Triumph Bancorp, Inc.
Form 10-Q
April 20, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Texas	20-0477066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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. (Check one):

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

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

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

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

Common Stock — $0.01 par value, 26,242,376 shares, as of April 18, 2018

TRIUMPH BANCORP, INC.

FORM 10-Q

March 31, 2018

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

1

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2018 and December 31, 2017

(Dollar amounts in thousands, except per share amounts)

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 45,887	$ 59,114
Interest bearing deposits with other banks	60,159	75,015
Total cash and cash equivalents	106,046	134,129
Securities - available for sale	192,916	250,603
Securities - equity investments	4,925	5,006
Securities - held to maturity, fair value of $8,111 and $7,527, respectively	8,614	8,557
Loans, net of allowance for loan and lease losses of $20,022 and $18,748, respectively	2,853,963	2,792,108
Assets held for sale	—	71,362
Federal Home Loan Bank stock, at cost	16,508	16,006
Premises and equipment, net	62,826	62,861
Other real estate owned, net	9,186	9,191
Goodwill	45,373	44,126
Intangible assets, net	18,550	19,652
Bank-owned life insurance	44,534	44,364
Deferred tax assets, net	8,849	8,959
Other assets	32,720	32,109
Total assets	$ 3,405,010	$ 3,499,033
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 548,991	$ 564,225
Interest bearing	1,984,507	2,057,123
Total deposits	2,533,498	2,621,348
Customer repurchase agreements	6,751	11,488
Federal Home Loan Bank advances	355,000	365,000
Subordinated notes	48,853	48,828
Junior subordinated debentures	38,734	38,623
Other liabilities	19,230	22,048
Total liabilities	3,002,066	3,107,335
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred Stock	9,658	9,658
Common stock, 20,824,509 and 20,820,445 shares outstanding, respectively	209	209

Additional paid-in-capital	265,406	264,855
Treasury stock, at cost	(1,853)	(1,784)
Retained earnings	131,234	119,356
Accumulated other comprehensive income (loss)	(1,710)	(596)
Total stockholders’ equity	402,944	391,698
Total liabilities and stockholders' equity	$ 3,405,010	$ 3,499,033

See accompanying condensed notes to consolidated financial statements.

2

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2018	2017
Interest and dividend income:		
Loans, including fees	$36,883	$25,185
Factored receivables, including fees	15,303	9,167
Securities	1,310	1,611
FHLB stock	105	42
Cash deposits	517	327
Total interest income	54,118	36,332
Interest expense:		
Deposits	4,277	2,869
Subordinated notes	837	835
Junior subordinated debentures	597	465
Other borrowings	1,277	344
Total interest expense	6,988	4,513
Net interest income	47,130	31,819
Provision for loan losses	2,548	7,678
Net interest income after provision for loan losses	44,582	24,141
Noninterest income:		
Service charges on deposits	1,145	980
Card income	1,244	827
Net OREO gains (losses) and valuation adjustments	(88)	11
Net gains (losses) on sale of securities	(272)	—
Fee income	800	583
Insurance commissions	714	590
Asset management fees	—	1,717
Gain on sale of subsidiary or division	1,071	20,860
Other	558	1,717
Total noninterest income	5,172	27,285
Noninterest expense:		
Salaries and employee benefits	19,404	21,958
Occupancy, furniture and equipment	3,054	2,359
FDIC insurance and other regulatory assessments	199	226
Professional fees	1,640	1,968

Amortization of intangible assets	1,117	1,111
Advertising and promotion	1,029	938
Communications and technology	3,359	2,174
Other	4,240	4,103
Total noninterest expense	34,042	34,837
Net income before income tax	15,712	16,589
Income tax expense	3,644	6,116
Net income	12,068	10,473
Dividends on preferred stock	(190)	(192)
Net income available to common stockholders	$11,878	$10,281
Earnings per common share		
Basic	$0.57	$0.57
Diluted	$0.56	$0.55

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	$12,068	$10,473
Other comprehensive income:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	(1,708)	335
Reclassification of amount realized through sale of securities	272	—
Tax effect	322	(125)
Total other comprehensive income (loss)	(1,114)	210
Comprehensive income	$10,954	$10,683

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock Liquidation Preference	Common Stock			Treasury Stock			Accumulated Other Comprehensive Income	Total Stockholders'
	Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	(Loss)	Equity
Balance, January 1, 2017	$ 9,746	18,078,247	$ 182	$ 197,157	76,118	$ (1,374)	$ 83,910	$ (276)	$ 289,345
Issuance of restricted stock awards	—	5,174	—	—	—	—	—	—	—
Stock based compensation	—	—	—	702	—	—	—	—	702
Forfeiture of restricted stock awards	—	(251)	—	7	251	(7)	—	—	—
Purchase of treasury stock	—	(4,401)	—	—	4,401	(113)	—	—	(113)
Series A Preferred dividends	—	—	—	—	—	—	(90)	—	(90)
Series B Preferred dividends	—	—	—	—	—	—	(102)	—	(102)
Net income	—	—	—	—	—	—	10,473	—	10,473
Other comprehensive income	—	—	—	—	—	—	—	210	210
Balance, March 31, 2017	$ 9,746	18,078,769	$ 182	$ 197,866	80,770	$ (1,494)	$ 94,191	$ (66)	$ 300,425
Balance, January 1, 2018	$ 9,658	20,820,445	$ 209	$ 264,855	91,951	$ (1,784)	$ 119,356	$ (596)	$ 391,698
Issuance of restricted stock	—	5,492	—	—	—	—	—	—	—

awards									
Stock based compensation	—	—	—	486	—	—	—	—	486
Forfeiture of restricted stock awards	—	(1,574)	—	69	1,574	(69)	—	—	—
Stock options exercised	—	146	—	(4)	—	—	—	—	(4)
Series A Preferred dividends	—	—	—	—	—	—	(90)	—	(90)
Series B Preferred dividends	—	—	—	—	—	—	(100)	—	(100)
Net income	—	—	—	—	—	—	12,068	—	12,068
Other comprehensive income	—	—	—	—	—	—	—	(1,114)	(1,114)
Balance, March 31, 2018	$ 9,658	20,824,509	$ 209	$ 265,406	93,525	$ (1,853)	$ 131,234	$ (1,710)	$ 402,944

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$12,068	$10,473
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,216	958
Net accretion on loans and deposits	(1,977)	(1,080)
Amortization of subordinated notes issuance costs	25	23
Amortization of junior subordinated debentures	111	100
Net amortization on securities	331	644
Amortization of intangible assets	1,117	1,111
Deferred taxes	439	3,023
Provision for loan losses	2,548	7,678
Stock based compensation	486	702
Net (gains) losses on sale of securities	272	—
Net (gain) loss on loans transferred to loans held for sale	—	46
Net OREO (gains) losses and valuation adjustments	88	(11)
Gain on sale of subsidiary or division	(1,071)	(20,860)
Income from CLO warehouse investments	—	(964)
(Increase) decrease in other assets	(1,705)	509
Increase (decrease) in other liabilities	(4,498)	1,262
Net cash provided by (used in) operating activities	9,450	3,614
Cash flows from investing activities:		
Purchases of securities available for sale	—	(4,817)
Proceeds from sales of securities available for sale	34,196	—
Proceeds from maturities, calls, and pay downs of securities available for sale	21,210	24,706
Proceeds from maturities, calls, and pay downs of securities held to maturity	185	4,109
Proceeds from sale of loans	—	1,919
Net change in loans	(62,509)	(7,947)
Purchases of premises and equipment, net	(1,181)	(405)
Net proceeds from sale of OREO	—	683
(Purchases) redemptions of FHLB stock, net	(502)	1,263
Proceeds from sale of subsidiary or division, net	73,849	10,269
Net cash provided by (used in) investing activities	65,248	29,780
Cash flows from financing activities:		
Net increase (decrease) in deposits	(87,850)	8,503
Increase (decrease) in customer repurchase agreements	(4,737)	(22)
Increase (decrease) in Federal Home Loan Bank advances	(10,000)	(30,000)

Stock option exercises	(4)	—
Purchase of treasury stock	—	(113)
Dividends on preferred stock	(190)	(192)
Net cash provided by (used in) financing activities	(102,781)	(21,824)
Net increase (decrease) in cash and cash equivalents	(28,083)	11,570
Cash and cash equivalents at beginning of period	134,129	114,514
Cash and cash equivalents at end of period	$ 106,046	$ 126,084

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Supplemental cash flow information:		
Interest paid	$7,562	$5,269
Income taxes paid (refunds received), net	$48	$(917)
Supplemental noncash disclosures:		
Loans transferred to OREO	$83	$5,960
Premises transferred to OREO	$—	$273
Loans transferred to loans held for sale	$—	$1,965
Securities held to maturity purchased, not settled	$—	$3,260
Consideration received from sale of subsidiary	$—	$12,123

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Triumph Bancorp, Inc. (collectively with its subsidiaries, “Triumph”, or the “Company” as applicable) is a financial holding company headquartered in Dallas, Texas. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Triumph CRA Holdings, LLC (“TCRA”), TBK Bank, SSB (“TBK Bank”), TBK Bank’s wholly owned subsidiary Advance Business Capital LLC, which currently operates under the d/b/a of Triumph Business Capital (“TBC”), and TBK Bank’s wholly owned subsidiary Triumph Insurance Group, Inc. (“TIG”).

On March 16, 2018, the Company sold the assets of Triumph Healthcare Finance (“THF”) and exited its healthcare asset-based lending line of business. THF operated within the Company’s TBK Bank subsidiary. See Note 2 – Business Combinations and Divestitures for details of the THF sale and its impact on our consolidated financial statements.

On March 31, 2017 the Company sold its membership interests in its wholly owned subsidiary Triumph Capital Advisors, LLC (“TCA”). See Note 2 – Business Combinations and Divestitures for details of the TCA sale and its impact on our consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles (“GAAP”) for interim financial information and in accordance with guidance provided by the Securities and Exchange Commission. Accordingly, the condensed financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Company has three reportable segments consisting of Banking, Factoring, and Corporate. The Company’s Chief Executive Officer uses segment results to make operating and strategic decisions.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“Topic 606”). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company’s primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Income Taxes

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”), resulting in significant modifications to existing law. Authoritative guidance and interpretation by regulatory bodies is ongoing, and as such, the accounting for the effects of the Tax Act is not final and the full impact of the new regulation is still being evaluated.

Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Company’s consolidated financial statements and related disclosures as the Company’s primary sources of revenues are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASU 2014-09. The Company’s revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts and gains/losses on the sale of OREO, did not change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company elected to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption however, periods prior to the date of adoption will not be retrospectively revised as the impact of the ASU on uncompleted contracts at the date of adoption was not material.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 was effective for the Company on January 1, 2018 and resulted in separate classification of equity securities previously included in available for sale securities on the consolidated balance sheets with changes in the fair value of the equity securities captured in the consolidated statements of income. See Note 3 – Securities for disclosures related to equity securities. Adoption of the standard also resulted in the use of an exit price rather than an entrance price to determine the fair value of loans not measured at fair value on a non-recurring basis in the consolidated balance sheets. See Note 10 – Fair Value Disclosures for further information regarding the valuation of these loans.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” (“ASU 2017-01”) to improve such definition and, as a result, assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The definition of a business impacts many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 was effective for the Company on January 1, 2018 and is to be applied under a prospective approach. The Company expects the adoption of this new guidance to impact the determination of whether future acquisitions are considered business combinations.

Newly Issued, But Not Yet Effective Accounting Standards

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. Adoption of ASU 2016-02 is not expected to have a material impact on the Company’s consolidated financial statements. The Company leases certain properties and equipment under operating leases that will result in the recognition of lease assets and lease liabilities on the Company’s balance sheet under the ASU, however, the majority of the Company’s properties and equipment are owned, not leased. At March 31, 2018, the Company had contractual operating lease commitments of approximately $10,222,000, before considering renewal options that are generally present.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018, however, the Company does not currently plan to early adopt the ASU. The Company has formed a cross functional team that is assessing the Company’s data and system needs and evaluating the impact that adoption of this standard will have on the financial condition and results of operations of the Company.

NOTE 2 – Business combinations AND DIVESTITURES

Triumph Healthcare Finance

On January 19, 2018, the Company entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Healthcare Finance (“THF”) and exit its healthcare asset-based lending line of business. At December 31, 2017, the carrying amount of the Disposal Group was transferred to assets held for sale. The sale closed on March 16, 2018.

A summary of the carrying amount of the assets in the Disposal Group and the gain on sale is as follows:

(Dollars in thousands)	
Carrying amount of assets in the disposal group:	
Loans	$70,147
Premises and equipment, net	19
Goodwill	1,457
Intangible assets, net	958
Other assets	197
Total carrying amount	72,778
Total consideration received	74,017
Gain on sale of division	1,239
Transaction costs	168
Gain on sale of division, net of transaction costs	$1,071

The Disposal Group was included in the Banking segment, and the loans in the Disposal Group were previously included in the commercial loan portfolio.

Valley Bancorp, Inc.

Effective December 9, 2017, the Company acquired Valley Bancorp, Inc. (“Valley”) and its community banking subsidiary, Valley Bank & Trust, in an all-cash transaction. Valley Bank & Trust serves individuals and business customers from seven locations across the northern front range including Brighton, Dacono, Denver, Hudson, Westminster and Strasburg, Colorado. Valley Bank & Trust was merged into TBK Bank upon closing. The acquisition expanding the Company’s market in Colorado and further diversified the Company’s loan, customer, and deposit base.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A summary of the estimated fair values of assets acquired, liabilities assumed, consideration transferred, and the resulting goodwill is as follows:

(Dollars in thousands)	Initial Values Recorded at Acquisition Date	Measurement Period Adjustments	Adjusted Values
Assets acquired:			
Cash and cash equivalents	$ 38,473	$ —	$ 38,473
Securities	97,687	—	97,687
Loans	171,199	—	171,199
FHLB stock	315	—	315
Premises and equipment	6,238	—	6,238
Other real estate owned	2,282	—	2,282
Intangible assets	6,072	—	6,072
Bank-owned life insurance	7,153	—	7,153
Other assets	1,882	—	1,882
	331,301	—	331,301
Liabilities assumed:			
Deposits	293,398	—	293,398
Junior subordinated debentures	5,470	—	5,470
Other liabilities	2,881	1,680	4,561
	301,749	1,680	303,429
Fair value of net assets acquired	29,552	(1,680)	27,872
Consideration transferred	40,075	—	40,075
Goodwill	$ 10,523	$ 1,680	$ 12,203

The Company has recognized goodwill of $12,203,000, which included a measurement period adjustment for a post-retirement benefit obligation related to an acquired split-dollar bank-owned life insurance policy. Goodwill was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company’s Banking segment. The goodwill in this acquisition resulted from expected synergies and expansion in the Colorado market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing an accelerated method over their ten year estimated useful lives. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

In connection with the acquisition, the Company acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan and lease losses. Acquired loans were segregated between those considered to be purchased credit impaired (“PCI”) loans and those without credit impairment at acquisition. The following table presents details of the estimated fair value of acquired loans at the acquisition date:

(Dollars in thousands)	Loans, Excluding PCI Loans	PCI Loans	Total Loans
Commercial real estate	$ 73,273	$ 254	$ 73,527
Construction, land development, land	19,770	1,199	20,969
1-4 family residential properties	26,264	—	26,264
Farmland	16,934	—	16,934
Commercial	31,893	—	31,893
Factored receivables	—	—	—
Consumer	1,612	—	1,612
Mortgage warehouse	—	—	—
	$ 169,746	$ 1,453	$ 171,199

The operations of Valley are included in the Company's operating results beginning December 9, 2017.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $1,251,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended December 31, 2017.

Independent Bank – Colorado Branches

On October 6, 2017, the Company completed its acquisition of nine branch locations in Colorado from Independent Bank Group, Inc.'s banking subsidiary Independent Bank for an aggregate deposit premium of $6,771,000 or 4.2%. The branches were merged into TBK Bank upon closing. The primary purpose of the acquisition was to improve the Company's core deposit base and continue to build upon the diversification of the Company's loan portfolio.

A summary of the estimated fair values of assets acquired, liabilities assumed, consideration transferred, and the resulting goodwill is as follows:

(Dollars in thousands)	
Assets acquired:	
Cash and cash equivalents	$1,611
Loans	95,794
Premises and equipment	7,524
Intangible assets	3,255
Other assets	1,644
	109,828
Liabilities assumed:	
Deposits	160,702
Other liabilities	249
	160,951
Fair value of net assets acquired	(51,123)
Cash received from seller, net of $6,771 deposit premium	45,306
Goodwill	$5,817

The Company has recognized goodwill of $5,817,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in this acquisition resulted from expected synergies and expansion in the Colorado market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing an accelerated method over their ten year estimated useful lives. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

The following table presents details of the estimated fair value of acquired loans at the acquisition date:

(Dollars in thousands)	
Commercial real estate	$13,382
Construction, land development, land	537
1-4 family residential properties	6,986

Farmland	31,490
Commercial	43,104
Factored receivables	—
Consumer	295
Mortgage warehouse	—
	$95,794

The operations of the branches acquired are included in the Company’s operating results beginning October 6, 2017.

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $437,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended December 31, 2017.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Triumph Capital Advisors, LLC

On March 31, 2017, the Company sold its wholly owned asset management subsidiary, Triumph Capital Advisors, LLC, to an unrelated third party. The transaction was completed to enhance shareholder value and provide a platform for TCA to operate without the impact of regulations intended for depository institutions.

A summary of the consideration received and the gain on sale is as follows:

(Dollars in thousands)	
Consideration received (fair value):	
Cash	$10,554
Loan receivable	10,500
Revenue share	1,623
Total consideration received	22,677
Carrying value of TCA membership interest	1,417
Gain on sale of subsidiary	21,260
Transaction costs	400
Gain on sale of subsidiary, net of transaction costs	$20,860

The Company financed a portion of the consideration received with a $10,500,000 term credit facility. Terms of the floating rate credit facility provide for quarterly principal and interest payments with an interest rate floor of 5.50%, maturing on March 31, 2023. The Company received a $25,000 origination fee associated with the term credit facility that was deferred and will be accreted over the contractual life of the loan as a yield adjustment.

In addition, the Company is entitled to receive an annual earn-out payment representing 3% of TCA's future annual gross revenue, with a total maximum earn-out amount of $2,500,000. The revenue share earn-out is considered contingent consideration which the Company elected to record as an asset at its estimated fair value of $1,623,000 on the date of sale. The fair value of the revenue share asset was $1,737,000 at March 31, 2018.

The Company incurred pre-tax expenses related to the transaction, including professional fees and other direct transaction costs, totaling $400,000 which were netted against the gain on sale of subsidiary in the consolidated statements of income during the three months ended March 31, 2017.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 - SECURITIES

Equity Securities

The Company held equity securities with fair values of $4,925,000 and $5,006,000 at March 31, 2018 and December 31, 2017, respectively. During the three months ended March 31, 2018, the Company recognized an unrealized loss of $75,000 on the equity securities held at March 31, 2018, which was recorded in noninterest income in the consolidated statements of income. There were no sales of equity securities during the three months ended March 31, 2018.

Debt Securities

Debt securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of debt securities and their approximate fair values at March 31, 2018 and December 31, 2017 are as follows:

(Dollars in thousands) March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 99,885	$ 7	$ (1,157)	$ 98,735
U.S. Treasury notes	1,944	—	(28)	1,916
Mortgage-backed securities, residential	31,965	227	(445)	31,747
Asset backed securities	11,292	46	(91)	11,247
State and municipal	36,806	7	(729)	36,084
Corporate bonds	9,744	38	(78)	9,704
SBA pooled securities	3,494	4	(15)	3,483
Total available for sale securities	$ 195,130	$ 329	$ (2,543)	$ 192,916

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 8,614	$ —	$ (503)	$ 8,111

(Dollars in thousands) December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 110,531	$ 76	$ (717)	$ 109,890
U.S. Treasury notes	1,940	—	(6)	1,934

Mortgage-backed securities, residential	33,537	306	(180)	33,663
Asset backed securities	11,883	47	(85)	11,845
State and municipal	74,684	150	(443)	74,391
Corporate bonds	15,271	52	(3)	15,320
SBA pooled securities	3,535	27	(2)	3,560
Total available for sale securities	$ 251,381	$ 658	$ (1,436)	$ 250,603

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 8,557	$ —	$ (1,030)	$ 7,527

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The amortized cost and estimated fair value of debt securities at March 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$13,901	$13,874	$—	$—
Due from one year to five years	103,224	101,922	—	—
Due from five years to ten years	18,622	18,198	—	—
Due after ten years	12,632	12,445	8,614	8,111
	148,379	146,439	8,614	8,111
Mortgage-backed securities, residential	31,965	31,747	—	—
Asset backed securities	11,292	11,247	—	—
SBA pooled securities	3,494	3,483	—	—
	$195,130	$192,916	$8,614	$8,111

Proceeds from sales of debt securities and the associated gross gains and losses for the three months ended March 31, 2018 and 2017 are as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Proceeds	$34,196	$ —
Gross gains	$5	$ —
Gross losses	$(277)	$ —

Debt securities with a carrying amount of approximately $68,550,000 and $85,985,000 at March 31, 2018 and December 31, 2017, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

Information pertaining to debt securities with gross unrealized and unrecognized losses at March 31, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

Less than 12 Months	12 Months or More	Total

(Dollars in thousands) March 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$59,525	$ (521)	$34,271	$ (636)	$93,796	$ (1,157)
U.S. Treasury notes	1,916	(28)	—	—	1,916	(28)
Mortgage-backed securities, residential	12,473	(202)	6,023	(243)	18,496	(445)
Asset backed securities	—	—	4,901	(91)	4,901	(91)
State and municipal	27,000	(541)	8,058	(188)	35,058	(729)
Corporate bonds	6,142	(76)	373	(2)	6,515	(78)
SBA pooled securities	2,563	(15)	—	—	2,563	(15)
	$109,619	$ (1,383)	$53,626	$ (1,160)	$163,245	$ (2,543)

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) March 31, 2018	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Held to maturity securities:						
CLO securities	$1,701	$ (152)	$6,410	$ (351)	$8,111	$ (503)

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands) December 31, 2017	Less than 12 Months Fair Value	 Unrealized Losses	12 Months or More Fair Value	 Unrealized Losses	Total Fair Value	 Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$47,605	$ (166)	$40,053	$ (551)	$87,658	$ (717)
U.S. Treasury notes	1,934	(6)	—	—	1,934	(6)
Mortgage-backed securities, residential	10,349	(21)	6,200	(159)	16,549	(180)
Asset backed securities	4,898	(85)	—	—	4,898	(85)
State and municipal	32,257	(216)	12,138	(227)	44,395	(443)
Corporate bonds	4,073	(2)	149	(1)	4,222	(3)
SBA pooled securities	1,654	(2)	—	—	1,654	(2)
	$102,770	$ (498)	$58,540	$ (938)	$161,310	$ (1,436)

(Dollars in thousands) December 31, 2017	Less than 12 Months Fair Value	 Unrecognized Losses	12 Months or More Fair Value	 Unrecognized Losses	Total Fair Value	 Unrecognized Losses
Held to maturity securities:						
CLO securities	$1,835	$ (28)	$5,692	$ (1,002)	$7,527	$ (1,030)

Management evaluates debt securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

At March 31, 2018, the Company had 162 debt securities in an unrealized loss position. Management does not have the intent to sell any of these securities 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 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 that any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2018, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company's consolidated statements of income.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the recorded investment and unpaid principal for loans at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
(Dollars in thousands)	Recorded Investment	Unpaid Principal	Difference	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$781,006	$788,458	$(7,452)	$745,893	$753,803	$(7,910)
Construction, land development, land	143,876	146,493	(2,617)	134,812	138,045	(3,233)
1-4 family residential properties	122,979	124,558	(1,579)	125,827	127,499	(1,672)
Farmland	184,064	187,585	(3,521)	180,141	184,006	(3,865)
Commercial	930,283	932,878	(2,595)	920,812	924,133	(3,321)
Factored receivables	397,145	398,911	(1,766)	374,410	376,046	(1,636)
Consumer	29,244	29,254	(10)	31,131	31,144	(13)
Mortgage warehouse	285,388	285,388	—	297,830	297,830	—
Total	2,873,985	$2,893,525	$(19,540)	2,810,856	$2,832,506	$(21,650)
Allowance for loan and lease losses	(20,022)			(18,748)		
	$2,853,963			$2,792,108		

The difference between the recorded investment and the unpaid principal is primarily (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $16,746,000 and $18,706,000 at March 31,

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2018 and December 31, 2017, respectively, and (2) net deferred origination and factoring fees totaling $2,794,000 and $2,944,000 at March 31, 2018 and December 31, 2017, respectively.

At March 31, 2018 and December 31, 2017, the Company had $37,174,000 and $32,459,000, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits in the consolidated balance sheets.

Loans with carrying amounts of $735,632,000 and $596,230,000 at March 31, 2018 and December 31, 2017, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

During the three months ended March 31, 2017, loans with carrying amounts of $1,965,000 were transferred to loans held for sale as the Company made the decision to sell the loans. These loans were subsequently sold resulting in proceeds of $1,919,000 and losses on sale of loans of $46,000, which were recorded as other noninterest income in the consolidated statements of income. There were no loans sold during the three months ended March 31, 2018 other than those included in the sale of THF. See Note 2 – Business Combinations and Divestitures for details of the THF sale and its impact on our consolidated financial statements.

Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses ("ALLL") during the three months ended March 31, 2018 and 2017 is as follows:

(Dollars in thousands) Three months ended March 31, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,435	$ 33	$ —	$ —	$ 3,468
Construction, land development, land	883	107	—	8	998
1-4 family residential properties	293	(48)	—	3	248
Farmland	310	308	—	—	618
Commercial	8,150	1,420	(439)	62	9,193
Factored receivables	4,597	469	(584)	11	4,493
Consumer	783	271	(443)	108	719
Mortgage warehouse	297	(12)	—	—	285
	$ 18,748	$ 2,548	$ (1,466)	$ 192	$ 20,022

(Dollars in thousands)	Beginning				Ending

Three months ended March 31, 2017	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial real estate	$ 1,813	$ 567	$ (137)	$ —	$ 2,243
Construction, land development, land	465	513	(419)	7	566
1-4 family residential properties	253	(70)	(28)	5	160
Farmland	170	44	—	—	214
Commercial	8,014	5,793	(2,852)	222	11,177
Factored receivables	4,088	519	(580)	37	4,064
Consumer	420	372	(299)	54	547
Mortgage warehouse	182	(60)	—	—	122
	$ 15,405	$ 7,678	$ (4,315)	$ 325	$ 19,093

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents loans individually and collectively evaluated for impairment, as well as purchased credit impaired ("PCI") loans, and their respective ALLL allocations:

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
March 31, 2018	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$881	$770,376	$9,749	$781,006	$123	$ 3,345	$ —	$ 3,468
Construction, land development, land	139	139,824	3,913	143,876	21	977	—	998
1-4 family residential properties	2,332	119,570	1,077	122,979	141	107	—	248
Farmland	4,154	179,803	107	184,064	200	418	—	618
Commercial	28,697	900,919	667	930,283	1,636	7,557	—	9,193
Factored receivables	3,742	393,403	—	397,145	484	4,009	—	4,493
Consumer	429	28,815	—	29,244	112	607	—	719
Mortgage warehouse	—	285,388	—	285,388	—	285	—	285
	$40,374	$2,818,098	$15,513	$2,873,985	$2,717	$ 17,305	$ —	$ 20,022

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
December 31, 2017	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$1,013	$735,118	$9,762	$745,893	$123	$ 3,312	$ —	$ 3,435
Construction, land development, land	136	130,732	3,944	134,812	—	883	—	883
1-4 family residential properties	2,638	122,093	1,096	125,827	152	141	—	293
Farmland	3,800	176,232	109	180,141	—	310	—	310
Commercial	26,616	893,509	687	920,812	1,409	6,741	—	8,150
Factored receivables	4,726	369,684	—	374,410	949	3,648	—	4,597
Consumer	384	30,747	—	31,131	80	703	—	783
Mortgage warehouse	—	297,830	—	297,830	—	297	—	297
	$39,313	$2,755,945	$15,598	$2,810,856	$2,713	$ 16,035	$ —	$ 18,748

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following is a summary of information pertaining to impaired loans. PCI loans that have not deteriorated subsequent to acquisition are not considered impaired and therefore do not require an allowance and are excluded from these tables.

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) March 31, 2018	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 157	$ 157	$ 123	$ 724	$ 741
Construction, land development, land	88	88	21	51	51
1-4 family residential properties	362	374	141	1,970	2,075
Farmland	1,114	1,100	200	3,040	3,342
Commercial	17,065	17,167	1,636	11,632	11,707
Factored receivables	3,742	3,742	484	—	—
Consumer	367	354	112	62	37
Mortgage warehouse	—	—	—	—	—
PCI	—	—	—	—	—
	$ 22,895	$ 22,982	$ 2,717	$ 17,479	$ 17,953

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) December 31, 2017	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 165	$ 165	$ 123	$ 848	$ 881
Construction, land development, land	—	—	—	136	136
1-4 family residential properties	237	235	152	2,401	2,519
Farmland	—	—	—	3,800	4,071
Commercial	9,194	9,191	1,409	17,422	17,605
Factored receivables	4,726	4,726	949	—	—
Consumer	271	267	80	113	115
Mortgage warehouse	—	—	—	—	—
PCI	—	—	—	—	—
	$ 14,593	$ 14,584	$ 2,713	$ 24,720	$ 25,327

The following table presents average impaired loans and interest recognized on impaired loans for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$947	$ —	$1,090	$ —
Construction, land development, land	137	—	389	—
1-4 family residential properties	2,485	2	1,180	1
Farmland	3,977	7	2,127	9
Commercial	27,657	490	29,096	122
Factored receivables	4,234	—	3,452	—
Consumer	406	1	103	—
Mortgage warehouse	—	—	—	—
PCI	—	—	1,613	—
	$39,843	$ 500	$39,050	$ 132

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at March 31, 2018 and December 31, 2017:

(Dollars in thousands) March 31, 2018	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 5,925	$ —	$ 881	$6,806
Construction, land development, land	—	—	139	139
1-4 family residential properties	1,260	—	2,255	3,515
Farmland	1,161	—	3,385	4,546
Commercial	6,300	—	25,172	31,472
Factored receivables	17,823	1,468	—	19,291
Consumer	615	—	404	1,019
Mortgage warehouse	165	—	—	165
PCI	—	—	2,335	2,335
	$ 33,249	$ 1,468	$ 34,571	$69,288

(Dollars in thousands) December 31, 2017	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 1,374	$ —	$ 1,012	$2,386
Construction, land development, land	—	—	136	136
1-4 family residential properties	1,378	62	2,625	4,065
Farmland	250	109	3,412	3,771
Commercial	6,630	39	22,247	28,916
Factored receivables	20,858	1,454	—	22,312
Consumer	947	—	384	1,331
Mortgage warehouse	165	—	—	165
PCI	72	—	2,333	2,405
	$ 31,674	$ 1,664	$ 32,149	$65,487

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Nonaccrual loans[1]	$ 34,571	$ 32,149
Factored receivables greater than 90 days past due	1,468	1,454
Troubled debt restructurings accruing interest	4,396	5,128
	$ 40,435	$ 38,731

[1] Includes troubled debt restructurings of $7,648,000 and $14,009,000 at March 31, 2018 and December 31, 2017, respectively.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk on a regular basis. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass:

Loans classified as pass are loans with low to average risk and not otherwise classified as substandard or doubtful.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Substandard:

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

Doubtful:

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

PCI:

At acquisition, PCI loans had the characteristics of substandard loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

As of March 31, 2018 and December 31, 2017, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) March 31, 2018	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$766,811	$ 4,446	$ —	$9,749	$781,006
Construction, land development, land	139,824	139	—	3,913	143,876
1-4 family residential	119,505	2,397	—	1,077	122,979
Farmland	178,052	5,905	—	107	184,064
Commercial	887,738	41,878	—	667	930,283
Factored receivables	393,959	2,477	709	—	397,145
Consumer	28,841	403	—	—	29,244
Mortgage warehouse	285,388	—	—	—	285,388
	$2,800,118	$ 57,645	$ 709	$15,513	$2,873,985

(Dollars in thousands) December 31, 2017	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$732,175	$ 3,956	$ —	$9,762	$745,893
Construction, land development, land	130,732	136	—	3,944	134,812
1-4 family residential	122,044	2,687	—	1,096	125,827
Farmland	171,017	9,015	—	109	180,141
Commercial	878,957	41,168	—	687	920,812

Factored receivables	370,839	2,325	1,246	—	374,410
Consumer	30,739	392	—	—	31,131
Mortgage warehouse	297,830	—	—	—	297,830
	$2,734,333	$ 59,679	$ 1,246	$15,598	$2,810,856

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $12,044,000 and $19,137,000 as of March 31, 2018 and December 31, 2017, respectively. The Company had allocated specific allowances for these loans of $574,000 and $535,000 at March 31, 2018 and December 31, 2017, respectively, and had not committed to lend additional amounts. Troubled debt restructurings are the result of extending amortization periods, reducing contractual interest rates, or a combination thereof. The Company did not grant principal reductions on any restructured loans.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents loans modified as troubled debt restructurings that occurred during the three months ended March 31, 2018 and 2017:

(Dollars in thousands) March 31, 2018	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ 75	$ 75
1-4 family residential properties	3	$ 110	$ 110
	5	$ 185	$ 185

(Dollars in thousands) March 31, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	4	$ 186	$ 186

During the three months ended March 31, 2018, the Company had one loan modified as a troubled debt restructuring with a recorded investment of $156,000 for which there was a payment default within twelve months following the modification. During the three months ended March 31, 2017, the Company had three loans modified as troubled debt restructurings with a recorded investment of $2,987,000 for which there were payment defaults within twelve months following the modification. The full recorded investment in one of these loans of $2,702,000 was charged off during the period. Default is determined at 90 or more days past due.

Residential Real Estate Loans In Process of Foreclosure

At March 31, 2018, the Company had $316,000 in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

Purchased Credit Impaired Loans

The Company has loans that were acquired, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans at March 31, 2018 and December 31, 2017, are as follows:

	March 31, 2018	December 31, 2017
Contractually required principal and interest:		
Real estate loans	$ 16,150	$ 16,360

Commercial loans	3,353	3,501
Outstanding contractually required principal and interest	$ 19,503	$ 19,861
Gross carrying amount included in loans receivable	$ 15,513	$ 15,598

The changes in accretable yield during the three months ended March 31, 2018 and 2017 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended March 31,	
	2018	2017
Accretable yield, beginning balance	$2,793	$4,261
Additions	—	—
Accretion	(384)	(472)
Reclassification from nonaccretable to accretable yield	33	83
Disposals	—	(440)
Accretable yield, ending balance	$2,442	$3,432

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Goodwill	$ 45,373	$ 44,126

	March 31, 2018			December 31, 2017		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$29,511	$ (12,397)	$ 17,114	$29,511	$ (11,335)	$ 18,176
Other intangible assets	1,779	(343)	1,436	1,764	(288)	1,476
	$31,290	$ (12,740)	$ 18,550	$31,275	$ (11,623)	$ 19,652

The changes in goodwill and intangible assets during the three months ended March 31, 2018 and 2017 are as follows:

(Dollars in thousands)	Three Months Ended March 31, 2018	2017
Beginning balance	$63,778	$46,531
Acquired goodwill, measurement period adjustment	1,680	—
Acquired intangibles	15	152
Divestiture	(433)	(1,339)
Amortization of intangibles	(1,117)	(1,111)
Ending balance	$63,923	$44,233

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company, through its subsidiary Triumph Capital Advisors, acted as the asset manager or provided certain middle and back office staffing and services to the asset manager of various CLO funds. TCA earned asset management fees in accordance with the terms of its asset management or staffing and services agreements associated with the CLO funds. TCA earned asset management fees totaling $1,717,000 for the three months ended March 31, 2017. On March 31, 2017 the Company sold its membership interests in TCA as discussed in Note 2 – Business Combinations and Divestitures. As a result of the TCA sale, as of March 31, 2017 the Company no longer acted as asset manager or staffing and services provider for any CLO funds.

The Company holds investments in the subordinated notes of the following closed CLO funds:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO IV, LTD (Trinitas IV)	June 2, 2016	$406,650
Trinitas CLO V, LTD (Trinitas V)	September 22, 2016	$409,000
Trinitas CLO VI, LTD (Trinitas VI)	June 20, 2017	$717,100

The carrying amounts of the Company's investments in the subordinated notes of the CLO funds, which represent the Company's maximum exposure to loss as a result of its involvement with the CLO funds, totaled $8,614,000 and $8,557,000 at March 31, 2018 and December 31, 2017, respectively, and are classified as held to maturity securities within the Company's consolidated balance sheets.

The Company performed a consolidation analysis to confirm whether the Company was required to consolidate the assets, liabilities, equity or operations of the closed CLO funds in its financial statements. The Company concluded that the closed CLO funds were variable interest entities and that the Company holds variable interests in the entities in the form of its investments in the subordinated

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

notes of entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the closed CLO funds in the Company's financial statements.

Collateralized Loan Obligation Funds – Warehouse Phase

From time to time, the Company may invest in the subordinated debt of entities formed to be the issuers of CLO offerings during their warehouse phases. The Company's investments in these CLO funds are repaid when the CLO funds' warehouse phases are closed and the CLO offerings are issued. The Company's maximum exposure to loss as a result of its involvement with these CLO funds is limited to the carrying amount of its investments in the subordinated debt of the CLO funds. The Company did not hold any investments in the subordinated debt of CLO funds during their warehouse phase at December 31, 2017 or during the three months ended March 31, 2018. Income from the Company's investments in CLO warehouse entities totaled $964,000 during the three months ended March 31, 2017, which is included in other noninterest income within the Company's consolidated statements of income.

The Company performed a consolidation analysis of CLO funds during their warehouse phases and concluded that the CLO funds were variable interest entities and that the Company held a variable interest in the entities that could potentially be significant to the entities in the form of its investments in the subordinated notes of the entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity, or operations of the entities in the Company's financial statements.

NOTE 7 - Deposits

Deposits at March 31, 2018 and December 31, 2017 are summarized as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Noninterest bearing demand	$548,991	$564,225
Interest bearing demand	392,947	403,244
Individual retirement accounts	105,558	108,505
Money market	283,354	283,969
Savings	244,103	235,296
Certificates of deposit	783,651	837,384
Brokered deposits	174,894	188,725

Total Deposits	$2,533,498	$2,621,348

At March 31, 2018, scheduled maturities of certificates of deposit, individual retirement accounts and brokered deposits are as follows:

(Dollars in thousands)	March 31, 2018
Within one year	$789,585
After one but within two years	180,772
After two but within three years	43,229
After three but within four years	31,137
After four but within five years	19,380
After five years	—
Total	$1,064,103

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $144,874,000 and $158,197,000 at March 31, 2018 and December 31, 2017, respectively.

NOTE 8 - Legal Contingencies

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management, do not have a material effect on the Company’s consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 9 - OFF-BALANCE SHEET LOAN COMMITMENTS

From time to time, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

The contractual amounts of financial instruments with off-balance sheet risk were as follows:

	March 31, 2018		December 31, 2017	
(Dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	$117,111	$247,753	$133,634	$242,236
Standby letters of credit	2,486	8,180	1,998	8,169
Mortgage warehouse commitments	28,530	293,325	9,411	230,221

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 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.

Mortgage warehouse commitments are unconditionally cancellable and represent the unused capacity on mortgage warehouse facilities the Company has approved. The Company reserves the right to refuse to buy any mortgage loans offered for sale by a customer, for any reason, at the Company's sole and absolute discretion.

The Company funds an allowance for loan and lease losses on off-balance sheet lending-related commitments through a charge to other noninterest expense on the Company's consolidated statements of income. At March 31, 2018 and December 31, 2017, the allowance for loan and lease losses on off-balance sheet lending-related commitments totaled $369,000 and $501,000, respectively, and was included in other liabilities on the Company's consolidated balance sheets.

In addition to the commitments above, the Company had overdraft protection available in the amounts of $2,417,000 and $2,397,000 at March 31, 2018 and December 31, 2017, respectively.

NOTE 10 - Fair Value Disclosures

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The methods of determining the fair value of assets and liabilities presented in this note are consistent with our methodologies disclosed in Note 15 of the Company's 2017 Form 10-K, except for the valuation of loans held for investment which was impact by the adoption of ASU 2016-01. In accordance with ASU 2016-01, the fair value of loans held for investment, excluding previously presented impaired loans measured at fair value on a non-recurring basis, is estimated using discounted cash flow analyses. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans. Loans are considered a Level 3 classification.

Assets measured at fair value on a recurring basis are summarized in the table below. There were no liabilities measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017.

(Dollars in thousands)	Fair Value Measurements Using			Total
March 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$98,735	$ —	$98,735
U.S. Treasury notes	—	1,916	—	1,916
Mortgage-backed securities, residential	—	31,747	—	31,747
Asset backed securities	—	11,247	—	11,247
State and municipal	—	36,084	—	36,084
Corporate bonds	—	9,704	—	9,704
SBA pooled securities	—	3,483	—	3,483
	$—	$192,916	$ —	$192,916
Equity securities				
Mutual fund	$4,925	$—	$ —	$4,925

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2017	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$109,890	$ —	$109,890
U.S. Treasury notes	—	$1,934	—	1,934
Mortgage-backed securities, residential	—	33,663	—	33,663
Asset backed securities	—	11,845	—	11,845
State and municipal	—	74,391	—	74,391
Corporate bonds	—	15,320	—	15,320
SBA pooled securities	—	3,560	—	3,560
	$—	$250,603	$ —	$250,603

Equity securities				
Mutual fund	$5,006	$—	$ —	$5,006

There were no transfers between levels during 2018 or 2017.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at March 31, 2018 and December 31, 2017.

(Dollars in thousands)	Fair Value Measurements Using			Total Fair Value
March 31, 2018	Level 1	Level 2	Level 3	
Impaired loans				
Commercial real estate	$—	$ —	$34	$34
Construction, land development, land	—	—	67	67
1-4 family residential properties	—	—	221	221
Farmland	—	—	914	914
Commercial	—	—	15,429	15,429
Factored receivables	—	—	3,258	3,258
Consumer	—	—	255	255
Other real estate owned [1]				
Commercial	—	—	5,582	5,582
	$—	$ —	$25,760	$25,760

(Dollars in thousands)	Fair Value Measurements Using			Total Fair Value
December 31, 2017	Level 1	Level 2	Level 3	
Impaired loans				
Commercial real estate	$—	$ —	$42	$42
1-4 family residential properties	—	—	85	85
Commercial	—	—	7,785	7,785
Factored receivables	—	—	3,777	3,777
Consumer	—	—	191	191
Other real estate owned [1]				
Commercial	—	—	138	138
Construction, land development, land	—	—	202	202
	$—	$ —	$12,220	$12,220

[1] Represents the fair value of OREO that was adjusted during the period and subsequent to its initial classification as OREO

Impaired Loans with Specific Allocation of ALLL: A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan’s collateral. For real estate loans, fair value of the impaired loan’s collateral is determined by third party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value. For non-real estate loans, fair value of the impaired loan’s collateral may be determined using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

OREO: OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

The estimated fair values of the Company’s financial instruments not measured at fair value on a recurring or non-recurring basis at March 31, 2018 and December 31, 2017 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
March 31, 2018	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$106,046	$106,046	$—	$—	$106,046
Securities - held to maturity	8,614	—	—	8,111	8,111
Loans not previously presented, gross	2,851,090	—	—	2,838,892	2,838,892
FHLB stock	16,508	N/A	N/A	N/A	N/A
Accrued interest receivable	14,036	14,036	—	—	14,036
Financial liabilities:					
Deposits	2,533,498	—	2,526,007	—	2,526,007
Customer repurchase agreements	6,751	—	6,751	—	6,751
Federal Home Loan Bank advances	355,000	—	355,000	—	355,000
Subordinated notes	48,853	—	50,980	—	50,980
Junior subordinated debentures	38,734	—	40,638	—	40,638
Accrued interest payable	2,613	2,613	—	—	2,613

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
December 31, 2017	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$134,129	$134,129	$—	$—	$134,129
Securities - held to maturity	8,557	—	—	7,527	7,527
Loans not previously presented, net	2,780,228	—	—	2,800,362	2,800,362
Loans included in assets held for sale, net	68,668	—	—	69,268	69,268
FHLB stock	16,006	N/A	N/A	N/A	N/A
Accrued interest receivable	15,517	15,517	—	—	15,517

Financial liabilities:					
Deposits	2,621,348	—	2,616,034	—	2,616,034
Customer repurchase agreements	11,488	—	11,488	—	11,488
Federal Home Loan Bank advances	365,000	—	365,000	—	365,000
Subordinated notes	48,828	—	52,310	—	52,310
Junior subordinated debentures	38,623	—	41,563	—	41,563
Accrued interest payable	3,323	3,323	—	—	3,323

NOTE 11 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1, and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of March 31, 2018 and December 31, 2017, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of March 31, 2018 and December 31, 2017, TBK Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since March 31, 2018 that management believes have changed TBK Bank’s category.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The actual capital amounts and ratios for the Company and TBK Bank as of March 31, 2018 and December 31, 2017 are presented in the following table.

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of March 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$444,789	13.7%	$260,439	8.0%	N/A	N/A
TBK Bank, SSB	$372,889	11.9%	$250,546	8.0%	$313,183	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$375,545	11.5%	$195,330	6.0%	N/A	N/A
TBK Bank, SSB	$352,600	11.3%	$187,910	6.0%	$250,546	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$327,153	10.0%	$146,497	4.5%	N/A	N/A
TBK Bank, SSB	$352,600	11.3%	$140,932	4.5%	$203,569	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$375,545	12.1%	$124,559	4.0%	N/A	N/A
TBK Bank, SSB	$352,600	10.6%	$132,470	4.0%	$165,588	5.0%
As of December 31, 2017						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$436,036	13.2%	$264,026	8.0%	N/A	N/A
TBK Bank, SSB	$361,068	11.4%	$254,139	8.0%	$317,674	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$367,958	11.1%	$198,019	6.0%	N/A	N/A
TBK Bank, SSB	$341,910	10.8%	$190,603	6.0%	$254,137	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$320,265	9.7%	$148,514	4.5%	N/A	N/A
TBK Bank, SSB	$341,910	10.8%	$142,952	4.5%	$206,486	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$367,958	11.8%	$124,754	4.0%	N/A	N/A

TBK Bank, SSB	$341,910	11.1%	$123,088	4.0%	$153,860	5.0%

Dividends paid by banks are limited to, without prior regulatory approval, current year earnings and earnings less dividends paid during the preceding two years.

Beginning in January 2016, the implementation of the capital conservation buffer set forth by the Basel III regulatory capital framework was effective for the company starting at 0.625% of risk weighed assets above the minimum risk based capital ratio requirements and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.875% and 1.25% at March 31, 2018 and December 31, 2017, respectively. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company’s ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers. At March 31, 2018 and December 31, 2017, the Company’s and TBK Bank’s risk based capital exceeded the required capital conservation buffer.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12 – STOCKHOLDERS' EQUITY

The following summarizes the capital structure of Triumph Bancorp, Inc.

Common Stock

	Common Stock March 31, 2018	December 31, 2017
Shares authorized	50,000,000	50,000,000
Shares issued	20,918,034	20,912,396
Treasury shares	(93,525)	(91,951)
Shares outstanding	20,824,509	20,820,445
Par value per share	$0.01	$0.01

Preferred Stock

	Preferred Stock Series A		Series B	
(Dollars in thousands, except per share amounts)	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Shares authorized	50,000	50,000	115,000	115,000
Shares issued	45,500	45,500	51,076	51,076
Shares outstanding	45,500	45,500	51,076	51,076
Par value per share	$0.01	$ 0.01	$0.01	$0.01
Liquidation preference per share	$100	$ 100	$100	$100
Liquidation preference amount	$4,550	$ 4,550	$5,108	$5,108
Dividend rate	Prime + 2%	Prime + 2%	8.00 %	8.00 %
Dividend rate - floor	8.00 %	8.00 %	N/A	N/A
Subsequent dividend payment dates	Quarterly	Quarterly	Quarterly	Quarterly
Convertible to common stock	Yes	Yes	Yes	Yes
Conversion period	Anytime	Anytime	Anytime	Anytime
Conversion ratio - preferred to common	6.94008	6.94008	6.94008	6.94008

NOTE 13 – STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $486,000 and $702,000 for the three months ended March 31, 2018 and 2017, respectively.

2014 Omnibus Incentive Plan

The Company’s 2014 Omnibus Incentive Plan (“Omnibus Incentive Plan”) provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, the Company’s common stock. The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares.

Restricted Stock Awards

A summary of changes in the Company’s nonvested Restricted Stock Awards (“RSAs”) under the Omnibus Incentive Plan for the three months ended March 31, 2018 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	102,776	$ 18.68
Granted	5,492	38.50
Vested	(5,492)	38.50
Forfeited	(1,574)	20.61
Nonvested at March 31, 2018	101,202	$ 18.65

RSAs granted to employees under the Omnibus Incentive Plan typically vest over three to four years. Compensation expense for RSAs granted under the Omnibus Incentive Program will be recognized over the vesting period of the awards based on the fair value of the

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

stock at the issue date. As of March 31, 2018, there was $572,000 of unrecognized compensation cost related to nonvested RSAs granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 2.74 years.

Stock Options

A summary of the changes in the Company’s stock options under the Omnibus Incentive Plan as of and for the three months ended March 31, 2018 were as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at January 1, 2018	185,328	$ 18.97		