375	1,169	52	16	1,316
Restructured loans—nonaccrual	9,446	10,133	1,464	2,717	9,864
Restructured loans—accrual	13,093	16,518	5,988	2,257	4,072
Total nonperforming loans	<u>\$ 70,806</u>	<u>\$ 94,493</u>	<u>\$ 45,045</u>	<u>\$ 7,117</u>	<u>\$ 16,748</u>

Allowance for loan losses

Our allowance for loan losses is established through charges to income in the form of the provision in order to bring our allowance for loan losses to a level deemed appropriate by management based on the factors discussed under “—Critical Accounting Policies—Allowance for loan losses.” The allowance for loan losses at December 31, 2017 was \$31.2 million, representing 0.98% of total loans, compared with \$26.4 million, or 0.85% of total loans, at December 31, 2016. Loans acquired were recorded at fair value based on a discounted cash flow valuation methodology.

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

	As of and for the Years ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Average loans outstanding ⁽¹⁾	\$3,047,061	\$3,128,534	\$2,146,968	\$1,498,257	\$1,244,106
Total loans outstanding at end of period ⁽¹⁾	3,190,485	3,098,220	3,130,669	1,799,155	1,359,415
Allowance for loan losses at beginning of period	26,364	32,947	15,605	16,361	14,151
Provision for loan losses	14,360	64,700	17,864	2,693	2,373
Charge-offs:					
Commercial and industrial	(9,065)	(68,383)	(2,647)	(2,927)	(916)
Owner occupied commercial real estate	(1,087)	(1,405)	—	—	—
Commercial real estate	—	(492)	—	—	(333)
Construction, land & land development	(95)	(1,631)	—	—	—
Residential mortgage	(19)	(548)	(63)	—	(186)
Consumer and other	(256)	(126)	(146)	(1,297)	(54)
Total charge-offs	(10,522)	(72,585)	(2,856)	(4,224)	(1,489)
Recoveries:					
Commercial and industrial	676	1,000	2,185	118	1,044
Owner occupied commercial real estate	4	17	—	14	222
Commercial real estate	8	—	77	1	21
Construction, land & land development	77	84	5	—	—
Residential mortgage	121	155	36	20	27
Consumer and other	132	46	31	622	12
Total recoveries	1,018	1,302	2,334	775	1,326
Net recoveries (charge-offs)	(9,504)	(71,283)	(522)	(3,449)	(163)
Allowance for loan losses at end of period	\$ 31,220	\$ 26,364	\$ 32,947	\$ 15,605	\$ 16,361
Ratio of allowance to end of period loans	0.98%	0.85%	1.05%	0.87%	1.20%
Ratio of net charge-offs to average loans	0.31%	2.28%	0.02%	0.23%	0.01%

⁽¹⁾ Excluding loans held-for-sale

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

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

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower’s business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for one-to-four family residential mortgage loans, the borrower’s ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan-to-value ratio, and the age, condition and marketability of collateral; and

- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan-to-value ratio.

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

At December 31, 2017, the allowance for loan losses totaled \$31.2 million, or 0.98% of total loans. At December 31, 2016 and 2015, the allowance for loan losses aggregated \$26.4 million and \$32.9 million, or 0.85% and 1.05% of total loans, respectively. At December 31, 2017, \$1.2 million of allowance was required for acquired loans not deemed credit-impaired and \$1.8 million of purchase discounts remained. At December 31, 2016 and 2015, \$1.1 million and \$15 thousand of allowance was required for acquired loans not deemed credit-impaired, respectively, and \$4.4 million and \$11.0 million of purchase discounts remained, respectively. PCI loans are not considered nonperforming loans. PCI loans had \$2.5 million, \$5.5 million and \$14.4 million of purchase discounts outstanding at December 31, 2017, 2016 and 2015, respectively, of which \$1.1 million, \$2.5 million and \$966 thousand, respectively, are considered accretable. Impairment charges and related allowances of \$75 thousand and \$122 thousand were required in 2017 and 2016, respectively, for PCI loans.

The allowance for loan losses on loans collectively evaluated for impairment totaled \$25.5 million or 0.82% of the \$3.1 billion in loans collectively evaluated for impairment at December 31, 2017, compared to an allowance for loan losses of \$24.5 million or 0.82% of the \$3.0 billion in loans collectively evaluated for impairment at December 31, 2016. Net charge-offs as a percentage of average loans outstanding was 0.31% for the year ended December 31, 2017 as compared to 2.28% and 0.02% for the years ended December 31, 2016 and 2015, respectively. The decrease for the year ended December 31, 2017 is primarily due to the \$68.0 million in net charge-offs of energy loans compared to \$7.8 million for the year ended December 31, 2017.

During the year ended December 31, 2017, loans in internally assigned risk grades 1 - 5, which are considered pass rated credits, increased to 91.8% from 90.2% of total loans, excluding PCI loans.

The following table shows the allocation of the allowance for loan losses among our loan categories and certain other information as of the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any loan category.

		December 31,									
		2017		2016		2015		2014		2013	
		Amount	Percent of Loans to Total Loan	Amount	Percent of Loans to Total Loan	Amount	Percent of Loans to Total Loan	Amount	Percent of Loans to Total Loan	Amount	Percent of Loans to Total Loan
(Dollars in thousands)											
Balance of allowance for loan losses applicable to:											
Commercial and industrial		\$ 16,689	40.3%	\$ 10,751	34.0%	\$ 23,130	38.5%	\$ 8,145	43.8%	\$ 10,196	50.1%
Owner occupied commercial real estate		2,748	13.0	2,609	12.7	1,679	11.3	974	9.1	874	11.6
Commercial real estate		8,396	33.5	9,013	36.9	4,691	28.9	2,942	18.8	2,216	19.6
Construction, land & land development		1,481	5.2	1,967	8.1	2,345	11.5	2,633	13.4	1,103	10.3
Residential Mortgage		1,678	7.5	1,819	7.9	816	9.4	645	14.3	654	7.8
Consumer and other		228	0.5	205	0.4	286	0.4	266	0.6	1,318	0.6
Total allowance for loan losses		<u>\$ 31,220</u>	<u>100.0%</u>	<u>\$ 26,364</u>	<u>100.0%</u>	<u>\$ 32,947</u>	<u>100.0%</u>	<u>\$ 15,605</u>	<u>100.0%</u>	<u>\$ 16,361</u>	<u>100.0%</u>

We believe that the allowance for loan losses at December 31, 2017 is adequate to cover probable losses in the loan portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance at December 31, 2017.

Securities

We use our securities portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk, to meet pledging requirements and to meet regulatory capital requirements. At December 31, 2017, the carrying amount of investment securities totaled \$718.8 million, an increase of \$408.7 million or 131.8% compared with \$310.1 million at December 31, 2016. At December 31, 2016, the carrying amount of investment securities totaled \$310.1 million, a decrease of \$8.0 million or 2.5% compared with \$318.2 million at December 31, 2015. At December 31, 2017, securities represented 16.9% of total assets compared with 7.7% and 8.4% at December 31, 2016 and 2015, respectively.

At the date of purchase, we are required to classify debt and equity securities into one of two categories: held-to-maturity or available-for-sale. We do not purchase securities for trading purposes. At each reporting date, the appropriateness of the classification is reassessed. Investments in debt securities are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and the accretion of discounts in the financial statements only if management has the positive intent and we have the ability to hold those securities to maturity. Debt securities not classified as held-to-maturity are classified as available-for-sale and measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, as accumulated comprehensive income or loss until realized. Interest earned on debt securities is included in interest income. Other investments are stated at cost and include stock of the Dallas Fed and the FHLB and investment in Patriot Bancshares Capital Trust I and Trust II. Dividends received on these investments are included in interest income.

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

	December 31,					
	2017		2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)						
Available-for-sale:						
SBA guaranteed securities	\$ 104,111	\$ 103,292	\$ —	\$ —	\$ —	\$ —
Obligations of the U.S. Treasury and other U.S. government agencies or sponsored enterprises	—	—	118,272	117,886	90,032	89,950
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	250,580	249,176	99,876	99,898	129,752	130,705
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: commercial	65,986	65,486	—	—	—	—
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	234,881	228,447	42,379	41,912	51,569	51,329
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	36,151	35,679	—	—	—	—
Corporate debt securities	5,789	5,794	3,788	3,775	3,790	3,793
Obligations of municipal subdivisions	6,672	6,627	11,183	10,913	236	244
CRA qualified investment fund	11,337	11,038	236	235	—	—
Total	<u>\$ 715,507</u>	<u>\$ 705,539</u>	<u>\$ 275,734</u>	<u>\$ 274,619</u>	<u>\$ 275,379</u>	<u>\$ 276,021</u>
Held-to-maturity:						
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	\$ 10,841	\$ 10,732	\$ 14,358	\$ 14,231	\$ 15,002	\$ 15,179
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	2,434	2,414	21,147	20,613	27,128	26,817
Total	<u>\$ 13,275</u>	<u>\$ 13,146</u>	<u>\$ 35,505</u>	<u>\$ 34,844</u>	<u>\$ 42,130</u>	<u>\$ 41,996</u>

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

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

Management does not intend to sell any debt securities classified as held-to-maturity and it is more likely than not that we will not be required to sell any such debt securities before their anticipated recovery of cost, if a loss currently exists, at which time we expect to receive full value for the securities. Furthermore, as of December 31, 2017, management does not have the intent to sell any of the securities classified as available-for-sale and believes that it is more likely than not that we will not be required to sell any such securities before a recovery of cost, if a loss currently exists. As of December 31, 2017, management believes any impairment in our securities is temporary and no impairment loss has been realized in our consolidated statement of income. We recorded no other than temporary impairment charges in the years ended December 31, 2017, 2016 and 2015.

The following tables summarize the contractual maturity of securities and their weighted average yields as of December 31, 2017 and 2016. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures. Available-for-sale securities are shown at fair value and held-to-maturity securities are shown at cost, adjusted for the amortization of premiums and the accretion of discounts. The CRA qualified investment fund has no contractual maturity and, therefore, it is excluded from the maturity table.

December 31, 2017										
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
(Dollars in thousands)										
SBA guaranteed securities	\$ —	—%	\$ —	—%	\$ 14,691	2.21%	\$ 88,601	3.50%	\$ 103,292	3.32%
Mortgaged-backed securities issued by U.S. government agencies or sponsored entities: residential	—	—	—	—	\$ 4,605	3.43	\$ 255,413	2.46	\$ 260,018	2.48
Mortgaged-backed securities issued by U.S. government agencies or sponsored entities: commercial	—	—	—	—	65,486	2.47	—	—	\$ 65,486	2.47
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	—	—	—	—	—	—	230,881	2.59	\$ 230,881	2.59
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	—	—	—	—	35,679	2.41	—	—	\$ 35,679	2.41
Corporate debt securities	1,794	2.87	—	—	4,000	5.25	—	—	\$ 5,794	4.51
Obligations of municipal subdivisions	—	—	—	—	236	2.89	6,390	2.69	\$ 6,626	2.70
Total	<u>\$ 1,794</u>	<u>2.87%</u>	<u>\$ —</u>	<u>—%</u>	<u>\$ 124,697</u>	<u>2.54%</u>	<u>\$ 581,285</u>	<u>2.67%</u>	<u>\$ 707,776</u>	<u>2.65%</u>

December 31, 2016										
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
(Dollars in thousands)										
Obligations of the U.S. Treasury or other U.S. government agencies or sponsored entities	\$ 40,052	0.78%	\$ 77,834	0.77%	\$ —	—	\$ —	—	\$ 117,886	0.77%
Mortgaged-backed securities issued by U.S. government agencies or sponsored entities: residential	—	—	3,534	2.79	33,816	2.03	76,906	1.69	114,256	1.83
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	—	—	1,006	1.57	2,984	1.56	59,069	1.82	63,059	1.80
Corporate debt securities	2,003	1.69	1,772	2.19	—	—	—	—	3,775	1.93
Obligations of municipal subdivisions	—	—	—	—	235	2.89	—	—	235	2.89
Total	<u>\$ 42,056</u>	<u>0.82%</u>	<u>\$ 84,145</u>	<u>0.89%</u>	<u>\$ 37,036</u>	<u>2.00%</u>	<u>\$ 135,975</u>	<u>1.75%</u>	<u>\$ 299,211</u>	<u>1.41%</u>

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities monthly pay downs cause the average lives of the securities to be much different than their stated lives. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our complete portfolio is 4.5 years with a modified duration of 4.7 years at December 31, 2017.

At December 31, 2017, 2016 and 2015, we did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored entities) for which aggregate adjusted cost exceeded 10% of the consolidated shareholders' equity at such respective dates.

The average yield of securities portfolio was 2.28% during the year ended December 31, 2017 compared with 1.47% for the year ended December 31, 2016. The increase in average yield was due to securities added to the portfolio with higher yields.

The average yield of securities portfolio was 1.47% during the year ended December 31, 2016 compared with 1.31% for the year ended December 31, 2015. The increase in average yield was due to securities added to the portfolio with higher yields in 2016. The decrease in average yield was due to a reinvestment of funds at lower rates in 2015.

Mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages and which are principally issued by federal agencies such as Government National Mortgage Association ("Ginnie Mae"), Fannie Mae and Freddie Mac. These securities are deemed to have high credit ratings, and minimum regular monthly cash flows of principal and interest are guaranteed by the issuing agencies.

Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Premiums and discounts on mortgage-backed securities are amortized and accreted over the expected life of the security and may be impacted by prepayments. As such, mortgage-backed securities which are purchased at a premium will generally produce decreasing net yields as interest rates drop because home owners tend to refinance their mortgages resulting in prepayments and an acceleration of premium amortization. Securities purchased at a discount will obtain higher net yields in a decreasing interest rate environment as prepayments result in an acceleration of discount accretion. At December 31, 2017 and 2016, 98.2% and 67.3% of the mortgage-backed securities held by us had contractual final maturities of more than ten years with a weighted average life of 5.3 years and 4.1 years and an estimated duration of 4.7 years and 3.5 years, respectively.

Collateralized mortgage obligations are bonds that are backed by pools of mortgages. The pools can be Ginnie Mae, Fannie Mae or Freddie Mac pools or they can be private-label pools. At this time we do not own any private-label pools. Collateralized mortgage obligations are designed so that the mortgage collateral will generate a cash flow sufficient to provide for the timely repayment of the bonds. The mortgage collateral pool can be structured to accommodate various desired bond repayment schedules, provided that the collateral cash flow is adequate to meet scheduled bond payments. This is accomplished by dividing the bonds into classes to which payments on the underlying mortgage pools are allocated in different order. The bond's cash flow, for example, can be dedicated to one class of bondholders at a time, thereby increasing call protection to bondholders.

Deposits

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

Total deposits at December 31, 2017 were \$3.4 billion, an increase of \$22.4 million, or 0.7%, compared with December 31, 2016. Noninterest-bearing deposits at December 31, 2017 were \$803.2 million, an increase of \$153.1 million, or 23.6%, compared with December 31, 2016. The increase in noninterest-bearing deposits is due to continued efforts by our portfolio bankers with a focus on business accounts. Average deposits increased 5.5% or \$176.0 million to \$3.4 billion for the year ended December 31, 2017, compared with \$3.2 billion for the same period of 2016.

Total deposits at December 31, 2016 were \$3.4 billion, an increase of \$274.0 million, or 8.8%, compared with December 31, 2015, primarily due to continued opportunities for our portfolio bankers to generate deposit growth within our target markets. Noninterest-bearing deposits at December 31, 2016 were \$650.1 million, an increase of \$6.7 million, or 1.0%, compared with December 31, 2015. Average deposits increased 46.8% or \$1.0 billion to \$3.2 billion for the year ended December 31, 2016, compared with \$2.2 billion for the same period of 2015. These increases were principally due to continued opportunities for our portfolio bankers to generate deposit growth within our target markets.

At December 31, 2017 and 2016, we had \$123.4 million and \$97.9 million in brokered time deposits, respectively. At December 31, 2017, we also had \$35.4 million in noninterest-bearing escrow accounts classified as brokered. Brokered deposits represented 4.7% and 2.9% of total deposits at December 31, 2017 and 2016, respectively. The Company utilizes brokered deposits to enhance liquidity.

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

	Year Ended December 31,					
	2017		2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Interest-bearing transaction deposits	\$ 198,530	0.13%	\$ 172,446	0.12%	\$ 142,906	0.12%
Money market and savings deposits	1,171,973	0.77	1,028,752	0.54	712,963	0.41
Certificates and other time deposits	1,317,180	1.17	1,389,834	1.01	812,255	0.89
Total interest-bearing deposits	\$2,687,683	0.92	\$2,591,032	0.76	\$1,668,124	0.62
Noninterest-bearing deposits	690,786	—	611,388	—	513,453	—
Total deposits	<u>\$3,378,469</u>	0.73%	<u>\$3,202,420</u>	0.62%	<u>\$2,181,577</u>	0.47%

Our ratio of average noninterest-bearing deposits to average total deposits for the years ended December 31, 2017, 2016 and 2015 was 20.4%, 19.1% and 23.5%, respectively.

The following table sets forth the amount of our certificates of deposit by time remaining until maturity for December 31, 2017 (dollars in thousands):

2018	\$ 889,231
2019	247,595
2020	83,005
2021	13,922
2022	28,579
Total	<u>\$ 1,262,332</u>

Other Borrowed Funds

We utilize borrowings to supplement deposits to fund our lending and investment activities. Borrowings consist of funds from the FHLB, the Dallas Fed and its correspondent banks, and securities sold under repurchase agreements.

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

	FHLB Advances	Securities Sold Under Repurchase Agreements
	(Dollars in thousands)	
December 31, 2017		
Amount outstanding at year-end	\$ 325,000	\$ 5,173
Weighted average interest rate at year-end	1.41%	0.15%
Maximum month-end balance during the year	\$ 325,000	\$ 7,035
Average balance outstanding during the year	\$ 211,407	\$ 4,770
Weighted average interest rate during the year	1.05%	0.15%
December 31, 2016		
Amount outstanding at year-end	\$ 150,000	\$ 3,493
Weighted average interest rate at year-end	0.59%	0.15%
Maximum month-end balance during the year	\$ 153,631	\$ 4,823
Average balance outstanding during the year	\$ 186,453	\$ 3,605
Weighted average interest rate during the year	0.51%	0.11%
December 31, 2015		
Amount outstanding at year-end	\$ 223,265	\$ 3,073
Weighted average interest rate at year-end	0.46%	0.15%
Maximum month-end balance during the year	\$ 283,533	\$ 15,892
Average balance outstanding during the year	\$ 128,135	\$ 9,649
Weighted average interest rate during the year	0.28%	0.16%

FHLB advances—We have an available borrowing arrangement with the FHLB, which allows the Company to borrow on a collateralized basis. At December 31, 2017 and 2016, borrowing capacity of \$948.2 million and \$608.8 million, respectively, was available under this arrangement. At December 31, 2017 and 2016, \$325.0 million and \$150.0 million were outstanding, respectively, with an average interest rate of 1.41% and 0.59%, respectively. The Company's FHLB advances at December 31, 2017 mature within one year. The Company's FHLB advances at December 31, 2016 mature within two years. These borrowings are collateralized by a blanket lien on certain real estate loans and unpledged securities held in safekeeping. The increase in total borrowing capacity is due to the purchase of securities. We utilize these borrowings to meet liquidity needs and to fund certain loans in our portfolio.

Securities Sold Under Agreements to Repurchase—Securities sold under agreements to repurchase represent the purchase of interests in securities by our customers. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We do not account for any of our repurchase agreements as sales for accounting purposes in our financial statements. Repurchase agreements are settled on the following business day. All securities sold under agreements to repurchase are collateralized by pledged securities. The securities underlying the repurchase agreements are held in safekeeping by the Bank's safekeeping agent. At December 31, 2017 and December 31, 2016, we had securities sold under agreements to repurchase of \$5.2 million and \$3.5 million, respectively.

Dallas Fed—We have an available borrower in custody arrangement with the Dallas Fed, which allows us to borrow on a collateralized basis. Certain commercial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our liquidity risk management program. At December 31, 2017 and 2016, \$384.5 million and \$330.0 million, respectively, were available under this arrangement and no borrowings were outstanding.

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

Subordinated Debentures and Subordinated Notes

Subordinated Notes — On December 8, 2016, the Company issued \$35.0 million of 8.50% Fixed-to-Floating Rate Subordinated Notes (the “Notes”) that mature on December 15, 2026 through a private placement to certain institutional accredited investors. The Notes, which qualify as Tier 2 capital under the Federal Reserve’s capital guidelines in effect at December 31, 2017, have an interest rate of 8.50% per annum, during the fixed-rate period from date of issuance through December 15, 2021. Interest is payable semi-annually on each June 15 and December 15, from June 15, 2017 through December 15, 2021.

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

Unamortized debt issuance costs related to these Notes, which are included in Subordinated Debentures and Subordinated Notes, totaled \$1.3 million at December 31, 2017. Net issuance costs associated with issuing the Notes are amortized to interest expense over the respective terms using the straight line method.

In connection with the issuance of the Notes, we entered into a registration rights agreement (the “Registration Rights Agreement”) with the purchasers of the Notes. Under the Registration Rights Agreement, we were required to, among other things, use commercially reasonable efforts to (1) file with the SEC on or prior to March 31, 2017, a registration statement (the “Exchange Offer Registration Statement”) with respect to an offer to exchange the Notes for new notes with identical terms (except for the provisions relating to the transfer restrictions and payment of additional interest) (the “Exchange Offer”), (2) cause the Exchange Offer Registration Statement to be declared effective by the SEC no later than June 15, 2017 and (3) consummate the Exchange Offer no later than 45 days following the effective date of the Exchange Offer Registration Statement. The Exchange Offer Registration Statement was declared effective by the SEC on April 13, 2017, and we completed the Exchange Offer on May 19, 2017, such that \$34,000,000 aggregate principal amount of the Notes was exchanged for \$34,000,000 aggregate principal amount of 8.50% Fixed-to-Floating Rate Subordinated Notes due 2026 that were registered under the Securities Act of 1933, as amended, and \$1,000,000 aggregate principal amount of the Notes remained unregistered.

A summary of pertinent information related to the Notes outstanding at December 31, 2017 is set forth in the table below:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Subordinated notes fixed to floating rate, 8.50% per annum, maturity date December 15, 2026	\$ 35,000	\$ 35,000
Less: unamortized debt issuance costs	(1,291)	(1,115)
Total subordinated notes	<u>\$ 33,709</u>	<u>\$ 33,885</u>

Subordinated Debentures Trust Preferred Securities — At December 31, 2017, the Company had outstanding \$22.2 million in subordinated debentures, which is offset by a \$8.1 million purchase discount. On October 1, 2015, the Company acquired Patriot Bancshares, Inc., and assumed the obligations related to the subordinated debentures issued to Patriot Bancshares Capital Trust I and Capital Trust II.

A summary of pertinent information related to the Company's issues of subordinated debentures outstanding at December 31, 2017 is set forth in the table below:

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

⁽¹⁾ The 3-month LIBOR in effect as of December 31, 2017 was 1.694%

⁽²⁾ All debentures are callable five years from issuance date

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

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

Interest Rate Sensitivity and Market Risk

Our asset liability management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

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 market 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 market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. We enter into interest rate swaps as an accommodation to our customers in connection with our interest rate swap program. See "Business—Our Banking Services—Other Products and Services." Based upon the nature of our operations, we are not directly subject to foreign exchange or commodity price risk. We do not own any trading assets.

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

We use an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and the balance sheet, respectively. Contractual maturities and repricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio. Assumptions based on past experience are incorporated into the model for nonmaturity deposit accounts.

We utilize static balance sheet rate shocks to estimate the potential impact on net interest income of changes in interest rates under various rate scenarios. This analysis estimates a percentage of change in the metric from the stable rate base scenario versus alternative scenarios of rising and falling market interest rates by instantaneously shocking a static balance sheet. The following table summarizes the simulated change in net interest income over a 12-month horizon as of December 31, 2017:

Change in Interest Rates (Basis Points)	Percent Change in Net Interest Income
+200	9.7%
+100	4.9
Base	—
?100	(6.9)

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

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. During the years ended December 31, 2017 and 2016, our liquidity needs have primarily been met by core deposits, security and loan maturities, amortizing investment and loan portfolios and brokered deposits and advances from the FHLB within policy limits. Although access to purchased funds from correspondent banks and the Dallas Fed are available, we do not generally rely on these external funding sources. We expect capital resources and liquidity will be sufficient for at least the next twelve months.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the period indicated. Average assets totaled \$4.1 billion for the year ended December 31, 2017 compared to \$3.9 billion for the year ended December 31, 2016.

	December 31,	
	2017	2016
Sources of Funds:		
Deposits:		
Noninterest-bearing	16.5%	15.8%
Interest-bearing	62.5	64.2
Brokered deposits	3.1	2.9
Securities sold under agreements to repurchase	0.1	0.1
Other borrowed funds	5.1	4.8
Subordinated debentures	1.2	0.4
Other liabilities	0.5	0.5
Shareholders' equity	11.0	11.3
Total	<u>100.0%</u>	<u>100.0%</u>
Uses of Funds:		
Loans	74.5%	81.3%
Securities	16.3	7.4
Federal funds sold and other interest-earning assets	4.5	6.0
Other noninterest-earning assets	4.7	5.3
Total	<u>100.0%</u>	<u>100.0%</u>
Average noninterest-bearing deposits to average deposits	<u>20.4%</u>	<u>19.1%</u>
Average loans to average deposits	90.7	98.0

Our largest source of funds is deposits and our largest uses of funds are loans and securities. We do not expect a change in the source or use of our funds in the foreseeable future. Our average loans were \$3.1 billion for the year ended December 31, 2017, a decrease of 2.3% over the year ended December 31, 2016. Our average loans were \$3.1 billion for the year ended December 31, 2016, an increase of 46.1% over the year ended December 31, 2015. We predominantly invest excess deposits in Dallas Fed balances, securities, federal funds sold or other short-term liquid investments until the funds are needed to fund loan growth. Our securities portfolio has a weighted average life of 4.5 years and an estimated duration of 4.7 years at December 31, 2017.

As of December 31, 2017, we had outstanding \$563.2 million in commitments to extend credit and \$11.9 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2017, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

As of December 31, 2017, we had cash and cash equivalents of \$140.7 million, a decrease of \$248.3 million compared with \$389.0 million as of December 31, 2016, which was primarily due to the purchases of investment securities with excess balances. As of December 31, 2016, we had cash and cash equivalents of \$389.0 million, an increase of \$264.1 million compared with \$124.9 million as of December 31, 2015, which was primarily due to the increase in interest bearing deposits in financial institutions.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2017 (other than securities sold under repurchase agreements), which consist of our future cash payments associated with our contractual obligations pursuant to our certificates and other time deposits, Federal Home Loan Bank advances, subordinated debentures, subordinated notes and operating leases. Payments for the Federal Home Loan Bank advances includes interest of \$692 thousand that will be paid in future years. Payments for subordinated debentures and subordinated notes include interest of \$41.3 million that will be paid in future years. The future interest payments were calculated using the current rate in effect at December 31, 2017. Payments related to leases are based on actual payments specified in underlying contracts.

December 31, 2017					
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
(Dollars in thousands)					
Certificates and other time deposits	\$ 889,051	\$ 330,780	\$ 42,501	\$ —	\$ 1,262,332
Federal Home Loan Bank advances	325,692	—	—	—	325,692
Subordinated debentures and subordinated notes	3,859	3,735	8,099	82,750	98,443
Operating leases	2,033	2,847	1,916	2,911	9,707
Total	<u>\$ 1,220,635</u>	<u>\$ 337,362</u>	<u>\$ 52,516</u>	<u>\$ 85,661</u>	<u>\$ 1,696,174</u>

Off Balance Sheet Items

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

Our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit expiring by period as of December 31, 2017 are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

December 31, 2017					
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
(Dollars in thousands)					
Commitments to extend credit	\$ 257,333	\$ 175,075	\$ 63,902	\$ 66,917	\$ 563,227
Standby and commercial letters of credit	10,617	539	100	640	11,896
Total	<u>\$ 267,950</u>	<u>\$ 175,614</u>	<u>\$ 64,002</u>	<u>\$ 67,557</u>	<u>\$ 575,123</u>

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

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

Capital Resources

Capital management consists of providing equity to support our current and future operations. The federal bank regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. As a bank holding company and a national bank, the Company and the Bank are subject to regulatory capital requirements.

The Federal Reserve has established risk-based and leverage capital guidelines for bank holding companies, including the Company. The OCC has established substantially similar risk-based and leverage capital guidelines applicable to national banks, including the Bank. Under current guidelines, the minimum ratio of total capital to risk-weighted assets (which are primarily the credit risk equivalents of balance sheet assets and certain off-balance sheet items such as standby letters of credit) is 8.0%. At least half of total capital must be composed of tier 1 capital, which includes common shareholders' equity (including retained earnings), qualifying non-cumulative perpetual preferred stock (and, for bank holding companies only, a limited amount of qualifying cumulative perpetual preferred stock and a limited amount of trust preferred securities), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill, other disallowed intangibles, and disallowed deferred tax assets, among other items. The Federal Reserve also has adopted a minimum leverage ratio requiring tier 1 capital of at least 4.0% of average quarterly total consolidated assets (as defined for regulatory purposes), net of goodwill and certain other intangible assets, for all but the most highly rated bank holding companies. The federal banking agencies have also established risk-based and leverage capital guidelines that FDIC-insured depository institutions are required to meet. These regulations are generally similar to those established by the Federal Reserve for bank holding companies.

Under the Federal Deposit Insurance Act (the "FDIA"), the federal bank regulatory agencies must take "prompt corrective action" against undercapitalized U.S. depository institutions. U.S. depository institutions are assigned one of five capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized," and are subjected to different regulation corresponding to the capital category within which the institution falls. A depository institution is deemed to be "well capitalized" if the banking institution has a total risk-based capital ratio of 10.0% or greater, a tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific level for any capital measure. Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. A banking institution that is undercapitalized is required to submit a capital restoration plan. The capital restoration plan 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 up to a certain specified amount.

Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, including: termination of deposit insurance by the FDIC, restrictions on certain business activities and appointment of the FDIC as conservator or receiver. As of December 31, 2017, the Company and the Bank were each well-capitalized.

Total shareholders' equity was \$463.8 million at December 31, 2017, an increase of \$33.3 million or 7.7% compared with \$430.5 million at December 31, 2016. The increase was primarily the result of a net income of \$34.1 million, an increase due to stock compensation expense, the net change for proceeds from the exercise of stock options offset by the net change in the value of available for sale securities recognized in other accumulated comprehensive earnings.

Total shareholders' equity was \$430.5 million at December 31, 2016, an increase of \$1.1 million or 0.25% compared with \$429.4 million at December 31, 2015. The increase was the result of a net loss of \$1.0 million, plus the net change for proceeds from the exercise of stock options and an increase in the value of available for sale securities recognized in other accumulated comprehensive earnings and an increase due to stock compensation expense which was offset by Company's treasury stock purchases.

The following tables provide a comparison of the Company's and the Bank's leverage and risk weighted capital ratios as of the dates specified to the minimum and well capitalized regulatory standards:

December 31, 2017						
	Actual		For Capital Adequacy Purposes		To be Categorized as Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
The Company ⁽¹⁾ :						
Total capital (to risk weighted assets)	\$ 455,754	12.7%	\$ 287,840	8.0%	N/A	N/A
Tier 1 capital (to risk weighted assets)	390,690	10.9%	215,880	6.0%	N/A	N/A
Common equity tier 1 capital	377,328	10.5%	161,910	4.5%	N/A	N/A
Tier I capital (to average assets)	390,690	9.5%	164,632	4.0%	N/A	N/A
The Bank ⁽²⁾ :						
Total capital (to risk weighted assets)	\$ 444,198	12.4%	\$ 286,648	8.0%	\$ 358,310	10.0%
Tier 1 capital (to risk weighted assets)	415,542	11.6%	214,986	6.0%	286,648	8.0
Common equity tier 1 capital	415,542	11.6%	161,239	4.5%	232,901	6.5
Tier I capital (to average assets)	415,542	10.1%	164,390	4.0%	205,487	5.0

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

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

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

Basel III Capital Adequacy Requirements Effective January 1, 2015. In July 2013, the federal banking agencies published final rules establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions to be fully phased in by January 1, 2019. See “Regulation and Supervision—US Implementation of Basel III – Became effective January 1, 2015.”

Non-GAAP Financial Measures

We identify certain financial measures discussed in this Annual Report on Form 10-K as being “non-GAAP financial measures.” In accordance with the SEC’s rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles as in effect from time to time in the United States in our statements of income, balance sheet or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Annual Report on Form 10-K should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Annual Report on Form 10-K may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Annual Report on Form 10-K when comparing such non-GAAP financial measures.

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

We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total shareholders’ equity to tangible common equity and presents our tangible book value per common share compared with our book value per common share:

	December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Tangible Common Equity					
Total shareholders’ equity	\$ 463,795	\$ 430,482	\$ 429,402	\$ 288,405	\$ 199,218
Adjustments:					
Goodwill	85,291	85,291	85,291	30,129	15,672
Core deposit intangibles	8,503	9,975	11,562	4,148	984
Tangible common equity	<u>\$ 370,001</u>	<u>\$ 335,216</u>	<u>\$ 332,549</u>	<u>\$ 254,128</u>	<u>\$ 182,562</u>
Common shares outstanding ⁽¹⁾	37,103	36,988	36,788	26,171	20,771
Book value per common share ⁽¹⁾	\$ 12.50	\$ 11.64	\$ 11.67	\$ 11.02	\$ 9.59
Tangible book value per common share ⁽¹⁾	\$ 9.97	\$ 9.06	\$ 9.04	\$ 9.71	\$ 8.79

⁽¹⁾ Excludes the dilutive effect of common stock issuable upon exercise of outstanding stock options. The number of exercisable options was 754,110 as of December 31, 2017, 493,241 shares as of December 31, 2016, 875,007 shares as of December 31, 2015, 910,793 shares as of December 31, 2014, and 818,518 shares as of December 31, 2013.

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

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

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

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Tangible Common Equity					
Total shareholders' equity	\$ 463,795	\$ 430,482	\$ 429,402	\$ 288,405	\$ 199,218
Adjustments:					
Goodwill	85,291	85,291	85,291	30,129	15,672
Core deposit intangibles	8,503	9,975	11,562	4,148	984
Tangible common equity	<u>\$ 370,001</u>	<u>\$ 335,216</u>	<u>\$ 332,549</u>	<u>\$ 254,128</u>	<u>\$ 182,562</u>
Tangible Assets					
Total assets	\$ 4,261,916	\$ 4,024,822	\$ 3,786,157	\$ 2,196,135	\$ 1,703,127
Adjustments:					
Goodwill	85,291	85,291	85,291	30,129	15,672
Core deposit intangibles	8,503	9,975	11,562	4,148	984
Tangible assets	<u>\$ 4,168,122</u>	<u>\$ 3,929,556</u>	<u>\$ 3,689,304</u>	<u>\$ 2,161,858</u>	<u>\$ 1,686,471</u>
Tangible Common Equity to Tangible Assets	<u>8.9%</u>	<u>8.5%</u>	<u>9.0%</u>	<u>11.8%</u>	<u>10.8%</u>

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

We believe that this measure is important to many investors in the marketplace who are interested in the return on common equity, exclusive of the impact of intangible assets. Goodwill and other intangible assets, including core deposit intangibles, have the effect of increasing total shareholders' equity, while not increasing our tangible common equity. This measure is particularly relevant to acquisitive institutions who may have higher balances in goodwill and other intangible assets than non-acquisitive institutions.

The following table reconciles, as of the dates set forth below, average tangible common equity to average common equity and net income excluding amortization of core deposit intangibles, net of tax to net income and presents our return on average tangible common equity:

	December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Net income (loss) adjusted for amortization of core deposit intangibles					
Net income (loss)	\$ 34,136	\$ (972)	\$ 15,439	\$ 14,742	\$ 12,610
Adjustments:					
Plus: Amortization of core deposit intangibles	1,472	1,587	848	304	246
Less: Tax benefit at the statutory rate	515	555	297	106	86
Net income (loss) adjusted for amortization of core deposit intangibles	<u>\$ 35,093</u>	<u>\$ 60</u>	<u>\$ 15,990</u>	<u>\$ 14,940</u>	<u>\$ 12,770</u>
Average Tangible Common Equity					
Total average shareholders' equity	\$ 451,147	\$ 433,923	\$ 330,007	\$ 232,868	\$ 193,134
Adjustments:					
Average goodwill	85,291	85,291	42,296	18,644	15,672
Average core deposit intangibles	9,254	10,818	5,910	879	1,115
Average tangible common equity	<u>\$ 356,602</u>	<u>\$ 337,814</u>	<u>\$ 281,801</u>	<u>\$ 213,345</u>	<u>\$ 176,347</u>
Return on Average Tangible Common Equity	<u>9.84%</u>	<u>0.02%</u>	<u>5.67%</u>	<u>7.00%</u>	<u>7.24%</u>

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the report thereon, the notes thereto and supplementary data commence on page 95 of this Annual Report on Form 10-K.

The following table presents certain unaudited consolidated quarterly financial information concerning the Company's results of operations for each of the two years indicated below. The information should be read in conjunction with the historical consolidated financial statements of the Company and the notes thereto appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2017			
	December 31	September 30	June 30	March 31
	(Thousands of dollars, except per share amounts)			
Total interest income	\$ 45,228	\$ 44,539	\$ 42,932	\$ 39,551
Total interest expense	8,408	8,260	7,627	6,908
Net interest income	36,820	36,279	35,305	32,643
Provision for loan losses	4,405	2,300	1,510	6,145
Net interest income after provision for loan losses	32,415	33,979	33,795	26,498
Noninterest income	3,928	3,390	5,699	5,495
Noninterest expense	23,582	20,067	19,611	20,839
Income before income taxes	12,761	17,302	19,883	11,154
Provision for income taxes	10,142	5,895	6,985	3,942
Net income	<u>\$ 2,619</u>	<u>\$ 11,407</u>	<u>\$ 12,898</u>	<u>\$ 7,212</u>
Earnings per share ⁽¹⁾				
Earnings per common share, basic	\$ 0.07	\$ 0.31	\$ 0.35	\$ 0.19
Earnings per common share, diluted	0.07	0.31	0.35	0.19

	Quarter Ended 2016			
	December 31	September 30	June 30	March 31
	(Thousands of dollars, except per share amounts)			
Total interest income	\$ 38,326	\$ 39,432	\$ 39,062	\$ 38,724
Total interest expense	6,142	5,757	5,521	4,496
Net interest income	32,184	33,675	33,541	34,228
Provision for loan losses	9,500	28,200	11,000	16,000
Net interest income after provision for loan losses	22,684	5,475	22,541	18,228
Noninterest income	2,168	4,091	3,782	4,155
Noninterest expense	20,953	23,383	20,675	19,487
Income before income taxes	3,899	(13,817)	5,648	2,896
Provision for income taxes	1,355	(4,831)	2,017	1,057
Net income	<u>\$ 2,544</u>	<u>\$ (8,986)</u>	<u>\$ 3,631</u>	<u>\$ 1,839</u>
Earnings per share ⁽¹⁾				
Earnings per common share, basic	\$ 0.07	\$ (0.25)	\$ 0.10	\$ 0.05
Earnings per common share, diluted	0.07	(0.25)	0.10	0.05

⁽¹⁾ Earnings per share are computed independently for each of the quarters presented and therefore may not total earnings per share for the year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting — There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(f) under the Exchange Act) during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's annual report on internal control over financial reporting — The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2017, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in 2013. This assessment included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C) to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2017.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm due to the rules of the SEC for an Emerging Growth Company.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the information under the captions "Election of Directors," "Continuing Directors and Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," "Corporate Governance-Committees of the Board-Audit Committee," "Corporate Governance-Director Nominations" and "Corporate Governance-Code of Ethics" in the Company's definitive Proxy Statement for its 2018 Annual Meeting of Shareholders (the "2018 Proxy Statement") to be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the Company's fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information under the captions “Executive Compensation and Other Matters” in the 2018 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDERS MATTERS

Certain information required by this Item 12 is included under “Securities Authorized for Issuance under Equity Compensation Plans” in Part II, Item 5 of this Annual Report on Form 10-K. The other information required by this Item is incorporated herein by reference to the information under the caption “Beneficial Ownership of Common Stock by Management of the Company and Principal Shareholders” in the 2018 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the information under the captions “Corporate Governance-Director Independence” and “Certain Relationships and Related Person Transactions” in the 2018 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the information under the caption “Corporate Governance-Fees and Services of Independent Registered Public Accounting Firm” and “Board and Committee Matters-Audit Committee Pre-Approval Policy” in the 2018 Proxy Statement.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page 95 of this Annual Report on Form 10-K. Set forth below is a list of such Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2017 and 2016

Consolidated Statements of Income (Loss) for the Years Ended December 31, 2017, 2016, and 2015

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Changes in Shareholders’ Equity for the Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. The exhibits to this Annual Report on Form 10-K listed below have been included only with the copy of this report filed with the SEC. The Company will furnish a copy of any exhibit to shareholders upon written request to the Company and payment of a reasonable fee not to exceed the Company’s reasonable expense.

Each exhibit marked with an asterisk is filed or furnished with this Annual Report on Form 10-K as noted below.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
2.1	Merger Agreement, dated June 28, 2006, by and between Redstone Bank, National Association and Green Bancorp, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))†
2.2	Purchase and Assumption Agreement, dated March 14, 2010, by and between OneWest Bank and Green Bank, N.A. (incorporated herein by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))†
2.3	Purchase and Assumption Agreement, dated June 17, 2011, by and between Main Street Bank and Green Bank, N.A. (incorporated herein by reference to Exhibit 2.3 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))†
2.4	Merger Agreement, dated March 14, 2012, by and among Opportunity Merger Sub Corp., Opportunity Bancshares, Inc. and Green Bancorp, Inc. (incorporated herein by reference to Exhibit 2.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))†
2.5	Agreement and Plan of Merger, dated May 5, 2014, by and among SP Bancorp, Inc., Searchlight Merger Sub Corp. and Green Bancorp, Inc. (incorporated herein by reference to Exhibit 2.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))†
2.6	Agreement and Plan of Merger, dated as of May 27, 2015, among Green Bancorp, Inc., Panther Merger Sub Corp. and Patriot Bancshares, Inc. (incorporated herein by reference to Exhibit 2.1 to Green Bancorp's Current Report on Form 8-K filed on May 28, 2015)†
3.1	Form of Amended and Restated Certificate of Formation of Green Bancorp, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (Registration No. 333-196982))
3.2	Form of Amended and Restated Bylaws of Green Bancorp, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1/A (Registration No. 333-196982))
4.1	Indenture, dated as of December 8, 2016, between Green Bancorp, Inc., as issuer, and Wilmington Trust, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 8, 2016)
4.2	Form of 8.50% Fixed-to-Floating Rate Subordinated Note due 2026 (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 8, 2016)
10.1a	Executive Employment Agreement, dated April 9, 2010, among Green Bancorp, Inc., Green Bank, N.A. and Manuel J. Mehos (incorporated herein by reference to Exhibit 10.1a to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.1b	Executive Employment Agreement, dated April 9, 2010, among Green Bancorp, Inc., Green Bank, N.A. and Geoffrey D. Greenwade (incorporated herein by reference to Exhibit 10.1c to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.1c	Executive Employment Agreement, dated February 24, 2012, among Green Bancorp, Inc., Green Bank, N.A. and Donald S. Perschbacher (incorporated herein by reference to Exhibit 10.1c to the Company's Registration Statement on Form S-4 (Registration No. 333-217059))
10.2a	Green Bancorp, Inc. 2006 Stock Option Plan (including form of option agreement) (incorporated herein by reference to Exhibit 10.2b to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.2b	Green Bancorp, Inc. 2010 Stock Option Plan, as amended (including form of option agreement) (incorporated herein by reference to Exhibit 10.2c to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.2c	Green Bancorp, Inc. Stock Appreciation Rights Plan (including form of award agreement) (incorporated herein by reference to Exhibit 10.2d to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.2d	Green Bancorp, Inc. 2013 Executive Incentive Program (incorporated herein by reference to Exhibit 10.2e to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.2e	Green Bancorp, Inc. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.2f to the Company's Registration Statement on Form S-1/A (Registration No. 333-196982))
10.2f	Form of Green Bancorp, Inc. 2014 Omnibus Equity Incentive Plan Restricted Stock Unit Award Grant Notice and Award Agreement (incorporated herein by reference to Exhibit 10.2g to the Company's Registration Statement on Form S-1/A (Registration No. 333-196982))
10.3	Form of Director and Executive Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1/A (Registration No. 333-196982))

10.4	Registration Rights Agreement, dated June 30, 2010, by and among Green Bancorp, Inc. and the shareholders named therein (incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.5	Form of Director Nomination Agreement (incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1/A (Registration No. 333-196982))
10.6	Green Bancorp, Inc. Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-196982))
10.7	Registration Rights Agreement relating to the 8.50% Fixed-to-Floating Rate Subordinated Note due 2026, dated as of December 8, 2016, among Green Bancorp, Inc. and the purchasers of the Notes (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 8, 2016)
21.1*	Subsidiaries of Green Bancorp, Inc.
23.1*	Consent of Deloitte & Touche LLP
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	Interactive Financial Data

*Filed with this Annual Report on Form 10-K

**Furnished with this Annual Report on Form 10-K

†The schedules and/or exhibits to this agreement have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The registrant will furnish copies of such schedules and/or exhibits to the SEC upon request.

GREEN BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS TO CONSOLIDATED FINANCIAL STATEMENTS

Green Bancorp, Inc. and Subsidiaries	
Report of Independent Registered Public Accounting Firm	96
Consolidated Balance Sheets as of December 31, 2017 and 2016	97
Consolidated Statements of Income (Loss) for the Years Ended December 31, 2017, 2016 and 2015	98
Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2017, 2016 and 2015	99
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2017, 2016 and 2015	100
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015	101
Notes to Consolidated Financial Statements	102

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Green Bancorp, Inc. and subsidiaries
Houston, Texas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Green Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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.

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/ DELOITTE & TOUCHE LLP

Houston, Texas
March 15, 2018

We have served as the Company's auditor since 2009.

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

	December 31,	
	2017	2016
ASSETS		
Cash and due from banks	\$ 26,562	\$ 18,351
Interest bearing deposits in financial institutions and fed funds sold	114,119	370,656
Total cash and cash equivalents	140,681	389,007
Available-for-sale securities, at fair value	705,539	274,619
Held-to-maturity securities, at amortized cost (fair value of \$13,146 and \$34,844, respectively)	13,275	35,505
Investment in Patriot Bancshares Capital Trusts I and II	666	666
Federal Reserve Bank stock	11,702	10,954
Federal Home Loan Bank of Dallas stock	14,915	7,029
Total securities and other investments	746,097	328,773
Loans held for sale	7,156	23,989
Loans held for investment	3,190,485	3,098,220
Allowance for loan losses	(31,220)	(26,364)
Loans, net	3,166,421	3,095,845
Premises and equipment, net	24,002	25,674
Goodwill	85,291	85,291
Core deposit intangibles, net of accumulated amortization	8,503	9,975
Accrued interest receivable	11,109	8,011
Deferred tax asset, net	8,758	11,266
Real estate acquired by foreclosure	802	5,220
Bank owned life insurance	55,302	34,385
Other assets	14,950	31,375
TOTAL ASSETS	\$ 4,261,916	\$ 4,024,822
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 803,210	\$ 650,064
Interest-bearing transaction and savings	1,331,601	1,359,187
Certificates and other time deposits	1,262,332	1,365,449
Total deposits	3,397,143	3,374,700
Securities sold under agreements to repurchase	5,173	3,493
Other borrowed funds	325,000	150,000
Subordinated debentures and subordinated notes	47,737	47,492
Accrued interest payable	2,841	2,387
Other liabilities	20,227	16,268
Total liabilities	3,798,121	3,594,340
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 90,000,000 shares authorized; 37,280,822 and 37,165,674 shares issued at December 31, 2017 and December 31, 2016, respectively; 37,102,822 and 36,987,674 shares outstanding at December 31, 2017 and December 31, 2016, respectively	373	372
Capital surplus	387,891	382,961
Retained earnings	83,263	49,127
Accumulated other comprehensive loss, net	(6,479)	(725)
Less treasury stock, at cost, 178,000 shares at both December 31, 2017 and 2016	(1,253)	(1,253)
Total shareholders' equity	463,795	430,482
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,261,916	\$ 4,024,822

See notes to consolidated financial statements.

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

	For the Years ended December 31,		
	2017	2016	2015
INTEREST INCOME:			
Loans, including fees	\$ 154,266	\$ 149,422	\$ 104,205
Securities	15,294	4,209	3,604
Other investments	847	761	453
Deposits in financial institutions and fed funds sold	1,843	1,152	292
Total interest income	172,250	155,544	108,554
INTEREST EXPENSE:			
Transaction and savings deposits	9,298	5,749	3,103
Certificates and other time deposits	15,452	14,022	7,237
Subordinated debentures and subordinated notes	4,216	1,182	227
Other borrowed funds	2,237	963	379
Total interest expense	31,203	21,916	10,946
NET INTEREST INCOME	141,047	133,628	97,608
PROVISION FOR LOAN LOSSES	14,360	64,700	17,864
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	126,687	68,928	79,744
NONINTEREST INCOME:			
Customer service fees	9,103	6,129	3,925
Loan fees	3,515	2,974	2,369
(Loss) gain on sale of available-for-sale securities, net	(38)	—	772
(Loss) gain on held-for-sale loans, net	(2,308)	(1,404)	405
Gain on sale of guaranteed portion of loans, net	5,755	3,343	3,484
Other	2,485	3,154	1,232
Total noninterest income	18,512	14,196	12,187
NONINTEREST EXPENSE:			
Salaries and employee benefits	52,542	47,169	38,110
Occupancy	8,194	8,319	7,097
Professional and regulatory fees	8,868	8,958	8,923
Data processing	3,808	3,859	3,098
Software license and maintenance	2,027	2,155	1,844
Marketing	775	1,114	791
Loan related	1,804	3,795	1,185
Real estate acquired by foreclosure, net	704	3,168	1,086
Other	5,377	5,961	4,044
Total noninterest expense	84,099	84,498	66,178
INCOME (LOSS) BEFORE INCOME TAXES	61,100	(1,374)	25,753
PROVISION (BENEFIT) FOR INCOME TAXES	26,964	(402)	10,314
NET INCOME (LOSS)	\$ 34,136	\$ (972)	\$ 15,439
EARNINGS (LOSSES) PER SHARE:			
Basic	\$ 0.92	\$ (0.03)	\$ 0.54
Diluted	\$ 0.92	\$ (0.03)	\$ 0.53

See notes to consolidated financial statements.

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

	For the Years ended December 31,		
	2017	2016	2015
NET INCOME (LOSS)	\$ 34,136	\$ (972)	\$ 15,439
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:			
Change in unrealized (loss) gain on securities available-for-sale	(8,853)	(1,757)	(992)
Total other comprehensive income (loss) before tax	(8,853)	(1,757)	(992)
DEFERRED TAX (BENEFIT) EXPENSE RELATED TO OTHER COMPREHENSIVE (LOSS) INCOME	(3,099)	(615)	(347)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(5,754)	(1,142)	(645)
COMPREHENSIVE INCOME (LOSS)	<u>\$ 28,382</u>	<u>\$ (2,114)</u>	<u>\$ 14,794</u>

See notes to consolidated financial statements.

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

	Common Stock		Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
BALANCE — January 1, 2015	26,176	\$ 262	\$ 252,421	\$ 34,660	\$ 1,062	\$ —	\$ 288,405
Net income	—	—	—	15,439	—	—	15,439
Net change in unrealized gains and losses on available-for-sale securities, net of taxes of \$(347) and reclassification adjustment	—	—	—	—	(645)	—	(645)
Issuance of common stock in connection with the acquisition of Patriot Bancshares, Inc.	10,442	105	123,638	—	—	—	123,743
Issuance of common stock in connection with the exercise of stock options	170	1	1,533	—	—	—	1,534
Stock-based compensation expense	—	—	926	—	—	—	926
BALANCE — December 31, 2015	36,788	\$ 368	\$ 378,518	\$ 50,099	\$ 417	\$ —	\$ 429,402
Net loss	—	—	—	(972)	—	—	(972)
Net change in unrealized gains and losses on available-for-sale securities, net of taxes of \$(615) and reclassification adjustment	—	—	—	—	(1,142)	—	(1,142)
Purchase of treasury stock	(178)	—	—	—	—	(1,253)	(1,253)
Issuance of common stock in connection with exercise of stock options	378	4	3,042	—	—	—	3,046
Stock-based compensation expense	—	—	1,401	—	—	—	1,401
BALANCE — December 31, 2016	36,988	\$ 372	\$ 382,961	\$ 49,127	\$ (725)	\$ (1,253)	\$ 430,482
Net income	—	—	—	34,136	—	—	34,136
Net change in unrealized gains and losses on available-for-sale securities, net of taxes of \$(3,099)	—	—	—	—	(5,754)	—	(5,754)
Issuance of common stock in connection with exercise of stock options	115	1	485	—	—	—	486
Stock-based compensation expense	—	—	4,445	—	—	—	4,445
BALANCE — December 31, 2017	37,103	\$ 373	\$ 387,891	\$ 83,263	\$ (6,479)	\$ (1,253)	\$ 463,795

See notes to consolidated financial statements.

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

	For the Years ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 34,136	\$ (972)	\$ 15,439
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and accretion of premiums and discounts on securities, net	1,764	821	1,122
Accretion of loan discounts, net	(4,755)	(8,358)	(4,806)
Amortization of deposit premiums	(995)	(2,362)	(1,747)
Amortization of core deposit intangibles	1,472	1,587	847
Amortization and accretion of borrowing and debt valuation allowance, net	420	289	40
Amortization of issuance costs of subordinated notes	145	9	—
Provision for loan losses	14,360	64,700	17,864
Depreciation	2,044	2,388	1,849
Net loss (gain) on sale of available-for-sale securities	38	—	(772)
Net loss (gain) on sale of real estate acquired by foreclosure	147	563	81
Net loss (gain) on loans held for sale	2,308	1,404	(405)
Net gain on sale of guaranteed portion of loans	(5,755)	(3,343)	(3,484)
Originations of loans held for sale	—	(1,094)	(17,656)
Proceeds from sales of and principal collected on loans held for sale	16,845	21,488	19,875
Writedown of real estate acquired by foreclosure	304	1,048	530
Deferred income tax expense (benefit)	5,243	8,361	(3,409)
Stock-based compensation expense	4,880	1,587	707
(Increase) decrease in accrued interest receivable and other assets, net	12,775	(16,520)	2,208
Increase (decrease) in accrued interest payable and other liabilities, net	3,658	1,838	(1,379)
Net cash provided by operating activities	<u>89,034</u>	<u>73,434</u>	<u>26,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the maturities or calls and paydowns of available-for-sale securities	72,082	110,423	51,690
Proceeds from the sale of available-for-sale securities	349,374	—	109,444
Purchases of available-for-sale securities	(847,078)	(100,335)	(53,046)
Proceeds from the maturities or calls and paydowns of held-to-maturity securities	6,276	8,507	10,192
Purchases of held-to-maturity securities	—	(1,963)	(1,788)
Proceeds from sales of guaranteed portion of loans	56,102	39,109	38,201
Proceeds from sales of real estate acquired by foreclosure	3,967	8,794	2,587
Purchases of Federal Home Loan Bank of Dallas stock, net of redemptions	(7,886)	6,084	359
Purchases of Federal Reserve Bank stock	(748)	(3,747)	(34)
Purchase of Bank-Owned Life Insurance	(20,000)	—	—
Net increase in loans held for investment and held for sale	(154,951)	(115,148)	(279,756)
Investment in construction (sale of) premises and purchases of other fixed assets	4,898	(326)	(1,349)
Net cash and cash equivalents received (paid) in connection with acquisitions	—	—	4,275
Net cash used in investing activities	<u>(537,964)</u>	<u>(48,602)</u>	<u>(119,225)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposit accounts	23,438	276,314	170,236
Net (decrease) increase in securities sold under agreements to repurchase	1,680	420	(1,532)
Net proceeds from (repayment of) other short-term borrowed funds	175,000	(64,250)	(113,250)
Proceeds from other long-term borrowed funds	—	50,000	100,000
Repayment of other long-term borrowed funds	—	(58,884)	(8,684)
Proceeds from issuance of common stock due to exercise of stock options	486	3,046	1,534
Proceeds from issuance of subordinated notes, net	—	33,876	—
Purchase of treasury stock	—	(1,253)	—
Net cash provided by financing activities	<u>200,604</u>	<u>239,269</u>	<u>148,304</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ (248,326)	\$ 264,101	\$ 55,983
CASH AND CASH EQUIVALENTS:			
Beginning of year	389,007	124,906	68,923
End of year	<u>\$ 140,681</u>	<u>\$ 389,007</u>	<u>\$ 124,906</u>
NONCASH ACTIVITIES:			
Noncash investing and financing activities - acquisition of real estate through foreclosure of collateral	\$ 5,270	\$ 3,503	\$ —
Transfer of loans to held-for-sale	15,185	45,403	—
Stock issued in connection with the Patriot Bancshares acquisition	—	—	123,743
SUPPLEMENTAL INFORMATION:			
Interest paid	\$ 31,179	\$ 23,473	\$ 11,549
Income taxes paid	16,200	11,700	12,200

See notes to consolidated financial statements.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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

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

Summary of Significant Accounting and Reporting Policies—The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (“GAAP”). A summary of significant accounting policies follows.

Basis of Presentation—The consolidated financial statements include the accounts of Green Bancorp and its subsidiaries. Intercompany transactions have been eliminated in consolidation. Operations are managed and financial performance is evaluated on a company-wide basis. The Company operates its business as one segment providing banking services to a variety of customers.

Segment Reporting—The Company has one reportable segment. The Company’s chief operating decision-maker uses consolidated results to make operating and strategic decisions.

Initial Public Offering (IPO)—The Company qualifies as an “emerging growth company” as defined by the Jumpstart Our Business Startups Act (JOBS Act). In August 2014, the Company sold and issued 5,390,625 shares of common stock at \$15 per share in reliance on that Registration Statement. Total proceeds received by the Company, net of offering costs were approximately \$72.5 million.

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

Cash and Cash Equivalents—Cash and cash equivalents include cash due from banks, federal funds sold and interest-bearing deposits in financial institutions. Federal funds sold are invested for a period of three days or less. Interest bearing deposits include demand balances at the Federal Reserve Bank and balances with other financial institutions with original maturities of three months or less. Balances at the Federal Reserve Bank include restricted amounts required to satisfy reserve requirements, which are provided in Note 4.

Earnings Per Common Share—Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares. In the event of a net loss, the outstanding stock options are excluded from the diluted earnings per common share calculation due to their anti-dilutive effect and the diluted net loss per common share would equal the basic net loss per common share. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 2.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities—Securities classified as held-to-maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts. Management has the positive intent, and the Company has the ability, to hold these assets until their maturities.

Under certain circumstances (including the deterioration of the issuer's creditworthiness or a change in tax law or statutory or regulatory requirements), these securities may be sold or transferred to another portfolio.

Securities classified as available-for-sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported, net of tax, as accumulated other comprehensive income or loss until realized. Declines in the fair value of individual securities below their cost that are determined to be other-than-temporary would result in writedowns, as a realized loss, of the individual securities to their fair value. In evaluating other-than-temporary impairment losses, management considers several factors, including the severity and the duration of time that the fair value has been less than cost, the credit quality of the issuer, and whether it is more likely than not that the Company will be required to sell the security before a recovery in value. Securities within the available-for-sale portfolio may be used as part of the Company's asset and liability management strategy and may be sold in response to changes in interest rate risk, prepayment risk or other factors.

Premiums and discounts are amortized and accreted to net income using the interest method of accounting, adjusted for prepayments as applicable. The specific identification method of accounting is used to compute gains or losses on the sales of securities. Interest earned on these assets is included in interest income.

Other securities are stated at cost and include stock of the Federal Reserve Bank and the FHLB. Dividends received on these investments are included in interest income.

Loans Held-for-Sale—Loans are classified as held-for-sale when management has positively determined that the loans will be sold in the foreseeable future and the Company has the ability to do so. The classification may be made upon origination or subsequent to the origination or purchase. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost or estimated fair value. Fair value of government guaranteed and commercial loans held-for-sale is based on commitments from investors or prevailing market prices. Gains and losses on sales are recorded in noninterest income and determined on a specific identification basis.

Loans Held for Investment—Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported in the balance sheet as loans held for investment stated at the principal amount outstanding adjusted for charge-offs, the allowance for loan losses, deferred fees or costs and unamortized premiums or discounts. Interest income for loans is recognized principally by the simple interest method.

A loan is defined as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, both interest and principal, according to the contractual terms of the loan agreement. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized.

Nonperforming Loans and Past Due Loans—Nonperforming loans are loans which have been categorized by management as nonaccrual because collection of interest is doubtful and loans which have been restructured due to the borrower's financial difficulty and which result in a concessionary modification.

When the payment of principal or interest on a loan is delinquent for 90 days, or earlier in some cases, the loan is placed on nonaccrual status and classified as impaired unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. If the decision is made to continue accruing interest on the loan, periodic reviews are made to evaluate the appropriateness of its accruing status. When a loan is placed on nonaccrual status, all accrued but unpaid interest is reversed against interest income. Payments received on nonaccrual loans are applied first to outstanding loan amounts and next to the recovery of charged-off loan amounts. Any excess is treated as a recovery of lost interest.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The restructuring of a loan is considered a troubled debt restructuring if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Loans restructured in a troubled debt restructuring are considered impaired. Impairment loss of restructured loans is based on the difference between the original loan's carrying amount and the present value of expected future cash flows discounted at the original, contractual rate of the loan.

Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

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

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

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

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

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Bank-Owned Life Insurance (“BOLI”)—Bank-owned life insurance is stated at its cash surrender value. The Company is the beneficiary of life insurance policies on current and former officers and selected employees of the Company.

Premises and Equipment—Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation expense is computed primarily using the straight-line method over the estimated useful lives (ranging from two to thirty years) of the assets. Leasehold improvements are amortized using the straight-line method over the periods of the leases or the estimated useful lives, whichever is shorter.

Goodwill and Other Intangibles—Goodwill has an indefinite useful life and is subject to an annual impairment test and more frequently if a triggering event occurs. During 2017, the Company changed the annual impairment assessment date from December 31 to October 31. There was no impact to the process or results. We completed our annual impairment analysis of goodwill as of October 31, 2017. Based on this analysis we do not believe any of our goodwill is impaired as of this date because the fair value of our equity exceeds the carrying value. The goodwill impairment test involves a two-step process. Under the first step, the estimation of fair value of the reporting unit is compared with its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the implied fair value of goodwill is less than its carrying value. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. As part of its impairment analysis, the Company uses a variety of methodologies in determining the fair value of the reporting unit, including cash flow analysis that are consistent with the assumptions management believes hypothetical marketplace participants would use.

Core deposit intangibles are amortized on an accelerated basis over the years expected to be benefited, which the Company estimates to be approximately six to nineteen years.

Real Estate Acquired by Foreclosure—The Company records real estate acquired by foreclosure at fair value less estimated costs to sell. Adjustments are made to reflect declines in value subsequent to acquisition, if any, below the recorded amounts. Required developmental costs associated with foreclosed property under construction are capitalized and considered in determining the fair value of the property. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in noninterest expense.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Financial Instruments—The Company's derivative instruments are entered into pursuant to a customer accommodation program where the Company enters into an interest rate swap, cap agreement or an interest rate collar with a commercial customer and an agreement with offsetting terms with a correspondent bank. These derivative instruments are not designated as accounting hedges. Changes in net fair value are recognized in noninterest income or expense and the fair value amounts are included in other assets and other liabilities.

Fair Value Measurements—The Company follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and financial liabilities. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value, which are defined in Note 18.

Revenue Recognition—Revenue is recognized in accordance with FASB ASC 605, *Revenue Recognition*, on an accrual basis. Amounts are recognized as income in the period in which they are earned as evidenced by contractual agreements so long as the amount is deemed to be collectable and no evidence of impairment exists.

Gain on Sale of Guaranteed Portion of Loans, Net—The Company originates loans to customers under government guaranteed programs that generally provide for guarantees of 50% to 90% of each loan, subject to a maximum guaranteed amount. The Company can sell the guaranteed portion of the loan in an active secondary market and retains the unguaranteed portion in its portfolio. Sales of the guaranteed portion of loans are accounted for using the sales accounting treatment.

All sales of government guaranteed loans are executed on a servicing retained basis, and the Company retains the rights and obligations to service the loans. The standard sale structure provides for the Company to retain a portion of the cash flow from the interest payment received on the loan. When a loan sale involves the transfer of an interest less than the entire loan, the controlling accounting method under FASB ASC 860, *Transfers and Servicing*, requires the seller to reallocate the carrying basis between the assets transferred and the assets retained based on the relative fair value of the respective assets as of the date of sale. The maximum gain on sale that can be recognized is the difference between the fair value of the assets sold and the reallocated basis of the assets sold. The gain on sale recognized in income is the sum of the cash premium on the guaranteed loan, the fair value of the servicing assets recognized, less the discount recorded on the unguaranteed portion retained.

Income Taxes—Green Bancorp files a consolidated federal income tax return with its subsidiaries. Each computes income taxes as if it filed a separate return and remits to, or is reimbursed by, Green Bancorp based on the portion of taxes currently due or refundable.

Deferred income taxes are accounted for by applying the expected statutory tax rates at which the differences between the book basis and the tax basis of assets and liabilities are expected to be recovered. The resulting deferred tax assets and liabilities are adjusted to reflect changes in enacted tax laws or rates.

We record uncertain tax positions in accordance with FASB ASC 740, *Income Taxes*, on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Stock-Based Compensation—The Company's stock-based compensation policy applies to stock options and restricted stock units, which are accounted for under the fair-value method as required by GAAP. The expense associated with stock-based compensation is recognized over the vesting period of each individual arrangement.

The fair value of each time-based stock option and restricted stock units award is estimated on the date of grant using a Black-Scholes-Merton option valuation model.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Comprehensive Income—Comprehensive income includes all changes in equity during the period presented that result from transactions and other economic events other than transactions with shareholders. The Company reports comprehensive income in the consolidated statements of comprehensive income.

Recent Accounting Standards - Accounting Standards Updates ("ASU")

FASB ASU No. 2018-02 - "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments of ASU 2018-02 allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act which was signed into law on December 22, 2017. The amendments also require certain disclosures about stranded tax effects. This update will be effective for all annual and interim periods beginning January 1, 2019, with early adoption permitted, and the guidance should be applied either in the period of adoption or the retrospectively to each period impacted by the change in the U.S. federal corporate income tax rate in the Tax Cuts and Job Acts is recognized. The Company currently expects to early adopt the new guidance in the first quarter of 2018, which will result in a cumulative effect adjustment to the consolidated balance sheet as of January 1, 2018 to reclass approximately \$1.4 million of tax expense from accumulated other comprehensive loss to retained earnings.

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FASB ASU No. 2014-09 - “*Revenue from Contracts with Customers (Topic 606)*”. ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 was initially effective for the Company on January 1, 2017; however, in August 2015, the FASB issued ASU No. 2015-14 - *Revenue from Contracts with Customers - Deferral of the Effective Date*, which deferred the effective date to January 1, 2018. In addition, the FASB has begun to issue targeted updates to clarify specific implementation issues of ASU 2014-09. These updates include ASU No. 2016-08 - *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10 - *Identifying Performance Obligations and Licensing*, ASU No. 2016-12 - *Narrow-Scope Improvements and Practical Expedients*, and ASU No. 2016-20 - *Technical Corrections and Improvements to Top 606 - Revenue from Contract with Customers*. These amendments do not change the core principles in ASU 2014-09. The Company’s primary sources of revenue are comprised of net interest income on financial assets and liabilities, which are not within the scope of ASU 2014-09. The Company will adopt ASU 2014-09, effective January 1, 2018, and at the time of this filing, do not expect to record a cumulative-effect adjustment or any presentation changes to the consolidated financial statements. The Company will provide the required revenue disclosures in Form 10-Q for the quarter ended March 31, 2018.

2. EARNINGS PER COMMON SHARE

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

	Year Ended December 31,					
	2017		2016		2015	
	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
(Amounts in thousands, except per share amounts)						
Net income (loss)	\$ 34,136		\$ (972)		\$ 15,439	
Basic:						
Weighted average shares outstanding	37,043	\$ 0.92	36,677	\$ (0.03)	28,839	\$ 0.54
Diluted:						
Add incremental shares for:						
Effect of dilutive securities - options	254		—		257	
Total	<u>37,297</u>	\$ 0.92	<u>36,677</u>	\$ (0.03)	<u>29,096</u>	\$ 0.53

3. ACQUISITIONS

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

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

Patriot Bancshares, Inc. - On October 1, 2015, the Company completed the merger of Patriot with and into the Company and the merger of Patriot's wholly-owned subsidiary, Patriot Bank with and into the Bank. Patriot, headquartered in Houston, Texas, operated six locations in Houston, two in Dallas and one in Fannin County, Texas. As of September 30, 2015, Patriot, on a consolidated basis, reported total assets of \$1.4 billion, total loans of \$1.1 billion, total deposits of \$1.1 billion and total shareholders' equity of \$125.2 million.

Under the terms of the merger agreement, we issued 10.4 million shares of the Company's common stock, with a total fair value of \$123.7 million based on the closing price on October 1, 2015 of \$11.85, for all outstanding shares of Patriot common stock, including the converted Series D and Series F preferred stock. In addition, Patriot's \$27.3 million Series B and Series C preferred stock were redeemed in connection with the closing. Consistent with the Company's strategy, the primary reasons for the Patriot acquisition were to enhance market share in Houston and Dallas, and improve profitability through cost savings and revenue synergies.

In connection with the merger, we recognized \$55.2 million of goodwill, \$8.3 million of core deposit intangibles, and \$7.3 million in net deferred tax assets as of December 31, 2016. None of the goodwill recognized is expected to be deductible for income tax purposes.

SP Bancorp, Inc. - On October 17, 2014, the Company completed the acquisition of SP Bancorp, Inc. and its wholly owned subsidiary SharePlus Bank. SharePlus Bank was a Texas chartered state bank headquartered in Plano, Texas, with four branches, two in Plano, Texas, one in Dallas, Texas and one in Louisville, Kentucky. The expansion complements the Company's Dallas area growth. As of September 30, 2014, SharePlus, on a consolidated basis, had \$348.7 million in total assets, \$248.2 million in loans, \$280.5 million in deposits and \$33.7 million in stockholders' equity. The acquisition was not considered significant to the Company's financial statements and therefore pro forma financial data and related disclosures are not included.

Pursuant to the terms of the acquisition agreement, the Company paid \$46.4 million in cash for all outstanding shares of SP Bancorp, Inc.'s capital stock, which resulted in goodwill of \$14.5 million. Additionally, the Company recognized \$3.5 million of core deposit intangibles as of December 31, 2015.

M&A and Acquisition Related Costs - The Company incurred \$445 thousand and \$456 thousand of pre-tax M&A and acquisition related costs during 2017 and 2016. The merger expenses are reflected on the Company's income statement for the applicable periods and are reported primarily in the categories of data processing, professional and regulatory fees, salaries and benefits, occupancy, software licenses and maintenance, marketing and other. The expenses incurred during 2017 include tax fees and legal fees. Merger related costs incurred are presented in the table below by acquisition.

	2017	2016
	(Dollars in thousands)	
Patriot Bancshares, Inc.	\$ 265	\$ 405
SP Bancorp, Inc.	180	51
Total	<u>\$ 445</u>	<u>\$ 456</u>

4. CASH AND CASH EQUIVALENTS

The Bank, as a correspondent of the Federal Reserve Bank, is required to maintain average reserve balances. Interest-bearing deposits in financial institutions include restricted amounts of \$76.0 million and \$65.1 million at December 31, 2017 and December 31, 2016, respectively, as a result of this requirement.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. SECURITIES

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

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available-for-sale:				
SBA guaranteed securities	\$ 104,111	\$ 129	\$ (948)	\$ 103,292
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	250,580	\$ 297	(1,701)	249,176
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: commercial	\$ 65,986	\$ —	\$ (500)	\$ 65,486
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	234,881	—	(6,434)	228,447
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	36,151	—	(472)	35,679
Corporate debt securities	5,789	5	—	5,794
Obligations of municipal subdivisions	6,672	—	(45)	6,627
CRA qualified investment fund	11,337	—	(299)	11,038
Total	<u>\$ 715,507</u>	<u>\$ 431</u>	<u>\$ (10,399)</u>	<u>\$ 705,539</u>
Held-to-maturity:				
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	\$ 10,841	\$ 61	\$ (170)	\$ 10,732
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	2,434	—	(20)	2,414
Total	<u>\$ 13,275</u>	<u>\$ 61</u>	<u>\$ (190)</u>	<u>\$ 13,146</u>

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2017			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	\$ 1,789	\$ 1,794	\$ —	\$ —
Due after one year through five years	—	—	—	—
Due after five years through ten years	4,236	4,236	—	—
Due after ten years	6,436	6,390	—	—
	<u>12,461</u>	<u>12,420</u>	<u>—</u>	<u>—</u>
Mortgage-backed securities and collateralized mortgage obligations	587,598	578,789	13,275	13,146
SBA guaranteed securities	104,111	103,292	—	—
CRA qualified investment fund	11,337	11,038	—	—
Total	<u>\$ 715,507</u>	<u>\$ 705,539</u>	<u>\$ 13,275</u>	<u>\$ 13,146</u>

Proceeds from sales of securities classified as available-for-sale of \$349.4 million were received during the year ended December 31, 2017. The sales resulted in a net loss of \$38 thousand, which is comprised of \$910 thousand in gross realized gains, offset by \$948 thousand in gross realized losses.

There were no sales of securities during the year ended December 31, 2016.

Proceeds from sales of securities classified as available-for-sale of \$109.4 million was received during the years ended December 31, 2015. Sales in 2015 included \$76.5 million of the acquired securities from the Patriot acquisition and resulted in a net gain of \$195 thousand, which is comprised of \$225 thousand in gross realized gains offset by \$30 thousand in gross realized losses.

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

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2017, the Company does not intend to sell any debt securities classified as held-to-maturity and management believes that the Company more, likely than not, will not be required to sell any debt securities that are in a loss position before their anticipated recovery, at which time the Company will receive full value for the securities. Furthermore, as of December 31, 2017, management does not have the intent to sell any of its securities classified as available-for-sale that are in a loss position and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of December 31, 2017, management believes any impairment in the Company's securities is temporary and no impairment loss has been realized in the Company's consolidated statements of income.

Declines in the fair value of individual securities below their cost that are other-than-temporary would result in writedowns, as a realized loss, to their fair value. In evaluating other-than-temporary impairment losses, management considers several factors including the severity and the duration that the fair value has been less than cost, the credit quality of the issuer, and whether it is more likely than not that the Company will be required to sell the security before a recovery in value. The Company has not realized any losses due to other-than-temporary impairment of securities as of December 31, 2017.

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

	December 31, 2017					
	Less than 12 Months			12 Months or More		
	Amortized Cost	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)					
Available-for-sale:						
SBA guaranteed securities	\$ 76,603	\$ (948)	\$ 75,655	\$ —	\$ —	\$ —
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	192,105	(1,608)	190,497	9,152	(93)	9,059
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: commercial	65,986	(500)	65,486	—	—	—
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	210,034	(6,183)	203,851	9,037	(251)	8,786
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: commercial	36,151	(472)	35,679	—	—	—
Obligations of municipal subdivisions	6,436	(45)	6,391	—	—	—
CRA qualified investment fund	—	—	—	11,337	(299)	11,038
Total	<u>\$ 587,315</u>	<u>\$ (9,756)</u>	<u>\$ 577,559</u>	<u>\$ 29,526</u>	<u>\$ (643)</u>	<u>\$ 28,883</u>
Held-to-maturity:						
Mortgage-backed securities issued by U.S. government agencies or sponsored enterprises: residential	\$ 1,086	\$ (9)	\$ 1,077	\$ 6,265	\$ (161)	\$ 6,104
Collateralized mortgage obligations issued by U.S. government agencies or sponsored enterprises: residential	2,434	(20)	2,414	—	—	—
Total	<u>\$ 3,520</u>	<u>\$ (29)</u>	<u>\$ 3,491</u>	<u>\$ 6,265</u>	<u>\$ (161)</u>	<u>\$ 6,104</u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The average loss on securities in an unrealized loss position was 1.69% and 1.04% of the amortized cost basis at December 31, 2017 and 2016, respectively. There were eighteen and nine securities in an unrealized loss position of greater than 12 months at December 31, 2017 and 2016, respectively.

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

Securities with an amortized cost of \$6.3 million and \$12.2 million and fair value of \$6.3 million and \$12.2 million were pledged and available to be sold under repurchase agreements at December 31, 2017 and December 31, 2016, respectively. Securities with an amortized cost of \$55.7 million and \$73.0 million and fair value of \$55.5 million and \$72.6 million were pledged to various Federal Reserve Districts related to deposits of bankruptcy trustees at December 31, 2017 and 2016, respectively. Securities with an amortization cost and fair value of \$1.3 million at December 31, 2016 were pledged to collateralize public deposits. In addition, securities with an amortized cost of \$3.4 million and \$5.2 million and fair value of \$3.3 million and \$5.2 million were pledged as collateral for the Company's derivative instruments at December 31, 2017 and December 31, 2016, respectively.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. LOANS

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

	December 31, 2017		
	Originated	Acquired	Total
	(Dollars in thousands)		
Commercial & industrial	\$ 1,223,027	\$ 63,469	\$ 1,286,496
Real estate:			
Owner occupied commercial real estate	327,906	87,324	415,230
Commercial real estate	823,361	244,418	1,067,779
Construction, land & land development	136,998	27,954	164,952
Residential mortgage	149,021	89,559	238,580
Consumer and other	16,178	1,270	17,448
Total loans held for investment	<u>\$ 2,676,491</u>	<u>\$ 513,994</u>	<u>\$ 3,190,485</u>
Total loans held for sale	<u>\$ 7,156</u>	<u>\$ —</u>	<u>\$ 7,156</u>

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

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

Included in the loans held for investment balance was \$13.6 million and \$17.4 million of net deferred loan origination fees and unamortized premium and discount at December 31, 2017 and 2016, respectively. Also included in loans at December 31, 2017 and 2016, respectively was \$1.4 million and \$3.0 million in nonaccretable discount on acquired credit impaired loans. Accrued interest receivable on loans was \$8.8 million and \$7.4 million at December 31, 2017 and 2016, respectively. Consumer and other loans include overdrafts of \$48 thousand and \$73 thousand as of December 31, 2017 and 2016, respectively.

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reserved-based energy loans outstanding represented approximately 0.6% and 0.5% of total funded loans as of December 31, 2017 and 2016, respectively. Energy-related service industry loans represented approximately 1.1% and 2.6% of total funded loans as of December 31, 2017 and 2016, respectively. As of December 31, 2017, \$19.2 million of reserved-based energy loans and \$17.5 million of energy-related service industry loans were impaired.

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

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

December 31, 2017				
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
(Dollars in thousands)				
Commercial & industrial	\$ 427,958	\$ 813,421	\$ 45,117	\$ 1,286,496
Real estate:				
Owner occupied commercial real estate	31,254	156,620	227,356	415,230
Commercial real estate	223,695	615,560	228,524	1,067,779
Construction, land & land development	59,503	76,619	28,830	164,952
Residential mortgage	17,667	50,632	170,281	238,580
Consumer and other	5,900	2,916	8,632	17,448
 Total loans held for investment	<u>\$ 765,977</u>	<u>\$ 1,715,768</u>	<u>\$ 708,740</u>	<u>\$ 3,190,485</u>
 Fixed rate	\$ 118,482	\$ 376,552	\$ 99,340	\$ 594,374
Floating rate	647,495	1,339,216	609,400	2,596,111
 Total loans held for investment	<u>\$ 765,977</u>	<u>\$ 1,715,768</u>	<u>\$ 708,740</u>	<u>\$ 3,190,485</u>

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

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

			December 31,
			2017 2016
			(Dollars in thousands)
Beginning balance	\$	5,813	\$ 9,741
Advances		—	503
Repayments		(5,813)	(4,431)
Ending Balance	<u>\$</u>	<u>—</u>	<u>\$ 5,813</u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquired Loans — The outstanding principal balance and recorded investment in the total acquired loans from all acquisitions at December 31, 2017 and 2016, was as follows:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Credit impaired acquired loans:		
Outstanding principal balance	\$ 18,498	\$ 30,694
Recorded investment	15,965	25,188
Discount, net	<u>\$ 2,533</u>	<u>\$ 5,506</u>
Other acquired loans:		
Outstanding principal balance	499,939	775,709
Deferred fees, net	(72)	(174)
Recorded investment	498,029	771,104
Discount, net	<u>\$ 1,838</u>	<u>\$ 4,431</u>
Total acquired loans:		
Outstanding principal balance	518,437	806,403
Deferred fees, net	(72)	(174)
Recorded investment	513,994	796,292
Discount, net	<u>\$ 4,371</u>	<u>\$ 9,937</u>

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

	Year Ended December 31,	
	2017	2016
	(Dollars in thousands)	
Balance at beginning of period	\$ 2,544	\$ 966
Reclassifications (to) from nonaccretable discount	(20)	3,233
Accretion	(1,399)	(1,655)
Balance at period end	<u>\$ 1,125</u>	<u>\$ 2,544</u>

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

December 31, 2017								
	Loans Past Due and Still Accruing					Purchased Credit Impaired	Current	Total Loans
	30 - 89 Days Past Due	90 Days or More Past Due	Total	Nonaccrual				
(Dollars in thousands)								
Originated Loans								
Commercial & industrial	\$ 15,917	\$ 242	\$ 16,159	\$ 45,413	\$ —	\$1,161,455	\$1,223,027	
Real estate:								
Owner occupied commercial real estate	1,109	—	1,109	—	—	326,797	327,906	
Commercial real estate	16,250	—	16,250	—	—	807,111	823,361	
Construction, land & land development	2,255	133	2,388	3,287	—	131,323	136,998	
Residential mortgage	1,311	—	1,311	3,111	—	144,599	149,021	
Consumer and other	127	—	127	49	—	16,002	16,178	
Total originated loans	<u>\$ 36,969</u>	<u>\$ 375</u>	<u>\$ 37,344</u>	<u>\$ 51,860</u>	<u>\$ —</u>	<u>\$2,587,287</u>	<u>\$2,676,491</u>	
Acquired Loans								
Commercial & industrial	\$ —	\$ —	\$ —	\$ 1,901	\$ 3,237	\$ 58,331	\$ 63,469	
Real estate:								
Owner occupied commercial real estate	233	—	233	1,886	4,062	81,143	87,324	
Commercial real estate	1,885	—	1,885	312	6,437	235,784	244,418	
Construction, land & land development	204	—	204	714	—	27,036	27,954	
Residential mortgage	804	—	804	454	2,229	86,072	89,559	
Consumer and other	—	—	—	211	—	1,059	1,270	
Total acquired loans	<u>3,126</u>	<u>—</u>	<u>3,126</u>	<u>5,478</u>	<u>15,965</u>	<u>489,425</u>	<u>513,994</u>	
Total loans held for investment	\$ 40,095	\$ 375	\$ 40,470	\$ 57,338	\$ 15,965	\$3,076,712	\$3,190,485	

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

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

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

	December 31, 2017		
	Originated	Acquired	Total
(Dollars in thousands)			
Nonaccrual loans	\$ 43,797	\$ 4,095	\$ 47,892
Accruing loans past due 90 days or more	375	—	375
Restructured loans - nonaccrual	8,063	1,383	9,446
Restructured loans - accruing	4,255	8,838	13,093
Total nonperforming loans	<u>\$ 56,490</u>	<u>\$ 14,316</u>	<u>\$ 70,806</u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impaired loans of \$57.3 million and \$76.8 million at December 31, 2017 and 2016 respectively, have been categorized by management as nonaccrual loans. Interest foregone on nonaccrual loans for the years ended December 31, 2017, 2016, and 2015 was approximately \$5.4 million, \$4.7 million and \$806 thousand, respectively.

Based on an analysis of impaired loans at December 31, 2017 and 2016, an allowance of \$5.7 million and \$1.8 million, respectively, was allocated to impaired loans. The following tables present, for the periods indicated, the average recorded investment in impaired loans and the approximate amount of interest recognized on impaired loans. Interest recognized includes interest accrued on restructured loans that have performed based on their restructured terms and interest collected on nonaccrual loans that were paid in full during the period.

	Year Ended December 31,			
	December 31, 2017		December 31, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Originated Loans				
Commercial & industrial	\$ 41,032	\$ 108	\$ 37,697	\$ 336
Owner occupied commercial real estate	—	—	1,016	73
Commercial real estate	2,105	—	6,088	344
Construction, land & land development	1,563	3	153	180
Residential mortgage	1,994	123	629	9
Consumer and other	118	3	170	8
Total originated loans	<u>\$ 46,812</u>	<u>\$ 237</u>	<u>\$ 45,753</u>	<u>\$ 950</u>
Acquired Loans				
Commercial & industrial	\$ 20,295	\$ 570	\$ 12,463	\$ 25
Owner occupied commercial real estate	6,458	289	2,459	—
Commercial real estate	851	—	1,704	42
Construction, land & land development	1,068	88	198	—
Residential mortgage	718	32	1,624	48
Consumer and other	188	—	5	—
Total acquired loans	<u>\$ 29,578</u>	<u>\$ 979</u>	<u>\$ 18,453</u>	<u>\$ 115</u>
Total	<u>\$ 76,390</u>	<u>\$ 1,216</u>	<u>\$ 64,206</u>	<u>\$ 1,065</u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
Originated Loans			
With no related allowance recorded:			
Commercial & industrial	\$ 32,794	\$ 32,974	\$ —
Construction, land & land development	111	111	—
Residential mortgage	3,111	3,111	—
Consumer and other	12	12	—
Total with no related allowance recorded:	<u>\$ 36,028</u>	<u>\$ 36,208</u>	<u>\$ —</u>
With an allowance recorded:			
Commercial & industrial	\$ 16,862	\$ 16,943	\$ 5,409
Construction, land & land development	3,176	3,176	224
Consumer and other	49	49	30
Total with an allowance recorded:	<u>\$ 20,087</u>	<u>\$ 20,168</u>	<u>\$ 5,663</u>
Total originated loans	<u>\$ 56,115</u>	<u>\$ 56,376</u>	<u>\$ 5,663</u>
Acquired Loans			
With no related allowance recorded:			
Commercial & industrial	\$ 10,738	\$ 10,738	\$ —
Owner occupied commercial real estate	1,886	1,910	—
Commercial real estate	312	312	—
Construction, land & land development	714	716	—
Residential mortgage	454	455	—
Consumer and other	208	202	—
Total with no related allowance recorded:	<u>\$ 14,312</u>	<u>\$ 14,333</u>	<u>\$ —</u>
With an allowance recorded:			
Consumer and other	\$ 4	\$ 4	\$ 4
Total with an allowance recorded:	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 4</u>
Total acquired loans	<u>\$ 14,316</u>	<u>\$ 14,337</u>	<u>\$ 4</u>
Total:			
Commercial & industrial	\$ 60,394	\$ 60,655	\$ 5,409
Real estate	9,764	9,791	224
Consumer and other	273	267	34
Total	<u><u>\$ 70,431</u></u>	<u><u>\$ 70,713</u></u>	<u><u>\$ 5,667</u></u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017								
	Grade 1 - 4 (Pass)	Grade 5 (Watch)	Grade 6 (Special Mention)	Grade 7 (Substandard -Accrual)	Grade 8 (Substandard -Nonaccrual)	Grade 9 (Doubtful)	PCI	Total
(Dollars in thousands)								
Originated Loans								
Commercial & Industrial	\$ 1,109,939	\$ 22,648	\$ 5,605	\$ 39,422	\$ 45,413	\$ —	\$ —	\$ 1,223,027
Owner Occupied Commercial Real Estate	314,497	3,096	7,658	2,655	—	—	—	327,906
Commercial Real Estate	681,691	45,149	85,431	11,090	—	—	—	823,361
Construction & Land Development	121,893	970	—	10,848	3,287	—	—	136,998
Residential Mortgage	138,239	6,529	—	1,142	3,111	—	—	149,021
Consumer and Other	16,113	2	—	14	49	—	—	16,178
Total originated loans	\$ 2,382,372	\$ 78,394	\$ 98,694	\$ 65,171	\$ 51,860	\$ —	\$ —	\$ 2,676,491
Acquired Loans								
Commercial & Industrial	\$ 38,000	\$ 3,172	\$ 11,101	\$ 6,058	\$ 1,901	\$ —	\$ 3,237	\$ 63,469
Owner Occupied Commercial Real Estate	72,592	8,499	—	285	1,886	—	4,062	87,324
Commercial Real Estate	173,765	43,775	20,129	—	312	—	6,437	244,418
Construction & Land Development	14,549	12,136	—	555	714	—	—	27,954
Residential Mortgage	85,461	1,023	202	190	454	—	2,229	89,559
Consumer and Other	1,059	—	—	—	211	—	—	1,270
Total acquired loans	\$ 385,426	\$ 68,605	\$ 31,432	\$ 7,088	\$ 5,478	\$ —	\$ 15,965	\$ 513,994
Total loans	\$ 2,767,798	\$ 146,999	\$ 130,126	\$ 72,259	\$ 57,338	\$ —	\$ 15,965	\$ 3,190,485

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Year Ended					
	December 31, 2017			December 31, 2016		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Recorded Investment as of December 31, 2017	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Recorded Investment as of December 31, 2016
(Dollars in thousands)						
Commercial & industrial	3	\$ 2,526	\$ 898	8	\$ 23,396	\$ 21,272
Owner occupied commercial real estate	3	5,501	1,175	—	—	—
Construction, land & land development	2	831	\$ —	—	—	—
Other consumer	1	208	208	—	—	—
Total	9	\$ 9,066	\$ 2,281	8	\$ 23,396	\$ 21,272

During the year ended December 31, 2017, the Company added \$9.1 million in new troubled debt restructuring of which \$2.3 million was still outstanding. The decrease in outstanding balance was primarily due to payments received. The modifications primarily related to extending the maturity date of the loans, which includes loans modified post-bankruptcy. The Company did not forgive any principal or interest on the restructured loans. Following the restructure, five loans totaling \$6.7 million were paid in full and none were charged off during the year. Restructured loans are individually evaluated for impairment. The allowance for loan losses included \$810 thousand of specific reserves related to \$8.0 million of these loans at December 31, 2017.

During the year ended December 31, 2016, the Company added \$23.4 million in new troubled debt restructuring of which \$21.3 million was still outstanding. The decrease in outstanding balance was primarily due to payments received. The modifications primarily related to extending the maturity date of the loans, which includes loans modified post-bankruptcy. The Company did not forgive any principal or interest on the restructured loans. Following the restructure, none were paid in full and none were charged off during the year. Restructured loans are individually evaluated for impairment. The allowance for loan losses included no specific reserves for restructured loans at December 31, 2016.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. ALLOWANCE FOR LOAN LOSSES

An analysis of activity in the allowance for loan losses for the years ended December 31, 2017 and 2016, and the balance of loans receivable by the method of impairment evaluation at December 31, 2017 and 2016 is as follows:

	Balance December 31, 2016		Provision		Charge-offs		Recoveries		Balance December 31, 2017
	(Dollars in thousands)								
Originated Loans									
Commercial & industrial	\$ 9,491	\$	15,291	\$	(8,726)	\$	598	\$	16,654
Owner occupied commercial real estate	2,609		139		—		—		2,748
Commercial real estate	8,576		(838)		—		—		7,738
Construction, land & land development	1,852		(371)		—		—		1,481
Residential mortgage	1,134		(51)		—		53		1,136
Consumer and other	193		52		(146)		122		221
Total originated loans	<u>\$ 23,855</u>	\$	<u>14,222</u>	\$	<u>(8,872)</u>	\$	<u>773</u>	\$	<u>29,978</u>
Acquired Loans									
Commercial & industrial	\$ 1,260	\$	(964)	\$	(339)	\$	78	\$	35
Owner occupied commercial real estate	—		1,083		(1,087)		4		—
Commercial real estate	437		213		—		8		658
Construction, land & land development	115		(97)		(95)		77		—
Residential mortgage	685		(192)		(19)		68		542
Consumer and other	12		95		(110)		10		7
Total acquired loans	<u>\$ 2,509</u>	\$	<u>138</u>	\$	<u>(1,650)</u>	\$	<u>245</u>	\$	<u>1,242</u>
Total	<u><u>\$ 26,364</u></u>	\$	<u><u>14,360</u></u>	\$	<u><u>(10,522)</u></u>	\$	<u><u>1,018</u></u>	\$	<u><u>31,220</u></u>

	Balance December 31, 2015		Provision		Charge-offs		Recoveries		Balance December 31, 2016
	(Dollars in thousands)								
Originated Loans									
Commercial & industrial	\$ 23,084	\$	51,189	\$	(65,684)	\$	902	\$	9,491
Owner occupied commercial real estate	1,675		934		—		—		2,609
Commercial real estate	4,525		4,077		(26)		—		8,576
Construction, land & land development	2,337		(485)		—		—		1,852
Residential mortgage	815		271		—		48		1,134
Consumer and other	286		(5)		(110)		22		193
Total originated loans	<u>\$ 32,722</u>	\$	<u>55,981</u>	\$	<u>(65,820)</u>	\$	<u>972</u>	\$	<u>23,855</u>
Acquired Loans									
Commercial & industrial	\$ 46	\$	3,816	\$	(2,700)	\$	98	\$	1,260
Owner occupied commercial real estate	4		1,384		(1,405)		17		—
Commercial real estate	166		737		(466)		—		437
Construction, land & land development	8		1,654		(1,631)		84		115
Residential mortgage	1		1,125		(548)		107		685
Consumer and other	—		3		(15)		24		12
Total acquired loans	<u>\$ 225</u>	\$	<u>8,719</u>	\$	<u>(6,765)</u>	\$	<u>330</u>	\$	<u>2,509</u>
Total	<u><u>\$ 32,947</u></u>	\$	<u><u>64,700</u></u>	\$	<u><u>(72,585)</u></u>	\$	<u><u>1,302</u></u>	\$	<u><u>26,364</u></u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2017								
	Loans evaluated for impairment				Allowance for loan losses evaluated			
	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total loans	Collectively evaluated for impairment	Individually evaluated for impairment	Purchased credit impaired	Total allowance for loan losses
(Dollars in thousands)								
Originated Loans								
Commercial & industrial	\$ 1,173,371	\$ 49,656	\$ —	\$ 1,223,027	\$ 11,245	\$ 5,409	\$ —	\$ 16,654
Owner occupied commercial real estate	327,906	—	—	327,906	2,748	—	—	2,748
Commercial real estate	823,361	—	—	823,361	7,738	—	—	7,738
Construction, land & land development	133,711	3,287	—	136,998	1,257	224	—	1,481
Residential mortgage	145,910	3,111	—	149,021	1,136	—	—	1,136
Consumer and other	16,116	62	—	16,178	191	30	—	221
Total originated loans	<u>\$ 2,620,375</u>	<u>\$ 56,116</u>	<u>\$ —</u>	<u>\$ 2,676,491</u>	<u>\$ 24,315</u>	<u>\$ 5,663</u>	<u>\$ —</u>	<u>\$ 29,978</u>
Acquired Loans								
Commercial & industrial	\$ 49,494	\$ 10,738	\$ 3,237	\$ 63,469	\$ 35	\$ —	\$ —	\$ 35
Owner occupied commercial real estate	81,376	1,886	4,062	87,324	—	—	—	—
Commercial real estate	237,669	312	6,437	244,418	658	—	—	658
Construction, land & land development	27,240	714	—	27,954	—	—	—	—
Residential mortgage	86,876	454	2,229	89,559	467	—	75	542
Consumer and other	1,059	211	—	1,270	3	4	—	7
Total acquired loans	<u>\$ 483,714</u>	<u>\$ 14,315</u>	<u>\$ 15,965</u>	<u>\$ 513,994</u>	<u>\$ 1,163</u>	<u>\$ 4</u>	<u>\$ 75</u>	<u>\$ 1,242</u>
Total	<u><u>\$ 3,104,089</u></u>	<u><u>\$ 70,431</u></u>	<u><u>\$ 15,965</u></u>	<u><u>\$ 3,190,485</u></u>	<u><u>\$ 25,478</u></u>	<u><u>\$ 5,667</u></u>	<u><u>\$ 75</u></u>	<u><u>\$ 31,220</u></u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. PREMISES AND EQUIPMENT

Premises and equipment as of dated indicated are summarized as follows:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Land	\$ 7,660	\$ 7,660
Buildings and improvements	23,598	23,293
Furniture, fixtures and equipment	10,484	10,193
	<u>41,742</u>	<u>41,146</u>
Less accumulated depreciation	(17,740)	(15,472)
Total	<u>\$ 24,002</u>	<u>\$ 25,674</u>

Depreciation of premises and equipment totaled \$2.0 million, \$2.4 million and \$1.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

9. GOODWILL AND CORE DEPOSIT INTANGIBLES

The Company has historically performed its annual goodwill impairment test as of December 31 each year. During 2017, the Company voluntarily changed its annual impairment assessment date from December 31 to October 31. The Company accelerated the impairment test to earlier during the quarter to better align the impairment testing work with year-end financial statements. The change in measurement date represents a change in the method of applying an accounting principle, however, the Company does not consider the change material, intends to utilize the same valuation approach and does not expect the change in valuation date to produce different impairment results.

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

Changes in the carrying amount of goodwill and core deposit intangibles for the years ended December 31, 2017 and 2016 were as follows:

	Goodwill	Core Deposit Intangibles
	(Dollars in thousands)	
Balance - December 31, 2015	\$ 85,291	\$ 11,562
Less - amortization	—	(1,587)
Balance - December 31, 2016	\$ 85,291	\$ 9,975
Less - amortization	—	(1,472)
Balance - December 31, 2017	<u>\$ 85,291</u>	<u>\$ 8,503</u>

Amortization of core deposit intangibles was \$1.5 million, \$1.6 million and \$847 thousand for the years ended December 31, 2017, 2016 and 2015, respectively.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Core deposit intangibles are amortized on an accelerated basis over their estimated lives, which the Company believes is approximately six to nineteen years. The estimated future amortization expense for the core deposit intangibles remaining as of December 31, 2017 is as follows (dollars in thousands):

2018	\$ 1,196
2019	1,080
2020	992
2021	905
2022	818
Thereafter	3,512
Total	<u>\$ 8,503</u>

10. DEPOSITS

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

	December 31,	
	2017	2016
	(Dollars in thousands)	
2018	\$ 889,231	\$ 863,876
2019	247,595	263,958
2020	83,005	156,824
2021	13,922	67,739
2022	28,579	13,052
Total	<u>\$ 1,262,332</u>	<u>\$ 1,365,449</u>

Certificates and other time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2017 and 2016 were \$482.0 million and \$490.7 million.

The Company had \$123.4 million and \$97.9 million in brokered time deposits, at December 31, 2017 and 2016, respectively. At December 31, 2017, we also had \$35.4 million in noninterest-bearing escrow accounts classified as brokered. Brokered deposits represented 4.7% and 2.9% of total deposits at December 31, 2017 and 2016, respectively. The Company utilizes brokered deposits to enhance liquidity.

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

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

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

	December 31,	
	2017	2016
	(Dollars in thousands)	
Federal Home Loan Bank advances	\$ 325,000	\$ 150,000
Repurchase agreements	5,173	3,493
Total	<u>\$ 330,173</u>	<u>\$ 153,493</u>

Federal Home Loan Bank Advances — The Company has an available borrowing arrangement with the FHLB, which allows the Company to borrow on a collateralized basis. At December 31, 2017 and 2016, borrowing capacity of \$948.2 million and \$608.8 million, respectively, was available under this arrangement and \$325.0 million and \$150.0 million, respectively, was outstanding with an average interest rate of 1.41% and 0.59% respectively. The Company's FHLB advances at December 31, 2017 mature within 1 year. The Company's FHLB advances at December 31, 2016 mature within 2 years. These borrowings are collateralized by a blanket lien on certain real estate loans and unpledged securities in safekeeping. The total borrowing capacity increased due to purchases of securities. The Company utilizes these borrowings to meet liquidity needs and to fund certain loans in its loan portfolio.

Federal Reserve Bank — The Company has an available borrower in custody arrangement with the Federal Reserve Bank of Dallas (the "Dallas Fed"), which allows the Company to borrow, on a collateralized basis. Certain commercial and consumer loans are pledged under this arrangement. The Company maintains this borrowing arrangement to meet liquidity needs pursuant to its liquidity risk management program. At December 31, 2017 and 2016, \$384.5 million and \$330.0 million, respectively, were available under this arrangement and no borrowings were outstanding.

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

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

12. SUBORDINATED DEBENTURES AND SUBORDINATED NOTES

Subordinated Notes — On December 8, 2016, the Company issued \$35.0 million of 8.50% Fixed-to-Floating Rate Subordinated Notes (the "Notes") that mature on December 15, 2026 through a private placement to certain institutional accredited investors. The Notes, which qualify as Tier 2 capital under the Federal Reserve's capital guidelines in effect at December 31, 2017, have an interest rate of 8.50% per annum, during the fixed-rate period from date of issuance through December 15, 2021. Interest is payable semi-annually on each June 15 and December 15, from June 15, 2017 through December 15, 2021.

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unamortized debt issuance costs related to these Notes, which are included in Subordinated Debentures and Subordinated Notes, totaled \$1.3 million at December 31, 2017. Net issuance costs associated with issuing these Notes are amortized to interest expense over the respective terms using the straight-line method.

In connection with the issuance of the Notes, we entered into a registration rights agreement (the “Registration Rights Agreement”) with the purchasers of the Notes. Under the Registration Rights Agreement, we were required to, among other things, use commercially reasonable efforts to (1) file with the SEC on or prior to March 31, 2017, a registration statement (the “Exchange Offer Registration Statement”) with respect to an offer to exchange the Notes for new notes with identical terms (except for the provisions relating to the transfer restrictions and payment of additional interest) (the “Exchange Offer”), (2) cause the Exchange Offer Registration Statement to be declared effective by the SEC no later than June 15, 2017 and (3) consummate the Exchange Offer no later than 45 days following the effective date of the Exchange Offer Registration Statement. The Exchange Offer Registration Statement was declared effective by the SEC on April 13, 2017, and we completed the Exchange Offer on May 19, 2017, such that \$34,000,000 aggregate principal amount of the Notes was exchanged for \$34,000,000 aggregate principal amount of 8.50% Fixed-to-Floating Rate Subordinated Notes due 2026 that were registered under the Securities Act of 1933, as amended, and \$1,000,000 aggregate principal amount of the Notes remained unregistered.

A summary of pertinent information related to the Company’s issues of subordinated Notes outstanding at December 31, 2017 and 2016 is set forth in the table below:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Subordinated notes fixed to floating rate, 8.50% per annum, maturity date December 15, 2026	\$ 35,000	\$ 35,000
Less: unamortized debt issuance costs	(1,291)	(1,115)
Total subordinated notes	<u>\$ 33,709</u>	<u>\$ 33,885</u>

Subordinated Debentures Trust Preferred Securities — At December 31, 2017, the Company had outstanding \$22.2 million in subordinated debentures, which is offset by a \$8.1 million purchase discount. On October 1, 2015, the Company acquired Patriot Bancshares, Inc., and assumed the obligations related to the subordinated debentures issued to Capital Trust I and Capital Trust II.

A summary of pertinent information related to the Company’s two issues of subordinated debentures outstanding at December 31, 2017 is set forth in the table below:

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

⁽¹⁾ The 3-month LIBOR in effect as of December 31, 2017 was 1.694%

⁽²⁾ All debentures are callable five years from issuance date

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

13. INCOME TAXES

The components of the provision for income taxes for the years ended December 31, 2017, 2016 and 2015 are as follows:

	December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Current income tax provision	\$ 21,721	\$ (8,763)	\$ 13,723
Deferred income tax expense (benefit)	5,243	8,361	(3,409)
Total income tax provision	<u>\$ 26,964</u>	<u>\$ (402)</u>	<u>\$ 10,314</u>

The effective tax rates differ from the statutory federal tax rate of 35% largely due to tax exempt interest income earned on certain investment securities and loans, the nontaxable earnings on bank owned life insurance, stock-based compensation expense and the 2017 re-valuation of the deferred tax asset.

The provision for income taxes differs from the amount computed by applying the federal income tax statutory rate of 35% to income from continuing operations for the years ended December 31, 2017, 2016 and 2015, as follows:

	December 31,		
	2017	2016	2015
	(Dollars in thousands)		
Taxes calculated at statutory rate	\$ 21,385	\$ (481)	\$ 9,014
Increase (decrease) resulting from:			
State tax expense, net of federal effect	195	386	196
Non-deductible expenses	51	51	45
Non-deductible dues	37	35	31
Bank-owned life insurance income	(321)	(326)	(141)
Incentive stock option compensation expense	(187)	(16)	—
Tax exempt interest income	(34)	(17)	—
Non-deductible M&A and acquisition related costs	—	—	857
Other, net	—	(34)	312
Change in applicable statutory rate	5,838	—	—
Income tax provision—as reported	<u>\$ 26,964</u>	<u>\$ (402)</u>	<u>\$ 10,314</u>

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income tax expense for 2017 includes \$5.8 million in tax expense for the deferred tax asset revaluation resulting from the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act was enacted on December 22, 2017 and requires that deferred taxes as of December 31, 2017 be based on the newly enacted U.S. statutory federal corporate income tax rate of 21%. In the table below, deferred taxes for the year-ended December 31, 2016 are based on the previously enacted U.S. statutory corporate income tax rate of 35%.

The Company has completed its accounting under ASU 740, *Income Taxes*, for all material deferred tax assets and liabilities. Provisional amounts have been recorded for certain immaterial items including Schedules K-1 from CRA related partnership investments. As a result of the revaluation, we recorded \$5.8 million in income tax expense for 2017. Material adjustment to provisional amounts are not expected.

Significant deferred tax assets and liabilities at the dates indicated were as follows:

	December 31,	
	2017	2016
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 6,556	\$ 9,233
Acquired loan valuation allowance	835	3,493
Net operating loss carryforward	989	1,755
Nonqualified stock options and restricted stock	1,449	1,561
Real estate acquired by foreclosure write-downs	583	1,432
Acquired deposit valuation allowance	273	804
Unrealized loss on available-for-sale securities	2,093	390
Pre-opening expenses	58	120
Non-accrual loan interest	828	809
Other	310	852
Total deferred tax assets	<u>13,974</u>	<u>20,449</u>
Deferred tax liabilities:		
Goodwill and core deposit intangibles	2,436	4,337
Acquired subordinated debentures valuation allowance	1,709	2,996
Acquired investments valuation allowance	413	688
Deferred loan costs	476	674
Depreciable assets	83	392
Other	99	96
Total deferred tax liabilities	<u>5,216</u>	<u>9,183</u>
Net deferred tax asset	<u>\$ 8,758</u>	<u>\$ 11,266</u>

Realization of the net deferred tax asset is dependent on generating sufficient future taxable income. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax asset will be realized. The deferred tax asset is evaluated by management on an ongoing basis to determine if a valuation allowance is required. Assessing the need for a valuation allowance requires that management evaluate all evidence, both negative and positive, to determine whether a valuation allowance is needed. Based on management's analysis of the evidence, no valuation allowance was required to be recorded against the net deferred tax asset of \$8.8 million at December 31, 2017. The deferred tax assets are primarily supported by future reversals of existing timing differences and the generation of future taxable income.

Net operating loss carryforwards for federal income tax purposes were \$4.7 million and \$5.0 million at December 31, 2017 and 2016, respectively. The carryforwards expire beginning in 2032.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In connection with the Patriot acquisition completed in October 2015, the Company recognized a \$1.6 million liability for an uncertain tax position for the year ended December 31, 2016. The full \$1.6 million would, if recognized, affect the effective tax rate. The uncertain tax position as of the dates indicated were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Dollars in thousands)		
Unrecognized tax benefits - January 1	\$ 1,625	\$ 1,625	\$ —
Gross increases - tax positions in current period	—	—	1,625
Unrecognized tax benefits - December 31	<u>\$ 1,625</u>	<u>\$ 1,625</u>	<u>\$ 1,625</u>

The Company files income tax returns in the U.S. federal jurisdiction and the Texas, Kentucky and California state jurisdictions. Other than described above, as of December 31, 2017, 2016 and 2015 the Company had identified no unrecognized tax benefits related to returns with open periods subject to examination. The periods subject to examination for the Company's federal return are the 2014 through 2017 tax years. The Company has assumed net operating loss carryforwards, "acquired NOLs", through its acquisitions. The tax periods of the acquired entities from which these acquired NOLs originated are considered open years for purposes of adjusting the amount of the acquired NOLs used in the Company's open years. The Company is subject to examination from 2013 forward for state income tax returns. The Company's policy is that it recognizes interest and penalties as a component of income tax expense. As of December 31, 2017 and 2016, the Company had no accrued interest or penalties.

Tax Cuts and Jobs Act - The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat, federal statutory corporate income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee compensation to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums for banks in excess of \$5 billion in assets. The Company is still analyzing certain aspects of the new law and refining its calculations, which could affect the measurement of these deferred tax assets and liabilities or result in additional deferred amounts.

14. EMPLOYEE BENEFITS

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

Stock Options. At December 31, 2017 and 2016, there were 428,168 and 389,500 time based options outstanding under the 2014 Plan, respectively. The Company has two additional stock options plans, both of which are frozen to further issuance.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The fair value of each time-based option award is estimated on the date of grant using a Black-Scholes-Merton option valuation model. The Black-Scholes-Merton formula assumes that option exercises occur at the end of the contractual term of the option, and that expected volatility, expected dividends, and risk-free interest rates are constant over the option’s term. The Black-Scholes-Merton formula is adjusted to take into account certain characteristics of employee share options and similar instruments that are not consistent with the assumptions contained in the model. Because of the nature of the formula, those adjustments take the form of weighted-average assumptions about those characteristics. The expected term represents the period of time that options granted are expected to be outstanding. The risk-free interest rate of the option is based on the U.S. Treasury zero-coupon with a remaining term equal to the expected term used in the assumption model. The expected volatility is an estimated measure of fluctuations in the Company’s share price.

The fair value of time-based options granted during 2017 and 2016 was estimated using the following assumptions:

	2017	2016
Expected term (years)	6.5	6.5
Risk-free interest rate	1.98% - 2.02%	1.33% - 1.84%
Expected volatility	31.02% - 34.39%	36.02% - 36.84%
Dividend yield	—	—

A summary of changes in outstanding time-based stock options as of December 31, 2017 and 2016, is as follows:

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Number of Options	Weighted- Average Exercise Price	Average Remaining Contractual Term (In Years)
Shares under option—December 31, 2016	894,015	\$ 9.66	5.9
Shares granted	82,000	17.54	
Shares forfeited or expired	(42,361)	10.39	
Shares exercised	(50,773)	9.70	
Shares under option—December 31, 2017	882,881	10.36	5.4
Shares exercisable—December 31, 2017	497,868	9.14	2.9
Shares under option—December 31, 2015	1,081,901	\$ 9.82	3.9
Shares granted	237,500	9.51	
Shares forfeited or expired	(111,926)	10.33	
Shares exercised	(313,460)	9.72	
Shares under option—December 31, 2016	894,015	9.66	5.9
Shares exercisable—December 31, 2016	493,241	8.79	3.3

A summary of the status of the Company's nonvested time-based options as of December 31, 2017 and 2016, is presented below:

	Number of Options	Average Grant-Date Fair Value
Nonvested options—December 31, 2016	400,774	\$4.86
Shares granted	82,000	6.65
Shares forfeited	(42,361)	5.03
Shares vested	(55,400)	6.06
Nonvested options—December 31, 2017	385,013	\$5.05
Nonvested options—December 31, 2015	209,260	\$6.21
Shares granted	237,500	3.65
Shares forfeited	(21,500)	6.36
Shares vested	(24,486)	3.35
Nonvested options—December 31, 2016	400,774	\$4.86

As of December 31, 2017 and 2016, there was \$1.5 million and \$1.6 million respectively, of total unrecognized compensation expense related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.5 years. The total fair value of shares vested during the years ended December 31, 2017 and 2016, was \$336 thousand and \$82 thousand, respectively.

Total stock-based compensation expense that was charged against income was \$4.9 million, \$1.6 million and \$707 thousand for 2017, 2016 and 2015, respectively. The total income tax benefit recognized in the statements of operations for share-based compensation arrangements was \$1.7 million, \$555 thousand and \$247 thousand for 2017, 2016 and 2015, respectively.

Restricted Stock Units. In connection with the initial public offering, 275,000 restricted stock units were granted under the 2014 Plan. At December 31, 2017 and 2016 there were 322,875 and 288,500 restricted stock units outstanding under the 2014 Plan. Total restricted stock units compensation expense was \$757 thousand, \$787 thousand and \$800 thousand in the year ended December 31, 2017, 2016 and 2015 respectively.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock based compensation expense of \$435 thousand and \$335 thousand was recorded during the years ended December 31, 2017 and 2016, respectively, to reflect the fair value of the SARs. A reversal of stock based compensation expense of \$218 thousand was recorded during the year ended December 31, 2015 to reflect the fair value of the SARs.

Benefit Plan — The Company sponsors a 401(k) plan (the "401k Plan"), which is a defined contribution plan available to substantially all employees. Participants in the 401k Plan may make salary deferral contributions up to the amount allowed by law. The Company makes safe harbor matching contributions to the 401k Plan equal to 100% of the participant's elective contribution for the plan year up to a maximum of 6% of the participant's salary. The Company contributions are fully vested at the date of contribution. The total of Company contributions for the years ended December 31, 2017, 2016 and 2015, were \$1.4 million, \$1.3 million, and \$1.0 million, respectively.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

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

	December 31, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Certificates and other time deposits	\$ 889,051	\$ 330,780	\$ 42,501	\$ —	\$ 1,262,332
Federal Home Loan Bank advances	325,692	—	—	—	325,692
Subordinated debentures and subordinated notes	3,859	3,735	8,099	82,750	98,443
Operating leases	2,033	2,847	1,916	2,911	9,707
Total	<u>\$ 1,220,635</u>	<u>\$ 337,362</u>	<u>\$ 52,516</u>	<u>\$ 85,661</u>	<u>\$ 1,696,174</u>

Payments for the FHLB advances includes interest of \$692 thousand that will be paid in future years. Payments for subordinated debentures and subordinated notes include interest of \$41.3 million that will be paid in future years. The future interest payments were calculated using the current rate in effect at December 31, 2017. Payments related to leases are based on actual payments specified in underlying contracts.

Leases — A summary as of December 31, 2017, of the Company's noncancelable future operating lease commitments is as follows (in thousands):

2018	\$ 2,033
2019	1,610
2020	1,237
2021	1,099
2022	817
Thereafter	2,911
Total	<u>\$ 9,707</u>

The Company leases certain office facilities and equipment under operating leases. Rent expense under all noncancelable operating lease obligations, net of income from noncancelable subleases aggregated, was approximately \$2.3 million, \$2.3 million and \$1.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Commitments to extend credit	\$ 257,333	\$ 175,075	\$ 63,902	\$ 66,917	\$ 563,227
Standby and commercial letters of credit	10,617	539	100	640	11,896
Total	<u>\$ 267,950</u>	<u>\$ 175,614</u>	<u>\$ 64,002</u>	<u>\$ 67,557</u>	<u>\$ 575,123</u>

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

December 31, 2017						
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value	
(Dollars in thousands)						
Non-hedging derivative instruments:						
Customer interest rate derivatives:						
Interest rate swaps - receive fixed/pay floating	\$ 173,304	2.19 - 5.72%	LIBOR 1 month + 0% - 4.25%	Wtd. Avg. 2.8 years	\$	880
Interest rate caps and collars	\$ 37,466	4.55 - 6.00%	LIBOR 1 month + 3% - 3.75%	Wtd. Avg. 1.7 years	\$	75
Correspondent interest rate derivatives:						
Interest rate swaps - pay fixed/receive floating	\$ 173,304	2.19 - 5.72%	LIBOR 1 month + 0% - 4.25%	Wtd. Avg. 2.8 years	\$	(901)
Interest rate caps and collars	\$ 37,466	4.55 - 6.00%	LIBOR 1 month + 3% - 3.75%	Wtd. Avg. 1.7 years	\$	(75)
December 31, 2016						
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value	
(Dollars in thousands)						
Non-hedging derivative instruments:						
Customer interest rate derivatives:						
Interest rate swaps - receive fixed/pay floating	\$ 185,637	2.19 - 5.72%	LIBOR 1 month + 0% - 4.25%	Wtd. Avg. 3.4 years	\$	609
Interest rate caps	\$ 16,482	6.00%	LIBOR 1 month + 3%	Wtd. Avg. 2.0 years	\$	5
Correspondent interest rate derivatives:						
Interest rate swaps - pay fixed/receive floating	\$ 185,637	2.19 - 5.72%	LIBOR 1 month + 0% - 4.25%	Wtd. Avg. 3.4 years	\$	(691)
Interest rate caps	\$ 16,482	6.00%	LIBOR 1 month + 3%	Wtd. Avg. 2.0 years	\$	(5)

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2017			December 31, 2016		
	Estimated Fair Value			Estimated Fair Value		
	Notional Amount	Asset Derivative	Liability Derivative	Notional Amount	Fair Value	Liability Derivative
	(Dollars in thousands)					
Non-hedging interest rate derivatives:						
Financial institution counterparty:						
Interest rate swaps	\$ 173,304	\$ 1,326	\$ 448	\$ 185,637	\$ 698	\$ 1,389
Interest rate caps and collars	37,466	75	—	16,482	5	—
Commercial customer counterparty:						
Interest rate swaps	173,304	423	1,325	185,637	1,307	698
Interest rate caps and collars	37,446	—	75	16,482	—	5
Gross derivatives		\$ 1,824	\$ 1,848		\$ 2,010	\$ 2,092
Offsetting derivative assets/liabilities		(369)	(369)		(698)	(698)
Net derivatives in the consolidated balance sheets		\$ 1,455	\$ 1,479		\$ 1,312	\$ 1,394

17. REGULATORY MATTERS

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

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of CET 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for us on January 1, 2015 with certain transition provisions to be fully phased in by January 1, 2019.

Beginning on January 1, 2016, the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019. The capital conservation buffer, composed entirely of CET1, is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

	December 31, 2017					
	Actual		For Capital Adequacy Purposes		To be Categorized as Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
The Company ⁽¹⁾ :						
Total capital (to risk weighted assets)	\$ 455,754	12.7%	\$ 287,840	8.0%	N/A	N/A
Tier 1 capital (to risk weighted assets)	390,690	10.9	215,880	6.0	N/A	N/A
Common equity tier 1 capital	377,328	10.5	161,910	4.5	N/A	N/A
Tier I capital (to average assets)	390,690	9.5	164,632	4.0	N/A	N/A
The Bank ⁽²⁾ :						
Total capital (to risk weighted assets)	\$ 444,198	12.4%	\$ 286,648	8.0%	\$ 358,310	10.0%
Tier 1 capital (to risk weighted assets)	415,542	11.6	214,986	6.0	286,648	8.0
Common equity tier 1 capital	415,542	11.6	161,239	4.5	232,901	6.5
Tier I capital (to average assets)	415,542	10.1	164,390	4.0	205,487	5.0

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

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

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

⁽²⁾ The FDIC or the OCC may require the Bank to maintain capital ratios above the required minimums

Dividend Restrictions — Dividends paid by the Bank are subject to certain restrictions imposed by regulatory agencies. The Basel III Capital Rules further limit the amount of dividends that may be paid by our bank. No dividends were paid for the period ended December 31, 2016. A dividend of \$1.0 million was paid by the Bank to Green Bancorp during the year ended December 31, 2017.

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

	December 31, 2017							
	Level 1		Level 2		Level 3		Total	
	(Dollars in thousands)							
Financial Assets:								
Available-for-sale securities	\$	—	\$	705,539	\$	—	\$	705,539
Correspondent interest rate swaps		—		1,326		—		1,326
Customer interest rate swaps		—		423		—		423
Correspondent interest rate caps		—		75		—		75
Financial Liabilities:								
Correspondent interest rate swaps	\$	—	\$	448	\$	—	\$	448
Customer interest rate swaps		—		1,325		—		1,325
Customer interest rate caps		—		75		—		75

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The following tables present the assets that were subject to fair value adjustments during the periods indicated, which were still on the balance sheet at the end of the reporting periods:

	<u>December 31, 2017</u>		<u>Losses for the Year Ended December 31, 2017</u>
	<u>Level 3</u>	<u>Total</u>	
	(Dollars in thousands)		
Assets Measured on a Nonrecurring Basis:			
Impaired loans	\$ 20,066	\$ 20,066	\$ 5,352
Other real estate owned	802	802	118

	December 31, 2016		Losses for the Year Ended December 31, 2016
	Level 3	Total	
	(Dollars in thousands)		
Assets Measured on a Nonrecurring Basis:			
Impaired loans	\$ 23,613	\$ 23,613	\$ 21,886
Real estate acquired by foreclosure	1,721	1,721	1,016

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Loans Held-for-Sale — The fair value of government guaranteed and commercial loans held-for-sale is based on commitments from investors or prevailing market prices.

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

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

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

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

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

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

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Fair Value at 12/31/2017	Valuation Technique	Unobservable Input	Range ⁽¹⁾ (Weighted Average)
	(Dollars in thousands)			
Loans held for investment	\$ 3,206,145	Discounted cash flow	Prepayment Speed Discount Rates	0% to 99.59% (28.45%) 0% - 11.35% (4.72%)
Real estate acquired by foreclosure	802	Appraisal	Adjustments for comparable properties	8.00%

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

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

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
	(Dollars in thousands)				
Financial Assets:					
Cash and short term investments	\$ 140,681	\$ 140,681	\$ —	\$ —	\$ 140,681
Available-for-sale securities	705,539	—	705,539	—	705,539
Held-to-maturity securities	13,275	—	13,146	—	13,146
Other securities	26,617	26,617	—	—	26,617
Loans held for sale	7,156	—	7,156	—	7,156
Loans held for investment	3,190,485	—	—	3,206,145	3,206,145
Real estate acquired by foreclosure	802	—	—	802	802
Total	\$ 4,084,555	\$ 167,298	\$ 725,841	\$ 3,206,947	\$ 4,100,086
Financial Liabilities:					
Deposits	\$ 3,397,143	\$ —	\$ 3,392,144	\$ —	\$ 3,392,144
Securities sold under agreements to repurchase	5,173	—	5,173	—	5,173
Other borrowed funds	325,000	—	324,873	—	324,873
Subordinated debentures	47,737	—	45,356	—	45,356
Total	\$ 3,775,053	\$ —	\$ 3,767,546	\$ —	\$ 3,767,546

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

19. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the consolidated financial statements were available to be issued.

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. PARENT COMPANY ONLY FINANCIAL STATEMENTS

The following balance sheets, statements of income, statements of comprehensive income and statements of cash flows for Green Bancorp, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

GREEN BANCORP, INC.
(Parent Company Only)
CONDENSED BALANCE SHEETS
(Dollars in thousands)

	December 31,	
	2017	2016
ASSETS		
Cash and due from banks	\$ 734	\$ 4,534
Interest-bearing deposits in financial institutions	208	6,461
Cash and cash equivalents	942	10,995
Investment in Green Bank, N.A.	489,336	422,802
Investment in Patriot Bancshares Capital Trust I and II	666	666
Loans held for sale	—	6,598
Loans held for investment	3,062	26,221
Goodwill	12,673	12,673
Other assets	6,692	1,277
TOTAL	\$ 513,371	\$ 481,232
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debentures	47,737	47,492
Deferred tax liability, net	1,100	2,907
Other liabilities	\$ 739	\$ 351
Total liabilities	49,576	50,750
SHAREHOLDERS' EQUITY:		
Common stock	373	372
Capital surplus	387,891	382,961
Retained earnings	83,263	49,127
Accumulated other comprehensive income, net	(6,479)	(725)
Less treasury shares, at cost	(1,253)	(1,253)
Total shareholders' equity	463,795	430,482
TOTAL	\$ 513,371	\$ 481,232

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GREEN BANCORP, INC.
(Parent Company Only)
CONDENSED STATEMENT OF OPERATIONS
(Dollars in thousands)

	For the Years ended December 31,		
	2017	2016	2015
INCOME—Interest income	\$ 138	\$ 67	\$ 39
Loss on held-for-sale loans	(138)	—	—
Dividends from bank subsidiary	1,000	—	—
Total income	1,000	67	39
EXPENSE — Subordinated debentures	4,216	1,182	227
Provision for loan losses	10,536	—	—
General and administrative	3,746	2,806	3,293
Total expense	18,498	3,988	3,520
LOSS BEFORE EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY AND INCOME TAXES	(17,498)	(3,921)	(3,481)
EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARY, NET OF TAX	44,427	1,577	17,995
INCOME (LOSS) BEFORE INCOME TAXES	26,929	(2,344)	14,514
BENEFIT FOR INCOME TAXES	7,207	1,372	925
NET INCOME (LOSS)	\$ 34,136	\$ (972)	\$ 15,439

GREEN BANCORP, INC.
(Parent Company Only)
CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years ended December 31,		
	2017	2016	2015
NET INCOME (LOSS)	\$ 34,136	\$ (972)	\$ 15,439
OTHER COMPREHENSIVE INCOME BEFORE TAX:			
Change in unrealized (loss) gain on securities available-for-sale	(8,853)	(1,757)	(992)
Total other comprehensive income	(8,853)	(1,757)	(992)
DEFERRED TAX (BENEFIT) EXPENSE RELATED TO OTHER COMPREHENSIVE INCOME (LOSS)	(3,099)	(615)	(347)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(5,754)	(1,142)	(645)
COMPREHENSIVE INCOME (LOSS)	\$ 28,382	\$ (2,114)	\$ 14,794

GREEN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GREEN BANCORP, INC.
(Parent Company Only)
CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 34,136	\$ (972)	\$ 15,439
Adjustments to reconcile net income (loss) to net cash used by operating activities:			
Equity in undistributed earnings of subsidiary	(44,427)	(1,577)	(17,995)
Accretion of loan discounts, net	(7)	—	—
Amortization of debt valuation allowance	420	420	105
Amortization of issuance costs for subordinated notes	145	9	—
Provision for loan losses	10,536	—	—
Net loss on loans held-for-sale	138	—	—
Proceeds from sales of held-for-sale loans	12,560	—	—
Deferred income tax expense	(1,074)	(130)	(18)
Increase in other assets, net	(6,148)	(41)	(295)
Increase in other liabilities, net	68	114	146
Net cash used by operating activities	<u>6,347</u>	<u>(2,177)</u>	<u>(2,618)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of loans from subsidiary	—	(32,819)	—
Capital contributed to subsidiary	(12,000)	—	—
Net increase in loans held for investment and held-for-sale	(4,886)	—	—
Net cash and cash equivalents paid in connection with acquisitions	—	—	2,740
Net cash (used by) provided by investing activities	<u>(16,886)</u>	<u>(32,819)</u>	<u>2,740</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of subordinated notes, net	—	33,876	—
Common stock issued in connection with the exercise of stock options	486	3,046	1,534
Purchase of treasury stock	—	(1,253)	—
Net cash provided by financing activities	<u>486</u>	<u>35,669</u>	<u>1,534</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(10,053)</u>	<u>673</u>	<u>1,656</u>
CASH AND CASH EQUIVALENTS:			
Beginning of year	10,995	10,322	8,666
End of year	<u>\$ 942</u>	<u>\$ 10,995</u>	<u>\$ 10,322</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Green Bancorp, Inc.
(Registrant)

Date: March 15, 2018

/s/ Manuel J. Mehos
Manuel J. Mehos
Chairman and Chief Executive Officer

Date: March 15, 2018

/s/ Terry S. Earley
Terry S. Earley
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dated indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>*</u> Manuel J. Mehos	Chairman and Chief Executive Officer (Principal Executive Officer)	March 15, 2018
<u>/s/ Terry S. Earley</u> Terry S. Earley	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 15, 2018
<u>*</u> Stephen Eisenstein	Director	March 15, 2018
<u>*</u> William Don Ellis	Director	March 15, 2018
<u>*</u> Steven D. Lerner	Director	March 15, 2018
<u>*</u> Scott Schaen	Director	March 15, 2018
<u>*</u> Stefanie L. Shelley	Director	March 15, 2018
<u>*</u> Alan M. Silberstein	Director	March 15, 2018
<u>*</u> Robert B.B. Smith	Director	March 15, 2018
<u>*</u> Derek L. Weiss	Director	March 15, 2018

*By: /s/ Terry S. Earley
Terry S. Earley
Attorney-in-Fact